Drifting or holding firm? Public funding and the values of third sector organisations

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As the involvement of third sector organisations in the delivery of publicly funded services has increased, so too have debates over the effect of such collaboration on their distinctive value base. This qualitative study asks whether the normative legitimacy of third sector organisations is being compromised by the requirements placed on them by external funding agencies. The study finds that third sector organisations are able to protect their normative legitimacy through a range of strategies, the most important of which is a mixed resource base; a strategy that also enables third sector organisations to engage in evolutionary innovation.

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, increasing engagement with government has long been recognised as a double-edged sword, as administrative and accountability demands may conflict with an agency's mission (Lipsky and Smith, 1989–90; Chambré, 2001; Halfpenny and Reid, 2002; Eikenberry and Kluver, 2004; Carmel and Harlock, 2008). Theories of institutional isomorphism and resource dependency predict that third sector organisations will find it difficult to maintain their distinctive value base under pressure from external funding agencies. 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 van Hout, 2006), the effects of such engagement on the value base of third sector organisations is less clear. Case studies of agency response to engagement with government reveal a complex process of adjustment as third sector agencies attempt to balance conflicting demands (see, for example, Ospina et al, 2002; Cairns et al, 2007; Nevile, 2009). As Carmel and Harlock (2008: 167) note, 'what remains to be investigated is whether ambivalence ever translates into resistance … and what the consequences of acceptance, ambivalence and resistance are'.

Key words: third sector organisations • values • legitimacy • UK

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This article reports on research that examined the ways in which third sector organisations in the UK respond to the demands placed on them by external funding agencies and some of the consequences for the organisation, their clients and government. In particular, the research focuses on whether third sector organisations are able to protect their distinctive value base on which normative claims of legitimacy rest. The article 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: 859–60). 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' that 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 (see, for example, Edwards and Hulme, 1996: 966–8; Atack, 1999: 859; Choudhury and Ahmed, 2002: 566; Ossewaarde et al, 2008: 47). Edwards and Hulme (1996: 967–8) argue that downward accountability is most likely to be weakened where third sector organisations are in a contractual relationship with funding agencies that emphasizes short-term quantitative outputs. For Lipsky and Smith (1989–90: 626), the regulations that accompany government contracts (seen as necessary to fulfil public sector accountability requirements) stifle the ability of third sector organisations to respond to individual need, with the result that service delivery becomes less tailored to individuals and more 'one size fits all'.

However, this tension between upwards and downwards accountability requirements presents not just a threat to normative claims of legitimacy, but also an opportunity to bolster such claims. 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 US, because '[t]he rhetoric of community ties provides each organization with legitimacy in the eyes of the government and other funders', 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.

Maintaining close ties to the relevant community is one strategy that 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 that organisations believe will meet the needs of their clients (Brandsen and van 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. Given the existence of such strategies, it is not perhaps surprising that, after a review of the literature, Edwards and Hulme (1996: 969) concluded that loss of legitimacy is not an inevitable consequence of increasing engagement with government and 'a partnership approach … may permit the problems that accompany … donor funding to be managed'.

In the UK, the Labour government has promoted a model of complementary 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 van Hout, 2006: 542).

What, then, is the effect of such changes on normative claims of legitimacy? Are the demands of output legitimacy compromising the normative legitimacy of third sector organisations in the UK? The remainder of this article explores these questions by examining the impact of funding mechanisms on the work of the organisation as well as the strategies used by third sector organisations to minimise threats to normative legitimacy.

