Third Sector Shaping revisited: A 20-year window into organizational change

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The research project

This 2005 study was a follow-up to a PhD, *Powerless Places and Placeless Powers*, which explored organizational reshaping in Western Australian community and health services from 1985-1995 under the 'enterprise culture' (Earles 1999b; Earles & Moon 2000). The original study identified parameters of the new geographies of the third sector within the institutional context of community and health services practice. Territorially these new geographies consisted of centralised government funding organizations and localised providers. Vertically (authority structures) these new geographies implied concentrated but multi-centred government funding organizations and third sector providers operating within restricted devolution of strategic decision-making. Governance-wise these new geographies comprised dismantled and devalued participatory structures and emerging new dialogue spaces (Earles 1999c).

The ongoing impact of the 'enterprise' culture and subsequent 'civics and citizens' cultures on the shape of third sector organizations was explored through a follow-up reflective practice analysis in 2005 of organizational reshaping from 1995-2005. The enterprise culture was the public sector and funding culture that existed in the early 1990s and contained within it multifarious (and sometimes competing) historic forces for change and a multitude of permutations and combinations of reform strategies (Earles 1999a, Earles & Moon 2000). These forces arose from governments' public sector reform agendas, as well as their community and health services reform agendas. They also acted within the different contexts of government departments and third sector organizations. The 'civics and citizens' culture is the current public sector and funding culture.

The combined results represent the first 20-year study of third sector organizational change in Australia. A multi-site case study design (based on the principle of diversity in the selection of cases) across one metropolitan and one regional site allowed the extension of 36 unique stories of organizational reshaping (Earles 2003). The extended stories were constructed with primary contacts from each organization (the Coordinator-equivalent position in nonprofit organizations). Information collection was through semi-
structured interviews and public document searches. Each story retrospectively chronicled changes in the territorial, vertical, and governance dimensions of the organization, and provided chorologies of changing distributions of decision-making on these dimensions arising from cumulative and multiple reforms. The extended stories commence in the mid-1990s or from the genesis of the organizations (if later than 1995). They were synthesised across seven different scenarios of organizational change in a process of matrix analysis.

This paper provides the first analysis from this longitudinal empirical study. In doing so, it seeks to contribute new empirical findings for the ongoing discussion on implications of themes in change in relation to the emerging new geographies of the third sector (within the institutional context of community and health services practice). At this stage the findings have not been related to developments in related studies and literature on organizational and policy change.

**Pre-existing shapes at 1985**

Three types of pre-existing shapes were extant for third sector provider organizations: *large institutions, large field-service organizations and small community-managed organizations*. Most of the organizations were advocates (as expressed in the objectives of their incorporation documents), they were generally all providers utilising community resources, and many of them chose to be managers of government-funded services (or were created for this purpose). Some of the large third sector organizations had long histories of advocacy, as well as community and health services direct provision and (more recently) funded service management. For many small third sector organizations, the emergence (or creation) of the organization and the management of government-funded services were more recent (sometimes coincident) events.
**Pre-existing and new shapes at 1995**

By 1995, the third sector was extremely diverse. Six composite scenarios were devised to capture the essence of this diversity (Table 1). There were quite a few *small community-managed organizations* providing an array of local single services. These organizations were created in the 1970s and 1980s alongside existing traditional *large institutions* (particularly in the disability field) and *large field service organizations* which had organizational-specific contracts with government departments to provide particular service types (for example, residential care for children and family support). Many of these larger organizations had history reaching back to the early 1900s. A further group of organizations that were region-based, called *'medium-sized organizations'* in this study, were created in this period and were trying to provide a range of services to a defined place or one-service across a wider regional area. There was also a wave of *small (new) organizations or provision units* created in the 1990s, which seemed to flow from new program funding. These entities were not necessarily third sector organizations and could be attached to existing organizations (including government agencies). A final group of organizations existed. These were a group of *variable organizations* without a common shape but which shared the scenario of 'no change' in the period 1985-1995.

**Change directions from 1985 to 2005**

The major change directions from 1985-1995 and from 1995-2005 are discussed here for each of the six different scenarios of pre-existing or new organizational shapes (Table 1).

