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The effect of funding changes on public sector nonprofit organizations: the case of Bushcare NSW

Katie Cliff

University of Wollongong, katiel@uow.edu.au

H. J. Irvine

Queensland University of Technology, hirvine@uow.edu.au

Sara Dolnicar

University of Wollongong, sarad@uow.edu.au

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Research into nonprofit organizations abounds, but not much is known about public sector nonprofit organizations. Recent funding incentives in Australia have led to significant changes in the market environment for such organizations. This study describes these market changes and explores the reactions of one environmental public sector nonprofit organization, Bushcare NSW, to these changes. This paper contends that, within this institutional environment, nonprofit organizations 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 organizations, those more successful in attracting grants reporting significantly fewer recent administrative changes.

Keywords

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**The relationship between grant funding and administrative capabilities in Public Sector
Nonprofit Organizations: The Case of Bushcare NSW**

Katie Lazarevski*, Helen Irvine, Sara Dolnicar, University of Wollongong

* Corresponding author

School of Management and Marketing

University of Wollongong, Northfields Ave

2522 Wollongong NSW Australia, Phone ++61 (2) 4221 5528

Email: kl67@uow.edu.au

Katie Lazarevski is a PhD student, School of Management and Marketing, University of Wollongong. Sara Dolnicar is Professor of Marketing, School of Management and Marketing, University of Wollongong, Wollongong, Australia. Helen Irvine is Associate Professor, School of Accountancy, Queensland University of Technology, Brisbane, Queensland. Preliminary findings of this study have been presented at the International Nonprofit and Social Marketing (INSM) conference at Griffith University in Brisbane, September 27-28, (2007). We thank the editors of the Journal of Nonprofit and Public Sector Marketing for inviting us to submit an extended report of the study to the special issue.

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Abstract

Research into nonprofit organizations abounds, but not much is known about public sector nonprofit organizations. Recent funding incentives in Australia have led to significant changes in the market environment for such organizations. This study describes these market changes and explores the reactions of one environmental public sector nonprofit organization, Bushcare NSW, to these changes. This paper contends that, within this institutional environment, nonprofit organizations 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 organizations, those more successful in attracting grants reporting significantly fewer recent administrative changes.

Keywords: public sector nonprofit organizations, institutional theory, regulatory requirements, grant funding.

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. Structural reforms have drastically reshaped this sector in an effort to encourage outcomes driven accountability (Hoque and Moll 2001).

Meanwhile, the nonprofit environment has experienced similar changes over the last few decades. This sector has had to contend with tighter government funding, pressure to professionalize management practices and demonstrate measurable outcomes. Competition for sparse funding is a present day reality for nonprofit organizations as they compete for funding, donations, volunteers, as well as their reputation.

While both public sector organizations and nonprofit organizations have been studied extensively in the past, the group of public sector nonprofit organizations which exist in the overlap between the public and nonprofit sector 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 nonprofits. More specifically, we will (1) briefly describe the nature of market changes, (2) explore how environmental public sector nonprofit organizations have reacted to these changes, and (3) test the assumption that nonprofit organizations which are more successful in attracting large amounts of external money from competitive funding sources differ in the extent to which they have experienced administrative changes. We assume that this is the case because successful non profits 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 provided a conceptual basis through which to analyze the pressures exerted by funding systems upon public sector nonprofits in an increasingly competitive environment. An 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 organization aimed at conservation and restoration of native vegetation. Bushcare constitutes the largest program of the Natural Heritage Trust (NHT) which was created in 1997 to stimulate activities of national interest to conserve and repair Australia's natural environment. It represented a significant financial commitment by the government with an allocation of Australian \$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 Australian \$300 million of funding from consolidated revenue (Commonwealth of Australia 2003): an amount of funding that catapulted Bushcare organizations 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 organizations operate within a unique environment (as displayed in Figure 1), which overlaps the public and the nonprofit sector, they are experiencing extreme pressures to conform to new policies and procedures emanating from both sectors, and to balance the tension between grant funding and its related

regulatory requirements. It is inevitable that these tensions will produce changes in the operations and structures of these organizations. The purpose of this paper is to identify the form these changes take.

[Insert figure 1 about here]

Prior Research

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. Numerous studies (Johansson 2003; Lawton, McKeivitt, and Millar 2000; Modell 2004; Myers and Sacks 2003) into public sector accountability and performance measurement overseas report similar economic changes as to those that have occurred these past few decades within Australia. More specifically Myers and Sacks (2003) offer their comments on the emerging challenges for public sector organizations and highlight the reality that there is a growing emphasis on accountability tools and techniques borrowed from the business sector. They report that these tools are then filtered down to the public sector and applied in an ad hoc manner to situations in the voluntary sector.

