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Public Funding and the Values of Third Sector Organisations: Output Legitimacy versus Normative Legitimacy

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Abstract

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Key words: third sector organisations, legitimacy, values, innovation, United Kingdom

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Introduction

The enthusiasm of governments for engagement with the third sector in the delivery of public services shows no signs of abating. In 2006 the then Chancellor of the Exchequer, Gordon Brown, noted that '[o]ver recent years the role of the third sector in helping deliver [public] services has increased substantially, with larger amounts of public funding going to the sector than ever before. But I believe it has the potential to contribute still more' (HM Treasury 2006: 3). Government engagement with the sector has seen a significant expansion in the number of general charities operating in the UK, as well as an increase in the number of large charities, as a result of the growth of small and medium charities as well as new entrants to the sector (Wilding et al. 2006). While government engagement has clearly been of benefit to the sector in terms of generating additional sources of income, there are those who argue that the sector is losing its distinctive value base as organisations adopt the values and operating mechanisms of external funding agencies (Eikenberry and Kluver 2004; Kilby 2004). While it is clear that third sector organisations are changing the way they operate as a result of increasing engagement with government (Evers 2005; Brandsen and von Hout 2006), the effects of such engagement on the value base of third sector organisations is less clear.

This paper reports on research that examined the ways in which third sector organisations in the UK protect their distinctive value base in the face of demands placed on them by external funding agencies and whether they are succeeding in this task. The paper begins with a more detailed discussion of debates concerned with the values and legitimacy of third sector organisations. It then outlines the research approach, before discussing research findings.

Legitimacy debates

If legitimacy can be understood as that which gives third sector organisations the right to influence the ways in which taxpayers' money is spent (Taylor and Warburton 2003: 324), the normative or moral legitimacy of third sector organisations rests on the distinctive values of solidarity (the recognition and promotion of the rights or moral claims of others) and voluntarism, in contrast to the coercive authority of the state or the market-based profit motive (Atack 1999: 859-860). However legitimacy is something that can only be conferred from the outside and can only operate within a

specific social system (Taylor and Warburton 2003: 323). Thus, it is ‘the approaches, interests and perceptions of the stakeholders, not the agency’ which determine the ways in which legitimacy is defined (Lister 2003: 179). Stakeholder interests may vary, with no guarantee that the form of legitimacy valued by one stakeholder will necessarily be compatible with the forms of legitimacy valued by other stakeholders (Lister 2003: 184). For example, the general public or private donors may place most weight on normative legitimacy, whereas governments tend to give more weight to technical forms of legitimacy such as the ability of the organisation to deliver the desired output (Taylor and Warburton 2003: 333).

Just as normative claims of legitimacy depend on shared values, technical or performance oriented legitimacy (often called output legitimacy or organisational legitimacy) also depend on conformity with dominant discourses (Lister 2003: 188), such as new public management. The value placed on upwards accountability over downwards accountability by new public management has led to concern that increasing engagement with governments is eroding the distinctive value set of third sector organisations. In other words, that the demands of output legitimacy are undermining the normative legitimacy of third sector organisations (see for example, Edwards and Hulme 1996: 966-968; Attack 1999: 859; Choudhury and Ahmed 2002: 566; Ossewaarde et al. 2008: 47).

But new public management is not the only discourse shaping relationships between third sector organisations and government. Governments value third sector organisations not just because they can deliver services but also because of their connections to the communities or groups of people who are the intended recipients of the services. As Ospina et al. (2002: 19) noted in their study of four identity-based non-profit organisations in the United States, ‘[t]he rhetoric of community ties provides each organization with legitimacy in the eyes of the government and other funders’, so managers have an incentive to maintain close ties to the relevant community. Knowledge of, and hence ability to work effectively with, the relevant user group therefore provides a countervailing pressure to the upwards accountability demands placed on third sector organisations. Ospina et al. (2002: 19) describe the balancing act required of third sector managers as ‘negotiated accountability’.

On the one hand, managers can use the input [from the community] to better inform decisions and respond to downward accountability pulls. On the other hand, when responding to upward accountability forces, such as funding sources, the managers can claim that their decisions (and organizational needs) are linked to community input (and group needs).

