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# The Effect of Funding Changes on Public Sector Non-Profit Organisations: The Case of Bushcare NSW

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# The Effect of Funding Changes on Public Sector Non-Profit Organisations: The Case of Bushcare NSW

## **Abstract**

Research into non-profit organisations abounds, but public sector non-profit organisations have been neglected. Recent funding incentives have led to significant changes in the market environment for such organisations. This study describes market changes and explores the reactions of one environmental public sector non-profit organisation, Bushcare NSW, to these changes. This paper contends that, within this institutional environment, non-profit organisations more successful in attracting large amounts of external funding have better administrative structures in place, whereas those less successful find themselves confronted with burdensome administrative duties. Neo-institutional theory provides a theoretical basis for this empirical investigation. Funding changes have had a major impact on Bushcare organisations, those more successful in attracting grants reporting significantly fewer recent administrative changes.

## **Keywords**

Non-profit organisations, public sector, grant funding, institutional theory

## **Disciplines**

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## **The Effect of Funding Changes on Public Sector Non-Profit Organisations: The Case of Bushcare NSW**

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### **Abstract**

Research into non-profit organisations abounds, but public sector non-profit organisations have been neglected. Recent funding incentives have led to significant changes in the market environment for such organisations. This study describes market changes and explores the reactions of one environmental public sector non-profit organisation, Bushcare NSW, to these changes. This paper contends that, within this institutional environment, non-profit organisations more successful in attracting large amounts of external funding have better administrative structures in place, whereas those less successful find themselves confronted with burdensome administrative duties. Neo-institutional theory provides a theoretical basis for this empirical investigation. Funding changes have had a major impact on Bushcare organisations, those more successful in attracting grants reporting significantly fewer recent administrative changes.

### **Introduction**

In 1993 the Australian Government implemented a new public management (NPM) framework in the public sector through a reform called the National Competition Policy (NCP). The public sector reforms were based on the belief that entities within the public sector should be similar to those of the private sector, namely, more “business-like” (Hoque, 2005), accountable and competitive. Prior literature on accountability within the public sector relates directly to State and Federal government bodies (Everingham, 1998; Guthrie and English, 1997; Guthrie and Humphrey, 1996), rather than local councils and the community groups which operate under their authority.

The non-profit environment has experienced similar changes (Alexander, 2000; Anonymous, 2003), with decreases in government funding, increased competition for scarce funding and pressure to professionalise management practices and demonstrate measurable outcomes (Alexander, 2000; Flack and Ryan, 2005; Georke, 2003; Johansson, 2003). Non-profits also experience pressure to emulate businesslike practices in order to make them more accountable, profitable and attractive to funders, and ultimately, to ensure their survival.

While both public sector organisations and non-profit organisations have been studied extensively in the past, the group of public sector non-profit organisations has largely been ignored by researchers to date. The aim of this study is to contribute to filling this gap in knowledge by investigating the effect of a changed funding environment on public sector non-profits. More specifically, we will (1) briefly describe the nature of market changes, (2) explore how environmental public sector non-profit organisations have reacted to these changes, and (3) test the assumption that non-profit organisations which are more successful in attracting large amounts of external money from competitive funding sources have in place better administrative structures, whereas those less successful find themselves confronted with burdensome changes in the area of administration.

The work of Meyer and Rowan (1977), DiMaggio and Powell (1983), and Scott (1995) on neo-institutional theory provides a conceptual basis to describe and analyse the patterns that

these organisations tend to display within an increasingly competitive environment. Neo-institutional theory identifies institutional pressures on organisations as coercive (regulatory rules), normative (societal norms including professionalisation) and mimetic (copying the behaviours of successful organisations) pressures (DiMaggio and Powell, 1983). Organisations experience extreme pressures to appear accountable in order to demonstrate and maintain their legitimacy as “worthy” recipients of scarce funds. As a result of this pressure, institutional isomorphism occurs (DiMaggio and Powell, 1983), whereby there is a tendency of organisations within the same field to conform and take on similar structural characteristics. However, if nonprofits become less distinguishable from organisations in the business sector their unique nature could be compromised, and their mission threatened (Hall, 1990; Schlesinger, Mitchell and Gray, 2004). Mission can be threatened through the permeation of businesslike values, methods and constructs which are embedded when sponsorships and grants are accepted (Daellenbach, Davies and Ashill, 2006), professional employment is adopted (Bennett and Savani, 2004) and entrepreneurial practices are implemented (Eikenberry and Kluver, 2004).