Similarly, nonprofits are reported to have experienced pressure to emulate businesslike practices in order to make them more accountable, profitable and attractive to funders, and ultimately, to ensure their survival (Alexander 2000; Flack and Ryan 2005; Georke 2003; Johansson 2003). Keeping up with other organizations in a competitive field means organizations must adopt new skills and practices; one such example is the adoption of the Internet by nonprofit organizations (Pinho and Macedo 2006). However, although it has been recognized that nonprofits are heavily susceptible to being influenced by the goals and

objectives of major funders, little attention has been paid to the competitive effects of the funder's expectations (Tuckman 1998).

When examining these influences in the light of neo-institutional theory, institutional pressures on organizations can be categorised as coercive (regulatory rules), normative (societal norms including professionalization) and mimetic (copying the behaviours of successful organizations) pressures (DiMaggio and Powell 1983). Organizations 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 organizations within the same field to conform and take on similar structural characteristics. The notion of isomorphism is applicable to community groups as they compete for relatively scarce resources, both in terms of funding and volunteers. These community volunteering groups wish to be perceived as competent and worthy, so abide by these institutional rules and expectations in order to receive status and social acceptance, as well as gain access to scarce resources such as funding, in order to survive (Irvine 2000).

However, if nonprofits become less distinguishable from organizations 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).

Methodology

The study was conducted in two phases: a qualitative and a quantitative stage. The qualitative phase was required to inform the development of the survey instrument used in the quantitative phase.

The qualitative stage consisted of five semi-structured interviews and two focus groups with paid Bushcare employees in order to gain insight and understanding of the context, content and constituents involved in these environmental volunteering organizations in regards to the research problem.

Interview and focus group guides were developed. The framework used for question formulation was institutional theory by Meyer and Rowan (1977), DiMaggio and Powell (1983), and Scott (1995). The key areas covered included organizational structure, funding systems, grant application processes, recruitment practices, challenges and environmental regeneration practices which form the basis of the organizations' mission. An expert in institutional theory was asked to review the qualitative research instruments to ensure that all key constructs in institutional theory were covered in an appropriate manner. The qualitative instruments were pilot tested with a small sample of respondents to identify and eliminate potential problems.

The results from the qualitative research phase were used as the basis for the development of the survey instrument for the quantitative phase. Questions in the following areas were included: organizational structure, accountability, marketing activities undertaken, grant applications activities and attitudes towards grant funding, and trends in the competitiveness of the environment. Prior to data collection, pilot testing was conducted on a small sample of respondents to ensure that all questions were relevant and understood well by respondents.

The fieldwork for the quantitative study was a census including the entire population of 54 Bushcare units within New South Wales. All units were contacted by telephone and agreed to participate by filling out the self-completion questionnaire. A final response rate of 80 percent was achieved, leading to a final data set of 43 cases.

Results

The qualitative study phase led to very interesting insight into the new work environment of public sector non profit organizations. 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. Where Bushcare coordinators once had time to go out in field and inspect and monitor the revegetation sites, they now spend most of their time in the office. 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. Reference made to the objectives of the grant funding highlighted the increasing push for a regional focus that grant applications must adhere to. It was specified that this made it much harder for the groups because if a site does not have the required regional focus, they tend not to get funding.

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 organization, 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 organization. They said that most of the grant application process was just too complicated as there were many other facets to consider, like increased litigation to do with volunteers. Among the conversations about grant applications coordinators commented that in the case of successful funding applications reporting and guidelines of grant applications were becoming more stringent. Respondents gave accounts that constantly increased evaluation and monitoring of their sites once funding was allocated is a continually occurring process.

Furthermore, an evaluation framework must be planned prior to the grant application being drafted. Monitoring would then take place once funding was obtained. This was done through pictures of the site, measurement of project goal accomplishment and reports sent to the funding body, including a full budget expenditure report. One respondent claimed, “these projects are comprehensively reported and evaluated”. Phrases used to describe the changes included, “more professional” and “like a business” indicating manifestations of accountability and increased administrative duties. Bushcare organizations are now required to adopt a more corporate culture.

Findings from the survey study indicate that a sizable proportion of Bushcare organizations 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 organization’s existence. The average amount of funding acquired over the last year amounted to Australian \$168,800, with an average of Australian \$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 organizations, respondents were asked whether they felt any changes to their organization were a consequence of the funding being awarded. In response, 75% of participants indicated that they felt there were noticeable changes that affected their organizations. 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.