Maintaining close ties to the relevant community is one strategy third sector organisations use to manage the tensions between the demands of output legitimacy and the demands of normative legitimacy. Other strategies include maintaining a mixed resource base, moving into new areas of activity which organisations believe will meet the needs of their clients (Brandsen and von Hout 2006: 543), establishing links with other like-minded organisations (Nevile 1999: 21), or what Ossewaarde et al. (2008: 47) have called ‘creative packaging’ where organisations present what they do in ways that correspond to the preferences of government (or other) funding sources. While the existence of such strategies suggests that the common picture of third sector organisations as passive victims of external pressures is overdrawn, it is clear that the public policy context does have an impact on at least some of the distinctive characteristics of third sector organisations.

Governments seek to engage third sector organisations in the delivery of publicly funded services because of their strong focus on the often complex needs of service users, their capacity to build users’ trust, be flexible and innovative (HM Treasury 2006: 14). It is the last two characteristics that are most susceptible to changes in the policy context. Flexibility and responsiveness, both of which are important in meeting individual needs and building trust, are often constrained by overly prescriptive funding mechanisms (see for example, Nevile 2008). Similarly, Osborne et al.’s (2008) longitudinal study of the innovative capacity of voluntary and community organisations in the UK revealed that, rather than being a constant characteristic, the level of innovation undertaken by voluntary and community sector organisations largely depends on the policy context. In the early 1990s, government policy at both the central and local level encouraged innovation. By 2006, innovation had been reformulated from a process of organisational discontinuity and transformation to a process of continuous improvement (Osborne et al. 2008: 64). Consequently, the percentage of voluntary and community organisations engaged in

innovative activity had fallen from 37.9 per cent in 1994 to 19.1 per cent of organisations in 2006 (Osborne et al. 2008: 55).

When I first came into the [voluntary] sector it was all innovation. You couldn't get money for anything else. Now the irony is it is all changed. Local government doesn't want innovation anymore. You can develop a service, yes. Especially if it helps you meet a target. But innovation? Not a chance – too risky and it doesn't feature on the targets radar (Manager of VCO cited in Osborne et al. 2008: 66).

As noted earlier, governments value the ability of third sector organisations to be flexible and innovative and in the UK the Labour Government has promoted a model of complimentary relationships between government and the third sector based on the idea of a partnership between the two sectors (Osborne and McLaughlin 2004: 574). Initially the partnership included the design as well as the delivery of social services, but some now argue that government interest in partnership has narrowed to focus on service delivery functions at the expense of shared involvement in the planning of public services (Osborne and McLaughlin 2004). When governments focus on the service delivery functions of third sector organisations at the expense of their role in policy planning processes, governments tend to exert more control over the activities of service providers, typically in relation to accountability, with a consequent emphasis on output legitimacy (Brandsen and von Hout 2006: 542).¹

The remainder of this article takes up the question of whether the demands of output legitimacy are compromising the normative legitimacy of third sector organisations in the UK. It also explores the strategies used by the third sector organisations to minimize threats to normative legitimacy.

Research approach

The study is based on twenty-six semi-structured in-depth interviews with staff from a diverse range of third sector organisations in the north of England (Leeds, Manchester, Sheffield and Hull) and in London. Staff from direct service delivery organisations, umbrella or peak organisations (organisations which provide information and support to direct service delivery organisations) and social enterprises (organisations which trade goods or services to further social objectives) were asked

¹ This has certainly been the case in Australia over the last ten to fifteen years and it remains to be seen whether the new Labor Government with its talk of partnerships will reverse this trend.

about the work of the organisation, sources of funding and the impact of funding mechanisms on the organisation and its work. All interviews were transcribed and respondents who had chosen to participate on an attributable basis were given the opportunity to review their comments prior to any research results being made public. Because the study included organisations which would describe themselves as social enterprises as well as organisations which would see themselves as belonging to the voluntary and community sector, the more generic term ‘third sector’ is used to describe all the organisations which participated in the study.²

Diversity within the group of organisations which participated in the study is also evident in regard to the age of the organisation and the client group. For the purposes of this study, organisations which had been operating for less than ten years were regarded as new organisations and older organisations as those which had been operating for ten years or more. The focus of direct service delivery organisations included organisations which provided services to a specific group within the community (such as women, older people, young people, children and their families, ex-offenders or those experiencing homelessness), as well as organisations offering support to anyone who lived in a particular area or were in need of the sort of assistance provided by the organisation. The size of the organisations also varied greatly, from small organisations with less than five staff to an organisation with 1,300 staff and an annual turnover approaching £32 million.