The empirical investigation was conducted with Bushcare New South Wales (NSW). Bushcare NSW is a public sector based (typically part of local Councils) not for profit organisation aimed at conservation and restoration of native vegetation. Bushcare constitutes the largest program of the Natural Heritage Trust (NHT) which, in 1997 was created to stimulate activities of national interest to conserve and repair Australia's natural environment. It represented a significant financial commitment by government with an allocation of \$1.25 billion over five years (Centre for International Economics, 1999). Bushcare began in 1998 and is funded and administered by local councils all over Australia to conserve and restore habitat for native flora and fauna, while encouraging community participation in local natural areas (Commonwealth of Australia, 2003, 2004-05). In 2001, the Australian Government extended the NHT for a further five years, providing another \$300 million of funding from consolidated revenue (Commonwealth of Australia, 2003): an amount of funding that catapulted Bushcare organisations into a highly competitive arena. Consequently, government regulated funding frameworks heavily influenced by new public sector policy introduced increased accountability, heavier reporting requirements and more business-like practices which have posed a challenge to the core mission of Bushcare. As Bushcare organisations operate within a unique environment, which overlaps the public and the non-profit sector, they are experiencing extreme pressures to conform to new policies and procedures emanating from both sectors. This paper contends that such organisations, if they are to be successful in gaining grants, need more sophisticated administrative systems.

### **Study Design and Research Findings**

The study was conducted in two phases: a qualitative and a quantitative stage. The qualitative stage consisted of five interviews and two focus groups with paid Bushcare employees. The interviews and focus groups were informed by institutional theory work by Meyer and Rowan (1977), DiMaggio and Powell (1983), and Scott (1995), and by an institutional theory researcher; subsequently, the analysis of findings was based on these parameters. The interviews and focus groups provided an understanding of Bushcare organisational functions, which were not readily available. Open-ended questions probed for more detailed, and a wider range of, description into the structure, funding systems, grant application processes, recruitment practices, challenges and environmental regeneration practices which form the basis of the organisations' mission. Of significant importance are comments made by

Bushcare coordinators about increased demands in accountability and onerous reporting over recent years, which they felt resulted in a change of time and responsibility allocation. Increased administrative duties were closely related to increased competition within the field. Respondents specified that planning, satisfying funding requirements, and financial management now take up a substantial proportion of their time and they associated a higher level of accountability and a more business-like approach with these activities. They expressed the opinion that this pressure was a result of the restructuring of grant funding, which called for a greater demand for projects and for grant applications to focus on funding requirements, particularly to have a regional focus. Grant processing was also affected by reforms and larger and more common grants, such as the NSW Environmental Trust grant and the NHT EnviroFund grant, are now processed under one system with tighter application guidelines. Respondents supported the old system as it was specific to natural areas, had shorter application forms and took less time and effort to complete. Coordinators remarked that while funding was beneficial for their organisation, land clearance grants were very common and had the potential to compromise the techniques of environmental regeneration of land, and even the very mission of the organisation. Phrases used to describe the changes included, “more professional” and “like a business” indicating manifestations of accountability and increased administrative duties. Bushcare organisations are now required to adopt a more corporate culture.

For the quantitative phase a questionnaire was developed which was informed by insights from the qualitative stage. Questions in the following areas were included: (1) organisational structure, (2) accountability, (3) marketing activities undertaken, (4) grant applications activities and attitudes towards grant funding, and (5) trends in the competitiveness of the environment. All 54 Bushcare units in New South Wales were contacted by telephone and agreed to participate. Data collection began in April 2005 and a response rate of 80 percent was achieved: of the 54 questionnaires distributed, 43 were completed and returned. A sizable proportion of Bushcare organisations compete in the funding game. Of the respondents in the questionnaire, 95% of Bushcare coordinators indicated that they had applied for some form of funding, external to their affiliated councils, in their organisation's existence. The mean amount of funding acquired over the last year amounted to \$168,800, with an average of \$357,600 and an average of 21 grants applied for over the course of the entire Bushcare program.

To examine the implications that these grants may have upon the organisations, respondents were asked whether they felt any changes to their organisation were a consequence of the funding being awarded. In response, 75% of participants indicated that they felt there were noticeable changes that affected their organisations. The top five changes reported due to funding being awarded were: more administrative activities (stated by 85% of respondents), more paperwork (78%), more opportunities (68%), and more accountability (65%). Among these changes were increased reporting and complexity in the reports (60% and 63% respectively), and budgeting for marketing activities such as promotion for recruitment (48%). An open-ended question was included in the questionnaire in order to determine whether increased competition within the field existed in the beliefs of Bushcare coordinators within New South Wales. Of those who believed that it was easier to gain funding five years ago (49% of respondents), 20% felt that increased competition within the field was making it harder to obtain funding, 15% believed the grant application process had become a complex, time-consuming process, and 5% experienced increased reporting requirements.