Research approach

This study is based on semi-structured in-depth interviews with staff from a diverse range of third sector organisations in the north of England and in London. Thirty organisations were approached, of which 26 agreed to participate in the research. Organisations were identified through a combination of judgement and snowball sampling techniques, with the idea of capturing a very diverse group of third sector organisations. This was done for two reasons: first, so that the diversity of the sector was reflected in the sample and, second, so that impacts on differing types of organisations could be observed. For example, service delivery organisations are regarded as more at risk of 'mission drift' because such organisations operate in a more competitive environment. Governments are not concerned about the loss of value-driven services if for-profits emerge to take over services previously delivered by non-profits (Lyons, 2007: 24–25). Social enterprises that generate their own funds to support service delivery activities are seen as less vulnerable, with peak bodies that provide information and support to service delivery agencies and/or engage in advocacy work lying somewhere between service delivery agencies and social enterprises. The sample consisted of 12 new organisations (those that had been operating for less than 10 years at the time of the study) and 14 older organisations (those that had been operating for 10 years or more at the time of the study). 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. Client focus was equally diverse, ranging from identifiable groups (or organisations representing such groups), for example older people, women, children and young people (and their families), homeless people, ex-prisoners and others who are disadvantaged in the labour market, to anyone living within a specific geographic area.

Staff from 16 direct service delivery organisations, five umbrella or peak organisations and five social enterprises were asked 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 that would describe themselves as social enterprises as well as organisations that would see themselves as belonging to the voluntary and community sector, the more generic term 'third sector' is used to describe all the organisations that participated in the study.

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. In this the study follows Edwards and Hulme (1996: 967) who noted that it is clear if organisational self-interest is subordinating mission 'when a choice is being made'. 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 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 are achieved.

Normative legitimacy compromised?

From conversations with agency staff who participated in the study it was clear that normative legitimacy was not being compromised by the demands of output legitimacy. Across all types of organisations, 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.

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 that 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 that 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 that 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 programmes 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 judgements 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 that had to be recorded as a failure in the reporting system established by the funding agency (Spencer, 2007). At St George's Crypt, professional judgements 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 12 beds funded by the Supporting People programme 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 that cross-subsidize or juggle different funding streams to keep services running (Barratt, 2007; Megson, 2007; Walter, 2007), top-up government funded services to ensure that 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 (Stott, 2007).

Negative effects of funding mechanisms

While organisations do what they can to absorb the negative impacts of funding mechanisms, organisations are not always able to shield service users. The negative effects of funding mechanisms reported in this study can be broadly categorised as loss of services, less flexible services and an inability to develop innovative services.

Loss of services

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 (ABA Leeds, 2006; Bakes, 2007; Ndzinga, 2007; Pryce, 2007; Silvestre, 2007; Souter, 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 (Pryce, 2007; Souter, 2007). For example, the Leeds City Council Neighbourhood Renewal programme provides funds every 12 months for activities that fit within council priorities. In 2007, one 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 coordinator. 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 ongoing 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)

Less flexible services

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 because it restricts agencies' ability to respond to individual need. For example, as is the case with the Supporting People programme 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 counselling 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 recognise that the soft skills are really, really important.' (Martin, 2007)

Effect on innovation

Organisations that deliver mainstream social services 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 had grown to be a major provider of supported housing and other social care services in Yorkshire and the North East of England. The organisation employed 1,300 staff and had an annual turnover approaching £32 million (St Anne's Community Services, 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 remodelling 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 (Ndzinga, 2007; Souter, 2007; Walter, 2007; Wiggin, 2007). The experience of these organisations contrasts with that of 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 when it wanted 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, that are mainly reliant on funding from local authorities in developing innovative services are 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 programmes such as LinkAge Plus or Partnerships for Older People's Projects (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 development[1] suggests that innovative activity is being used to bolster normative rather than output legitimacy.

Strategies to protect normative legitimacy

Mixed resource base

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 that 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% of the cost of the programme from participating schools, prefers to cover the remaining 50% 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 that 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 continue to support the work of the organisation (Martin, 2007).