As discussed earlier, the normative legitimacy of third sector organisations rests on their distinctive value base which provides the rationale for the work of the organisation. Therefore, in this study, adherence to the value base or core mission of the organisation in terms of what work the organisation chose to do and how it chose to do it, were taken as indicators of normative legitimacy. For example, many third sector organisations are established in response to unmet needs and a commitment to the welfare of service users is part of the organisation’s value base. Output legitimacy rests on the ability of the organisation to achieve desired outcomes. Therefore reporting requirements such as targets or key performance indicators were taken as

² In UK policy documents the third sector is defined as value-driven, non-governmental organisations which principally re-invest surpluses to further social, environmental or cultural objectives and as such include voluntary and community organisations, charities and social enterprises (HM Treasury 2006: 9).

indicators of output legitimacy. Restrictions or conditions placed on the dispersal of money by funding agencies were also taken as indicators of output legitimacy because such restrictions are imposed by funding agencies in an attempt to ensure that money is not wasted and desired outcomes, for example, service users becoming more independent, are achieved.

While the research findings are based on interviews with staff from a small fraction of the thousands of third sector organisations operating across the north of England, the fact that the trends in the data were observed across such a diverse range of organisations suggests that even if the study was expanded substantially, similar trends would emerge.

Findings

Normative legitimacy compromised?

From conversations with the twenty-nine staff who participated in the study it was clear that normative legitimacy was not being compromised by the demands of output legitimacy. Staff had a clear sense of the organisation's core mission and the line in the sand that, if crossed, would mean the organisation was engaged in work that was not directly related to the organisation's core mission. In other words, underlying ethical values continued to drive choices about the type of work the organisation engaged in and sources of funding for that work. For some organisations that meant not moving beyond a focus on the particular group the organisation had originally been set up to assist, for others it meant activities had to be consistent with an overarching goal such as community empowerment. Some organisations believed that a commitment to underlying ethical values was essential to the work of the organisation. For example, Armley Helping Hands believes that its identity as an independent charity facilitates the work that they do with older people in the Wortley and Armley districts of Leeds because independence from government allows a relationship of trust to be built between staff and service users because older clients are not worried that 'if I tell [them] anything about my finances or how I am not coping so well in the morning, they will put me in hospital or a nursing home' (Newsome 2007). Because of the organisation's commitment to its identity as an independent charity, it chooses not to deliver statutory services and declines funding for work which the organisation believes would compromise its independence.

I was approached a while ago about setting up a personal care service where we would have staff going in and washing and bathing older people and I said 'no'. I could do it because in my previous job I was a qualified nurse and I co-ordinated a desk for aged care nurses, that wouldn't be a problem, but I just feel we would lose our identity. If I am concentrating on making sure we have nurses here and nurses there...who's concentrating on the older people? And when do we cross over that line when we are no longer a charity and we are a statutory agency? I think you have to keep that identity (Newsome 2007).

Organisations make choices not only about what they do, but also about how they do it and just as choices about outcomes were largely driven by the underlying ethical values which shaped the organisation's understanding of its core mission, choices about how the organisation carried out its work were largely shaped by the organisation's underlying ethical values or professional notions of best practice. For example, GROW, an organisation which aims to provide a holistic service that enables Rotherham women and their families to make informed choices, will not fund any of its work through a particular community learning funding stream because the funding stream will only pay for direct delivery time, whereas GROW believes it is important to ensure the setting in which the learning is going to take place is appropriate for the women who will be participating in the development activity.

So if we are working with a vulnerable group, a worker from here has to make sure that the venue is accessible...[that] the attitude is OK for this group to go in, but is not in a community where they will be identified...The tutor has to be appropriate so a worker from here has to make sure we have the right tutor, [but] we can't claim any of that time within this pot. All they pay for is the tutor standing up and delivering knowledge and information and leaving. And that is not how we work (Barratt 2007).

The policy change in supported housing programs in the UK where clients who had previously had accommodation for life are now required to move on after six months is another example of how funding restrictions can conflict with professional judgments about what is in the best interest of the client, as Janet Spencer, Leeds Housing Concern, explains.

For example, a few weeks ago we had a woman who had initially come to us fleeing domestic violence and she also had mental health difficulties. At the point of six months this woman had got her tenancy and she was ready to leave and she went into a really bad mental health episode. Good practice said we just couldn't move her.

Leeds Housing Concern continued to provide accommodation and support for a further three months by which time the woman had recovered and was ready to move

on, an outcome Leeds Housing Concern regards as a success, but one which had to be recorded as a failure in the reporting system established by the funding agency (Spencer 2007). At St George's Crypt, professional judgments about what is in the best interest of the client also override financial considerations as the organisation funds three or four beds so that service users who are not yet ready to move on can be notionally moved from one of the twelve beds funded by the Supporting People program to one funded by St George's Crypt (Stott 2007).