An ANOVA was conducted to investigate the hypothesis non-profit organisations which are more successful in attracting large amounts of external money from competitive funding sources have in place better administrative structures, whereas those less successful find themselves confronted with burdensome changes in the area of administration. The two variables used to test this hypothesis were (1) the question on what the total average of external funding was that each Bushcare unit had obtained in the last year and in the entirety of the Bushcare program, and (2) the question whether Bushcare units felt that the administrative burden had increased as a consequence. Within the last year, the mean amount of grant funding obtained by Bushcare organisations amounted to \$57,524 for the group who reported changes within the organisation and the mean amount of the group which reported no changes amounted to \$721,750 (approximately 12.5 times the amount of funding for the group who reported changes). Similarly, the same pattern emerged with the amount of funding received over the life of the Bushcare programs. The mean amount of total funding obtained by those organisations who reported changes in the organisation was \$271,440, whereas for those who reported no changes, the average funding received over the years was \$810,000 (approximately 2.9 times the amount of those who reported changes). These differences are significant for both last year's amount of funding and the entire amount of funding obtained (both p-values < 0.05, F-values = 5.17 and 5.5, respectively, and d.f. = 32 and 29, respectively). Consequently, the hypothesis cannot be rejected.

This finding is interesting as in both cases of average funding obtained, the mean amount of funding obtained is less for those who reported a recent change than those that have not noticed a change in their organisation, suggesting that organisations who are highly successful in attracting external grant funding have already adopted improved administrative procedures to cope with the demands of new funding systems, whereas those less successful appear to currently find themselves in this burdensome phase of administrative change. The reasoning behind this occurrence is an indication of successful organisation's ability to manage increased accountability. This suggests that the more successful an organisation is in terms of funding obtained, the better their ability to manage the demands of increased accountability with their administrative duties. The hypothesis suggests that coercive institutional pressures, enforced by funding bodies, are demonstrated through calls for greater accountability. These pressures are enforced by means of increased administrative duties, the consequence of greater amounts of funding gained.

More specifically, a larger amount of funding acquired does not necessarily imply that the organisation has reported changes of increased administrative duties. To this response, the neo-institutional predictor of isomorphic change in the face of uncertainty offers insight. A new competitive, business-like environment creates a struggle for funding. Environmental volunteering organisations must learn to deal with the demands for increased accountability and increased competition that are prevalent within the public and non-profit sectors. Initial learning stages are filled with uncertainty and ambiguity. This concept corresponds with the reasoning of DiMaggio and Powell (1983), who posit that the more uncertainty in the relationship between means and ends, the greater the extent to which an organisation will model itself on the practices of organisations which it deems more successful. This modelling produces an image of legitimacy and social fitness, and can eventually create isomorphism. Younger or more inexperienced Bushcare organisations are faced with greater uncertainty. The amount of funding is a reflection of the level of expertise and experience of these organisations; therefore, those with a limited amount of experience will have lower amounts of funding and consequently less sophisticated structures. Those organisations with a history of receiving grant funding are more likely to have accommodated the more demanding

accountability structures. In a way, they appear to have developed a coping mechanism which allows them to adapt to the increases in accountability.

### **Conclusion and Recommendations**

This study uses a neo-institutional framework to explore the way in which public sector nonprofits respond to coercive pressures enforced by funding bodies. As a result of changes in both the nonprofit and public sectors, calling for a more “business-like”, accountable and competitive organisational structure (Alexander, 2000; Hoque, 2005), organisations operating across these two sectors are challenged by pressures to adopt similar practices. A study of Bushcare NSW, a group of public sector nonprofits, tests the contention that nonprofit organisations which are more successful at attaining grants from competitive funding sources are better able to manage increased administrative duties by modifying their structures and accepting change.

A mixed method approach consisting of interviews, focus groups and a questionnaire completed by coordinators of the NSW Bushcare programs, revealed that a significant proportion of these organisations compete for external funding (95%), with 75% of respondents indicating noticeable changes in their organisation as a result of awarded funding. The most reported changes were more administrative operations (85%), more paperwork (78%), and more accountability (65%). 48% of participants declared that they use a budget for marketing activities which aid recruitment. It was also found that the average amount of yearly and total funding is less for those organisations that reported increased administrative activity, signifying their inability to manage the demands of increased accountability imposed by changes within both the nonprofit and public sectors. A limitation identified in this study is that only one group of public sector nonprofits was investigated. This study may be used as a platform for more research with Bushcare groups across Australia and with other public sector nonprofits beyond the case of Bushcare and outside of environmental volunteering. Future studies could also consist of more qualitative research in order to investigate the more successful Bushcare groups to allow insight into what it is about their systems and routines that makes them more successful; is it the size of their volunteer force, the support of council, or other resources that contribute to this success?

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