When asked to indicate whether they felt that funding available was appropriate for the type of work they were performing, 83% felt that the funding was appropriate. However, 61% of respondents felt that they must tailor the type of work they performed in order to be eligible for grant funding. In doing so, 46% indicated that they found difficulty balancing the management of grant funding with the mission of Bushcare. A significant proportion (38%) indicated that they feel there was potential for the goals of their Bushcare organization to be compromised in order to comply with grant funding requirements. For those who specified that funding available was not appropriate to their work, an open-ended question was included to gauge the responses of participants.

Participants were required to answer the question in their own words, and responses were categorized into three groups: funding being too restrictive (50% of responses), difficult or extensive requirements (25% of responses), and funding not required (25% of responses). To gain a quantitative snapshot of the practices regarding future grant applications, respondents were asked whether they planned to apply for grant funding in the future: 93% of respondents answered positively. For those who indicated they held no plans to apply for future grant funding, 75 % indicated they were deterred by the amount of paperwork, and 38% by the amount of hassle involved in the process. Interestingly, 38% of respondents specified they would not apply for future funding as they are not interested in short-term funding.

An ANOVA was conducted to investigate the hypothesis that nonprofit organizations which are more successful in attracting large amounts of external money from competitive funding sources differ in the extent to which they have experienced administrative changes. 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 average amount of grant funding obtained by Bushcare organizations amounted to Australian \$57,524 for the group who reported changes within the organization and the average amount of the group which reported no changes amounted to Australian \$721,750 (approximately 12.5 times the amount of funding for the group who reported changes). The same pattern emerged with the amount of funding received over the life of the Bushcare programs. The average amount of total funding obtained by those organizations who reported changes in the organization was Australian \$271,440, whereas for those who reported no changes, the average funding received over the years was Australian \$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 organization, suggesting that organizations 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 organization's ability to manage increased accountability. This suggests that the more successful an organization 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. Figure 2 summarizes this discussion about the coercive pressures from grant funding and regulatory requirements and highlights the form in which these changes take in the administrative operations of Bushcare. This process has a loop pattern which links the administrative changes to the grant funding to illustrate that those organizations that are successful in dealing with administrative burdens are more likely to be successful at gaining grant funding due to their ability to cope with these changes.

[Insert figure 2 about here]

More specifically, a larger amount of funding acquired does not necessarily imply that the organization 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 organizations must learn to deal with the demands for increased accountability and increased competition that are prevalent within the public and nonprofit 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 organization will model itself on the practices of organizations 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 organizations are faced with greater uncertainty. The amount of funding is a reflection of the level of expertise and experience of these organizations; therefore, those with a limited amount of experience will have lower amounts of funding and consequently less sophisticated structures. Those organizations 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 organizational structure (Alexander 2000; Hoque 2005), organizations 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

assumption that nonprofit organizations which are more successful in attracting large amounts of external money from competitive funding sources differ in the extent to which they have experienced administrative changes.

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 organizations compete for external funding (95%), with 75% of respondents indicating noticeable changes in their organization as a result of awarded funding. The most reported changes were more administrative operations (85%), more paperwork (78%), and more accountability (65%). Forty-eight percent 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 organizations 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.

This paper contends that such organizations, if they are to be successful in gaining grants, need more sophisticated administrative systems. Organizations within this institutional environment are facing new struggles in their funding environment. These changes fundamentally relate to increased competition and accountability due to pressure exerted by funding bodies. However, from the viewpoint of the actors within the field, the Bushcare coordinators, these changes are manifested in the practices that they deal with on a smaller-scale, day-to-day basis. These changes are apparent both in the interviews and focus groups and also in the reports of participants in the questionnaire, overtly stating that major funding systems are changing. They are now more selective and require an increased amount of disclosure and detail in their reports. Secondly, changes are reported to be noticeable in the way the coordinators of these programs carry out their daily responsibilities. The most

noticeable changes are accounts of more paperwork, time spent indoors, complexity in accounting and reporting, and greater volumes of reporting.

Environmental volunteering organizations must learn to deal with the demands for increased accountability and increased competition that are prevalent within the public and nonprofit sectors. It is understood that while initial learning stages are filled with uncertainty and ambiguity (DiMaggio and Powell 1983), the more uncertainty in the relationship between means and ends, the greater the extent to which an organization will model itself on the practices of organizations which it deems more successful. This modelling produces an image of legitimacy and social fitness and must be closely monitored so that organizations do not deviate too far from their organizational mission.