The actions of Leeds Housing Concern and St George's Crypt to shield service users from the negative impacts of funding mechanisms are repeated across other agencies which cross-subsidize or juggle different funding streams to keep services running (Barratt 2007; MEgson 2007; Walter 2007), top-up government funded services to ensure quality is maintained (Wiggin 2007), use the organisation's own money to respond to the changing preferences of service users (Micklethwaite 2007), or make the decision to continue the service even after external funding ceases. For example, St George's Crypt obtained funding under the European Social Fund (ESF) to run a training program for asylum seekers and refugees, but the ESF funding was only for a relatively short period of time. However St George's Crypt

saw that relationships had been built up through that training project and so we ended up keeping on the two staff who had been funded and funding them ourselves because it didn't seem right to just pull the relationships those people had built up just because the money ran out (Stott 2007).

While organisations do what they can to absorb the negative impacts of funding mechanisms, organisations are not always able to shield service users. Not all organisations are in a position to continue providing the service after external funding ceases and, in many instances, service provision ceases, to the detriment of service users (Pryce 2007; Silvestre 2007; Bakes 2007; ABA Leeds 2006; Souter 2007; Ndzinga 2007).

We actually lost a project last year. It was a Carers Befriending project which used volunteers to pair them up with carers and it was really valued and we had six years of Lottery funding and we couldn't get any more funding. And that project folded, which is really sad because there was a need for it (Foalkes 2007).

The problems caused by short-term funding are exacerbated by the tendency of funding agencies, at all levels of government, to change funding priorities at the

beginning of each new funding cycle (Souter 2007; Pryce 2007). For example, the Leeds City Council Neighbourhood Renewal program provides funds every twelve months for activities that fit within council priorities. In 2007, one of the council's key priority areas was 'healthy living'. St Vincent's Support Centre was able to access funding which in part supported their healthy living café worker and their volunteer co-ordinator. Towards the end of 2007 the organisation was still unsure of council priorities for 2008 and therefore whether they would be able to continue funding positions for which there was an on-going need (Walter 2007).

Not surprisingly, small organisations with only a few sources of funding found it more difficult, if not impossible, to shield service users from the negative impacts of short-term funding cycles. In addition, as local authorities move away from grants and allocate more of their funding through a competitive tendering process, small organisations, such as Leeds PRT Carers Centre, which are largely reliant on funding from the local authority are forced to reduce the level of assistance they provide to service users when preparing tender documentation.

[T]his tender document that we did...took us away from what we should be doing for a good three months really because the whole staff team was involved – it wasn't just a management thing (Foalkes 2007).

Short-term funding and complex tender documentation can have a negative impact on service users if the organisation is not in a position to shield service users from cuts in service provision. Overly prescriptive funding formulas can also have a negative impact on service users. For example, as is the case with the Supporting People program discussed above, funding is often time-limited, assuming a linear projection from dependence to independence, when the reality for many individuals more closely resembles a game of snakes and ladders. Key performance indicators or targets based on a time-limited model of service provision make it difficult for agencies such as St Vincent's Support Centre to continue to provide non-time limited services such as debt counseling which acts as a safety net for those individuals who try to manage their own finances but 'have wobbles and blips and they know that they can come back here' (Walter 2007).

Similarly, South Yorkshire Women's Development Trust, which was established in 2002 to provide mutual support, resources and funding opportunities for women's organisations across South Yorkshire, is only able to fund one-off interventions; once an individual has attended one of their courses they are not able to access funding for any other course. Consequently women who have been through the construction site and enjoyed the experience and want to continue further in a non-traditional trade are prevented from doing so because 'we can't fund a learner on more than one occasion...[and] we can't get them into college because it is full with young apprenticeships and is male dominated' (Souter 2007). Vicki Souter, Business and Operations Manager of South Yorkshire Women's Development Trust believes that if funders were happy to accept case study evidence rather than relying solely on quantitative targets, negative impacts on service users would be reduced. Tracey Martin, Employment Manager FST-SMaRT (First Step Trust – Socially Minded and Responsible Trading) agrees, noting that FST-SMaRT, which provides work experience, training and support for people who are disadvantaged in the labour market, would like to increase the organisation's focus on soft skills but funding agencies tend not to pay for more qualitative outcomes.

