



FINANCIAL GOVERNANCE & SUSTAINABILITY

Revenue Diversification: The Honest Version of the Advice

The research is more mixed than the standard advice usually admits

Revenue diversification is treated in most governance advice as an uncontested good, more funding sources always means more resilience. The actual academic research is more mixed than that advice usually admits, and a board making a real decision about its own revenue concentration deserves the honest version, not the simplified one.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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The Established Concern, Stated Precisely

The core concept here is a long-studied one in nonprofit finance research: the revenue concentration index, closely related to the Herfindahl-Hirschman Index used more broadly in economics, which measures how reliant an organisation's income is on a small number of sources. Early research on nonprofit financial vulnerability, notably Tuckman and Chang (1991), treated revenue concentration as a warning indicator: heavier reliance on one or two revenue sources is generally associated with greater financial vulnerability, since the loss of any single major source becomes proportionally more damaging the larger a share of total revenue it represents.

The Honest Complication Most Advice Leaves Out

Later studies applying portfolio methods to nonprofit revenue have found something more complicated. Research published in *Nonprofit and Voluntary Sector Quarterly*, for example, found that whether diversification lowers volatility depends on which revenue sources are being substituted for which, so the familiar assumption that adding sources always reduces risk should not be taken for granted. In other words, the type of revenue matters, not just the number of sources. Revenue diversification is not a universal rule that every association should apply uniformly. It is a risk management decision that depends on what type of revenue concentration you have, and pretending otherwise does a board no favours.

What This Means For How A Board Should Actually Think About It

The useful question is not simply what percentage of revenue comes from your largest source. It is what type of revenue that source represents, and what would actually happen if it disappeared. A membership

association drawing a large share of revenue from membership fees themselves is concentrated in a meaningfully different, and generally more stable, way than an association drawing the same share from a single, discretionary government grant subject to policy change at the next budget cycle. The ACNC's Australian Charities Report has shown government as the largest single source of charity revenue (about half of all revenue in the ninth edition), so many charities have real exposure to changes in government funding priorities.

- Assess concentration by revenue type, not just by total percentage, since the research suggests the type of revenue matters as much as the share it represents.
- Treat diversification efforts as most valuable specifically where your largest revenue source is discretionary, policy-dependent, or donation-based, rather than applying diversification as a blanket strategy regardless of what the concentrated source is.
- For organisations dependent on a single major government funder, actively pursue relationships with additional government funders and programs, since a second funder rarely arrives without deliberate relationship-building, and diversification does not happen naturally just because the organisation grows.
- Connect this analysis directly to the risk appetite statement and reserves policy discussed earlier in this quarter, since revenue concentration is precisely the kind of risk category a risk appetite statement should address explicitly rather than leave implicit.
- Revisit the concentration analysis as part of the strategic planning cycle, since the right level of acceptable concentration for a young, grant-dependent association is not the same as for a mature, membership-funded one, and the mix itself will shift as the organisation grows.

The right amount of revenue diversification is not zero concentration, and it is not maximum diversification for its own sake either. It is a deliberate judgment about which of your revenue sources are volatile enough to warrant the real cost and effort diversification requires, made with the actual evidence in view rather than a slogan repeated without examining it.

This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

Annie Gibbins

Founder and CEO, Nexus Leadership

BOARDROOM ACTION WORKSHEET

Revenue Diversification: The Honest Version of the Advice

Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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