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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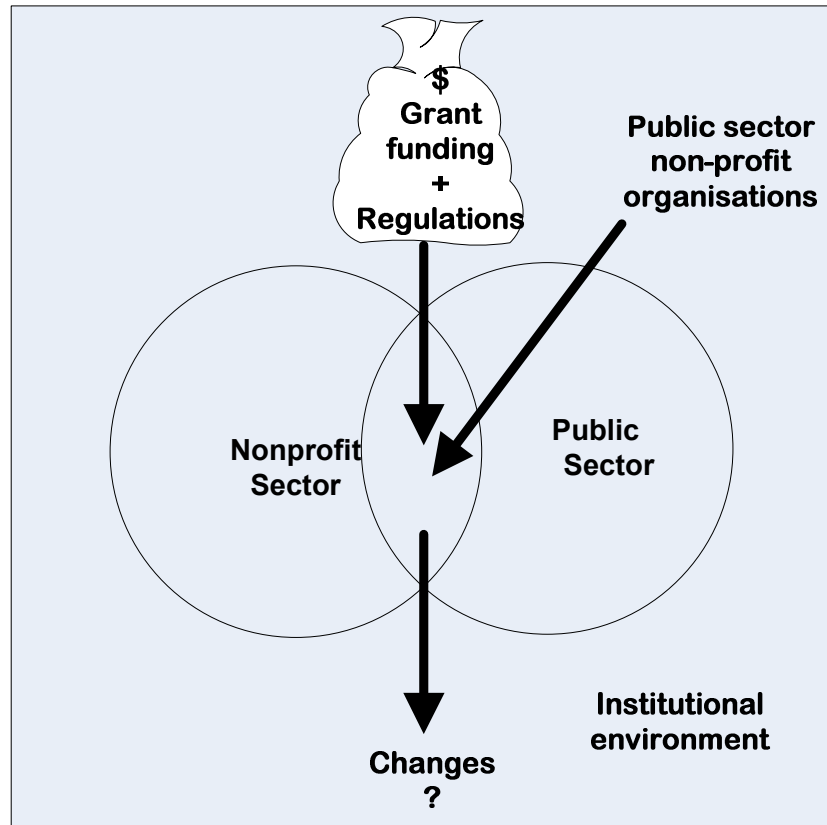


Figure 1: The effect of coercive pressures on Bushcare. Adapted from Dolnicar, Irvine, and Lazarevski (2008)

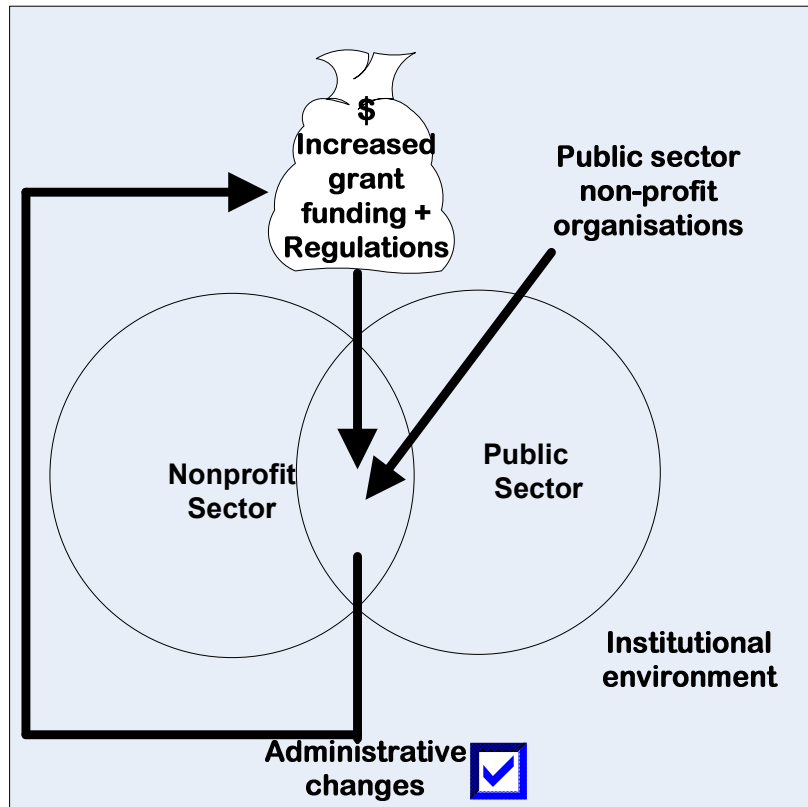


Figure 2: Administrative changes due to coercive pressures in the funding environment