Hard cash comes from a job or a letter from an employer saying 'we are going to give this person a job for at least 13 weeks'. That kind of hard evidence. And that is what they shell out most for. We recognize that the soft skills are really, really important (Martin 2007).

Strategies to protect normative legitimacy

Staff identified a range of strategies used to protect normative legitimacy, the most important of which was maintaining a mixed resource base. Of the organisations that reported having to close services when funding ceased, all were organisations which were dependent on a small number of funding sources. Reliance on a mixed resource base was evident across all types of organisations; the strategy was as important for organisations that engaged in advocacy work and supported direct service delivery organisations as it was for organisations working in the front line of service delivery. Maintaining a mixed resource base was also important for social enterprises. For example, WebPlay, an organisation that uses technology and theatre to link primary schools in different areas of the UK and Los Angeles and recovers 50 per cent of the cost of the program from participating schools, prefers to cover the remaining 50 per cent with a larger number of small grants rather than one or two large grants because

‘the hole is too big once the grant is finished. It is easier to plug little holes than a big one’ (Hardy 2007). Similarly FST-SMaRT, which provides work experience through a garage which is open to the public and generates an income, was able to establish the business with support from the Big Lottery Fund and a £3 million investment from First Step Trust as well as smaller grants from the European Social Fund, but has to look for other sources of funding which, together with the business income, will support the work of the organisation (Martin 2007).

Organisations which provide support to service delivery organisations and engage in advocacy work at the local level were less likely to have developed a mixed resource base than service delivery organisations or the national advocacy organisation. This reflects in part the preference of funding bodies, whether government or private sector, for funding specific projects (Turner 2007) as well as the role played by such organisations in local decision-making processes. For example, both Volition (which for the first 16 years of its existence was known as Leeds Voluntary Sector Mental Health Forum) and Leeds Older People’s Forum are funded by Leeds City Council Adult Social Care and the Primary Care Trust.³ Both organisations receive funding from local statutory agencies which supports the work of the organisation as a whole (that is, the organisations receive core funding), and while this funding has been relatively secure with funding being renewed each year, the local authority is in the process of reviewing voluntary sector funding in the context of moves to introduce more commissioning of services. In the mental health sector, contracts have been extended until March 2009 but how organisations will be funded after that date is yet to be determined (Cranshaw 2007). Volition has been able to attract small amounts of project funding and staff are aware of the need to find other sources of funding, but in an organisation with four staff, not all of whom are full-time, there is little capacity in either time or staff resources to devote to fundraising (Cranshaw 2007). By way of contrast, the national advocacy organisation which participated in the study, Carers UK, which grew out of the feminist movement 40 years ago, also receives statutory funding but this constitutes only about eight to ten per cent of annual turnover. Core funding from statutory sources is supplemented by project funding from a variety of

³ Primary Care Trusts (PCTs) are statutory agencies which are part of the National Health Service and provide a range of community health services. PCTs also provide funding for general practitioners and medical prescriptions and commission hospital and mental health services from relevant agencies within the National Health Service or the private sector.

sources including the Big Lottery Fund and the European Social Fund as well as support from corporate donors, legacies and individual donors (Holzhausen 2007).

The uncertainty within the local voluntary sector over future funding from statutory agencies is exacerbated by the tendency of the central government to fund pilot programs and then devolve responsibility for any on-going programs to the local level. For example, for the first six years of its existence, Sure Start Children's Centre Bramley was funded directly by central government as part of the national Sure Start programme.⁴ In 2006 funding was directed through the local authority and 'since then it has been spread more thinly' (Bakes 2007). In 2007 the Sure Start programme ceased and was replaced by Rapid Response Teams working out of Children's Centres. While the nature of the work carried out by the Rapid Response Teams is similar to what was done under the Sure Start programme,

[t]he...difference is then we were cash rich, we were very cash rich, but not anymore. Before we started working for the Leeds City Council we used to do a lot of things like carnivals, trips to Scarborough, lovely things, Halloween parties, Christmas parties, but we don't have that money anymore. So we don't tend to do what we call the flowery stuff (Bakes 2007: 2).

After removing most of their early intervention work, the 'flowery stuff', due to lack of funds, the organisation is now being told that they should be working at this level, but funding has not increased to cover the cost of providing early intervention activities (Bakes 2007).

More recent pilot programs such as the Partnerships for Older People's Projects (POPPs), are required to address the sustainability issue during the pilot phase. The POPPs pilot at Rochdale, which commenced in May 2007, is seeking to develop social enterprises that deliver a self-sustaining service (Shaw 2007). The fact that the project is based on a partnership between the voluntary and statutory sectors encourages the development of a mixed resource base as each sector is able to access different resources and funding streams.