Organisations that provide information and 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 organisations. 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 and Leeds Older People's Forum are funded by Leeds City Council Adult Social Care and the Primary Care Trust. 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, Carers UK, also receives statutory funding but this constitutes only about 8 to 10% of annual turnover. Core funding from statutory sources is supplemented by project funding from a variety of 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 central government to fund pilot programmes and then devolve responsibility for any ongoing programmes to the local level. For example, for the first six years of its existence, Bramley Sure Start was funded directly by central government as part of the national Sure Start programme.[2] 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,

> '[The] 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)

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 programmes, such as POPPs, are required to address the sustainability issue during the pilot phase. For example, 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. 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" (Shaw, 2007). Melanie Ndzinga, Forum Manager, Leeds Older People's Forum, agrees that national initiatives such as POPPs and LinkAge Plus 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 ongoing 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 programme, which was channelled through the local authority. More than 10 years after the Association moved from being a grassroots self-help group to a registered charity that 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, has 150 staff running four residential children's homes, 10 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 workers. Local authority contracts constitute about 90% 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)

Creative packaging

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 like-minded organisations can all be found within the literature. Among the organisations that 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 that 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 (Barratt, 2007; Berrisford, 2007; Megson, 2007). The need to remain within the organisation's core mission was cited by a number of staff as the reason why they felt that 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)

Applying for funding that fell into a broad interpretation of the organisation's remit in order to cross-subsidise 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 information technology (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)

Maintaining links to relevant community

The normative legitimacy of third sector organisations established in response to a particular local need rests on their connection to the community they were 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 also important for peaks or advocacy agencies when statutory agencies are looking for community input, and when community and voluntary sector organisations are participating in local decision-making forums (Ndzinga, 2007; Newsome, 2007; Pryce, 2007; Silvestre, 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 (Holzhausen, 2007; Turner, 2007).

Establishing links with like-minded organisations

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 programmes (Haskins, 2007; Megson, 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 10 to 15 organisations that together applied for European funding, with one voluntary organisation taking a management fee for coordinating outputs among all the organisations within the group. Because European funding comes with a clawback mechanism if output targets are not met,

> 'I ring [the coordinating 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 they are 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 particularly when funding mechanisms are contractual in nature and emphasise short-term quantitative outputs over longer-term qualitative outcomes. In an environment characterised by short-term funding arrangements, an increasing use of contracts and an emphasis on quantitative performance indicators, this study found that all types of organisations were able to protect their distinctive value base on which normative claims of legitimacy are based. Where differences did emerge, it was in relation to the strategies used by organisations to protect their normative legitimacy and the effectiveness of such strategies in shielding service users from the negative impacts of funding mechanisms.

The question then arises as to why loss of normative legitimacy was not observed. This study provides some clues. As noted earlier, agency staff who participated in this research had a clear sense of their organisation's core mission, a finding that is consistent with Edwards and Hulme's (1996: 970) assertion that normative legitimacy is protected when an organisation is clear about its overall direction and function in society. In addition, mimetic isomorphism acted as a countervailing pressure to the demands of coercive isomorphism as organisational practice continued to be guided, whenever possible, by professional notions of best practice.

Strategies to protect normative legitimacy ranged from rejection of funding streams that would force the organisation to deliver services in ways that are incompatible with their values, to applying for funding that fell into a broad interpretation of the organisation's remit in order to cross-subsidise other services. However, regardless of the type of organisation, the most important strategy was maintaining a mixed resource base. Organisations can grow and develop while remaining reliant on a limited number of funding streams, but spreading the risk by increasing the number of funding sources makes it easier for 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. 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 10, 20 or 30 different funding streams is time consuming (Haskins, 2007; Megson, 2007; Micklethwaite, 2007; Nixon, 2007).

The more prescriptive the funding, the more time the organisation has to put into monitoring and reporting, costs that can continue for months after the project, and the funding, ceases and which have to be met by other funding streams that are prepared to provide core funding, not just fund direct project costs (Haskins, 2007). The most vulnerable organisations are those whose clients are outside the mainstream of government concern and interest, such as members of minority ethnic communities with special needs. Unable to access funding provided through local councils for more 'mainstream' groups (such as older people, families with young children, those with drug and alcohol issues), these organisations remain dependent on the success of one-off grant applications.

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 levels, 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 is likely to become more difficult, with money from the Big Lottery Fund being directed towards the 2012 Olympics and a greater percentage of European funding being directed towards new European Union members that have higher levels of poverty and socioeconomic 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.

Notes

[1] 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.

[2] 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 strengthening their families and the communities in which they lived.

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