The CVS [community and voluntary sector] might be able to pull in one pot of money, GMPTE (Greater Manchester Passenger Transport Executive) can bring in another, they are bringing in lots of transport money for us and buses and all sorts of things (Shaw 2007).

⁴ Sure Start Local Programmes were first established in 2000 to develop services for children aged 0-4 years and their families in disadvantaged areas of the UK. The locally based programmes aimed to improve children's social and emotional development, health and learning as well as strengthen their families and the communities within which they lived.

However even with these sort of developments within the pilot phase, Kathy Shaw, Chief Executive of the Council for Voluntary Service and POPPs Project Manager, believes that ‘there will be a need for some core mainstreamed money [at the end of the two year pilot] but I don’t know what form that would be... Will the PCT put some funding in? Will the local authority put some funding in?’ (Shaw 2007). Melanie Ndzinga, Forum Manager, Leeds Older People’s Forum agrees that national initiatives such as POPPs and LinkAge Plus⁵ offer hope for the voluntary sector, but at the same time acknowledges the deep level of anxiety within the sector about whether the work will be on-going after the end of the project.

The voluntary sector has been used to pilot projects... and then two years later they are on to something else. There is a general fatigue around all of that. But also I think there has been a recognition of that as an issue and the POPPs project and the LinkAge project have both been based around developing the way services will develop in the future, so forming a basis to build upon for the future. But obviously all of that is dependent on whether the funding is forthcoming. So it is a bit of cliff hanger really (Ndzinga 2007).

The importance of a mixed resource base for protecting normative legitimacy raises the question of whether this is something that will naturally develop with time. While older service delivery organisations were more likely to have a mixed resource base, survival does not necessarily guarantee a strong mixed resource base. For example, the Association of Blind Asians was started in 1989 by Swapna McNeil as a self-help group to raise awareness about the needs of visually impaired Asian people, their families and carers. The Association became a registered charity in 1994 and in 1995 was able to secure a grant from the national Neighbourhood Networks program which was channeled through the local authority. More than ten years after the Association moved from being a grass-roots self-help group to a registered charity which provides services, the Association continues to rely on one-off grants which allow for completion of particular projects but do not allow for sustained growth (McNeil 2007). Catholic Care which has been operating in Leeds since 1864 currently has 150 staff running four residential children’s homes, ten homes for people with learning disabilities, four support homes for people with long-term mental health problems, as well as a team of school social workers and outreach and community development

⁵ The Department of Work and Pensions is funding eight pilot projects (2006-2008) which aim to provide older people with access to a wide range of joined-up services including housing, transport, health and social care and volunteering opportunities.

workers. Local authority contracts constitute about 90 per cent of the organisation's income, with the remainder coming from investments, parish and school collections.

For Mark Wiggin, Chief Executive of Catholic Care,

one of the things I would like to change is to get more mixed economy in the incomes...[because] at the end of the day it is not the money, it is fundamentally what services can you offer and provide for people that are appropriate to their needs, and some of the funding streams don't help that an awful lot (Wiggin 2007).

Organisations that deliver mainstream social services which are funded through the Social Service departments of local authorities or local health authorities can survive and grow without a diverse range of funding sources, but innovation is difficult, if not impossible. For example, in 1971 St Anne's Community Services began operating a day centre for homeless people in a spare room at St Anne's Cathedral in Leeds. Thirty-six years later the organisation is a major provider of supported housing and other social care services in Yorkshire and the North East of England. The organisation employs 1,300 staff and has an annual turnover approaching £32 million (St Anne's Annual Report 2006: 4). While St Anne's has managed to build up reserves, this money is used to adjust levels of service provision as the needs of service users change, for example, remodeling group homes into self-contained flats, and innovation is seen as too risky with money getting tighter year by year (Micklethwaite 2007). Staff in other organisations with a limited number of funding streams also reported that their ability to introduce new or innovative services was restricted by lack of funding (Wiggin 2007; Souter 2007; Walter 2007; Ndzinga 2007). The experience of these organisations contrasts with that the national advocacy organisation, Carers UK, which has developed a strong mixed resource base which is seen as essential to increasing understanding of the different issues facing carers and hence moving the agenda forward (Holzhausen 2007). Leeds Housing Concern, which has 13 contracts with the local authority, decided to tap into private sector philanthropic funding to develop innovative services that address the gaps in services funded by the local authority.

For example, we have a service which accommodates black and Asian women fleeing violence. They bring their children and there is no provision in the statutory body for the welfare of those children. But those children come to us very damaged...and so we deemed we needed a specialist child worker and also a therapist. And those funds have to come from elsewhere (Spencer 2007).

The difficulties experienced by organisations, even large organisations, which are mainly reliant on funding from local authorities in developing innovative services is consistent with Osborne et al's (2008: 65) findings that the public policy framework at the local level does not recognise or support innovation. Where innovation at the local level is being encouraged by government, the money is coming from centrally funded pilot programs such as LinkAge Plus or POPPs (Ndzinga 2007). The type of innovation being undertaken largely conforms to what Osborne (1998: 23) has called evolutionary innovation where the organisation provides a new service to same client group. In a policy environment where 'innovation' has been recast as a process of continuous improvement (Osborne et. al 2008: 64), the fact that organisations are engaging in evolutionary innovation rather than incremental development⁶ suggests that innovative activity is being used to bolster normative rather than output legitimacy.

Maintaining a mixed resource base and developing new areas of activity in response to client need are not the only strategies used by third sector organisations to protect normative legitimacy. As noted earlier, examples of creative packaging, maintaining links to the relevant community and establishing formal links with likeminded organisations can all be found within the literature. Amongst the organisations which participated in the study, the use of creative packaging was less than one might expect given the tendency of funding agencies to change priorities at the beginning of each new funding cycle, a practice which encourages creative packaging. Organisations with broad remits, such as St Vincent's Support Centre, recognise the fact that funding priorities are always going to be specific so

[v]ery often you have to think, 'what can we do to access that money? How can we shape that piece of work so that it fits with it?' Very rarely is there a piece of funding announced that says, 'for disadvantaged people in East Leeds' (Walter 2007).

Other staff talked about the need to be flexible enough to fit in with the changing priorities of funding bodies while remaining within the organisation's aims and vision (Berrisford 2007; Megson 2007; Barratt 2007). The need to remain within the

⁶ Osborne (1998: 23) defines incremental development as a situation where organisations work with the same client group, provide the same services, but with incremental improvements.

organisation's core mission was cited by a number of staff as the reason they felt creative packing was not a particularly useful strategy.

I don't agree with projects shaping and cutting and trimming their projects just to fit in with the funding because it doesn't work. It doesn't work successfully (Pryce 2007).

Andrew Croft, Director of CAN Mezzanine, a successful social enterprise that provides shared serviced office space and support to third sector organisations, agrees that applying for grants which would take the organisation beyond its core mission is risky.

There are huge downsides to playing that game. You might be ill equipped to deliver the project. It might be that you over promise because you need or want the funding...If it isn't your core, if it isn't your level of expertise, then somebody else should be getting that money because they would deliver it better than you would (Croft 2007).

Applying for funding which fell into a broad interpretation of the organisation's remit in order to cross-subsidize other services appeared to be more common than creative packaging. For example, St Luke's Cares was established in 1991 in response to the needs of young people in the Beeston area of Leeds. In 2002, St Luke's Youth Project merged with an organisation called Hipbase which teaches IT to older people in the local community. While St Luke's Cares is supported by 30 different funding streams, not all of them pay full cost recovery and the IT money, which does pay full cost recovery, is used to keep the organisation operating so that it can continue its youth work.

[This means] I have to concentrate on getting [IT] money rather than money to help young people. It is about compromise...[But] it is not a bad compromise...We are getting a lot of people upskilled and into employment, the work we should be doing in that area...We wouldn't move outside our remit, that's a definite. If it doesn't fit in with the community upskilling than forget it, we won't do it, we won't compromise (Megson 2007).

The normative legitimacy of third sector organisations established in response to a particular local need rests on their connection to the community the organisation was established to assist and maintaining that connection can be a powerful way of protecting normative legitimacy because the connection is also part of output legitimacy; their comparative advantage over statutory delivery agencies. Connection to the relevant community is important for service delivery, when statutory agencies are looking for community input, and when community and voluntary sector

organisations are participating in local decision-making forums (Newsome 2007; Pryce 2007; Silvestre 2007; Ndzinga 2007). For example, Melanie Ndzinga, Forum Manager, Leeds Older People's Forum, believes the fact that the organisation has a membership base of 126 organisations 'gives us a lot of weight because with each organisation comes probably 1,000 older people and we consult with them as well' (Ndzinga 2007). On the other hand, organisations operating at the national level tended to place more weight on research to give credibility to their advocacy position.

[Carers UK] have quite a set of strict principles in terms of how we present evidence, ensuring that we get good robust research through primary or secondary sources. That is, evidence-based, well-balanced...Our research has integrity and that is why it is very well respected by government (Holzhausen 2007).

For the Sutton Trust, a combination think-tank, project and grant-making organisation, robust research prior to running a pilot project and then robustly evaluating the pilot is an essential part of how the organisation operates, with the ultimate aim of the research being used by government in the policy-making process (Turner 2007).

The final strategy cited in the literature, establishing links with like-minded organisations, was mainly used as a way of developing or maintaining a mixed resource base, by enabling organisations to apply for European funding or to strengthen bids for national programs (Megson 2007; Haskins 2007; Walter 2007), or as a means of avoiding the negative effects of funding mechanisms. For example, St Luke's Cares is part of a group of ten to fifteen organisations which together applied for European funding, with one voluntary organisation taking a management fee for co-ordinating outputs amongst all the organisations within the group. Because European funding comes with a clawback mechanism if output targets are not met,

I ring [the co-ordinating agency] and say, 'look I am not going to achieve on some of these Level 1s,' and they say, 'right OK' and they ring around to find out who can do more Level 1s until they find another organisation that says, 'yes I can take them'. And it is great. It is working well (Megson 2007).

Conclusion

Third sector organisations operate within a complex set of interdependent accountability relationships. Their relationship with those the organisation is trying to assist is part of both normative legitimacy and output legitimacy, yet the demands of

output legitimacy at times conflict with the demands of normative legitimacy. As governments increasingly turn to third sector organisations to deliver social services previously delivered by statutory agencies, or seek to integrate third sector organisations into service delivery frameworks, questions arise as to whether the demands of output legitimacy are compromising their normative legitimacy. Based on the experiences of a diverse range of third sector organisations, this paper argues that normative legitimacy is not being compromised as organisations have developed a number of strategies to protect normative legitimacy. Regardless of the type of organisation, the most important strategy is maintaining a mixed resource base. Spreading the risk by increasing the number of funding sources allows organisations to cushion service users from the negative impacts of funding requirements, gives organisations greater flexibility to shape service delivery in ways that are consistent with core values and allows organisations to engage in evolutionary innovation.

However developing and maintaining a mixed resource base is not a cost-free strategy. While some businesses or private trusts are prepared to support third sector organisations once convinced that the work being done by the organisation is worthwhile, government funding is more prescriptive. Therefore in pursuing a range of funding sources, third sector organisations run the risk of being diverted from their core mission. For example, an evaluation of the Ex-Cell programme which provides work experience and support to ex-offenders, notes the difficulties caused by the programme's reliance on a limited number of funding sources and concludes that 'it may be advisable for Ex-cell to consider ways in which to broaden the programme to include a range of client groups so that [the programme] does not become over dependent on a narrow field of drug-related funding in the future' (Social Information Systems 2007: 28-29).

Even if organisations manage to find a workable balance between a diversity of funding sources and a focus on core business, fulfilling the monitoring and reporting requirements for up to ten, twenty or thirty different funding streams is time consuming (Haskins 2007; Nixon 2007; Megson 2007; Micklethwaite 2007).

Yes it creates work. I'm a full-time post and a lot of that is monitoring all these funding streams and maximizing them (Nixon 2007).

The more prescriptive the funding, the more time the organisation has to put into monitoring and reporting, costs which can continue for months after the project, and the funding, ceases and which have to be met by other funding streams which are prepared to provide core funding, not just fund direct project costs (Haskins 2007).

As the research also revealed, developing a mixed resource base is not something that will automatically occur over time. Organisations have to make the decision to pursue this strategy and be prepared to absorb the costs involved in doing so. If successful, the benefits for the organisation are clear, but service users and governments, at both the national and local level, also benefit from organisations' enhanced capacity for flexible service delivery and innovation. Unfortunately in the short to medium term the task of developing and maintaining a mixed resource base looks like becoming more difficult, with money from the Big Lottery Fund being directed toward the 2012 Olympics and a greater percentage of European funding being directed towards new EU members which score lower on indices of socio-economic disadvantage than the UK. Government policy documents recognise that current funding practices can constrain rather than support the work of third sector organisations, and acknowledge that substantive change in departmental funding practices is needed (HM Treasury 2006: 3). Understanding the ways in which third sector organisations manage their multiple accountabilities is necessary if policy intentions are ever to be translated into practice.

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