*Small community-managed organizations*

Two trends were observed in the growth of these organizations from 1985-1995: specialisation by place, or specialisation by service-type. The organizations were able to increase in size by remaining specialised in one service-type and expanding their geographic area, by diversifying their service-types within the existing local, or by adopting both strategies. Third sector organizations took two approaches to growth. Some
organizations simply "added-on" government-funded services to their existing lateral structures, while maintaining each funded service as a separate entity. Other organizations restructured by creating client, functional, geographic, or government funding organization divisions, and by establishing hierarchical permutations of these divisions. There was strong pressure to retain lateral structures due to ideological attachment to alternate management philosophies, and an administrative reluctance to create vertical structures with time-limited government funding.

Table 1. Six composite scenarios of 'pre-existing / new shapes' and 'change directions' as third sector organizations were reshaped 1985-2005

<table>
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<tr>
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<tbody>
<tr>
<td>Small community-managed organizations</td>
<td>Growth</td>
<td>Intra-organizational growth, or Attrition, or Merger and takeover</td>
</tr>
<tr>
<td>Large institutions</td>
<td>De-institutionalisation</td>
<td>Re-institutionalisation</td>
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<tr>
<td>Large field-service organizations</td>
<td>Restructure</td>
<td>Inter-organizational growth</td>
</tr>
<tr>
<td>Medium-sized organizations</td>
<td>Decline</td>
<td>New organizational infrastructure</td>
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<tr>
<td>Small (new) organizations (or provision units)</td>
<td>Creation in the 1990s</td>
<td>Disappeared as organizations</td>
</tr>
<tr>
<td>Variable organizations</td>
<td>No change</td>
<td>'Stagnant' and vulnerable</td>
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In the period 1995-2005, three trends have emerged in organizational shaping for small community-managed organizations. Some of these organizations have continued to grow *intra-organizationally*. This group of organizations, in booming policy fields, often started with one service working from borrowed space with a budget of $50,000
annually. They now have budgets of $2 million annually, custom-built premises, fleets of vehicles, and well-established service and governance models. A second group of organizations, in stagnant policy fields, have experienced *attrition in service funding and delivery*. Previously if government funding was not increased in line with costs these organizations would fill the gap through volunteerism and altruism of staff, now these organizations are negotiating reduced service delivery targets with government while experiencing greater difficulties in sustaining a paid workforce and volunteer pool. Service operating hours are reducing from full-time to part-time. A critical question is, at what point do these services and hence organizations become non-viable? The third set of organizations has experienced *mergers and takeovers*. Some of these have been friendly, some not so friendly, while some have been initiated or manipulated by government funders. Smaller organizations are forming clusters to create one larger organization while others are losing their status as organizations by becoming services under existing larger organizations. Sometimes these mergers or takeovers occur as a result of organizational failure or inability to sustain service delivery. This is the case particularly in regional areas where there is limited organizational infrastructure options.

*Large institutions*

The wave of *de-institutionalisation* for large institutions was at its peak in 1995. De-institutionalisation by third sector organizations was a response to government funding organization reforms and part of the changed philosophies (and strategies) of the third sector organizations themselves. The philosophical changes were linked to broader community expectations, and joint government/third sector programme (or sector-wide) innovation. Two major influences on these organizations were the developments in the disability services area (with government funding linked to progress towards de-institutionalisation), and in the family services area (where there was a shift to prevention and early intervention models). These organizations were in a position to adopt new services (from government growth funding) and transfers of existing government services to the third sector. However after being involved in considerable work on provision models and organizational infrastructure in the 1990s, the de-institutionalised large third
sector organizations viewed growth with caution and they had acquired an acute awareness of their own requirements from any future government funding.

By 2005, there was a trend towards re-institutionalisation. These organizations were confronting issues of financial viability around service models and were seeking to restructure their service models. The main service changes were increasing occupancy in group homes form 2-3 to 4-5 residents, grouping four group homes on one site so as to have 20 clients in the same precinct, and in one case building an 18-client facility. These changes are argued under the guise of efficiency alongside an acknowledged erosion of commitment to the philosophical basis of de-institutionalisation.

Large field-service organizations

The large field service organizations engaged in considerable restructuring during the period 1985-1995. They moved through phases of regionalisation and de-regionalisation of their management, while maintaining localised provision. Regionalisation and de-regionalisation were enacted as responses to major government funding organization's planning/funding restructures. These organizations provided a particular service type over a large geographic area within metropolitan areas. By 1995 these organizations had divided the metropolitan areas between them and were not actively competing.

By 2005, these organizations were actively competing in service delivery and fund-seeking behaviour, effectively ignoring the exclusive 'territories' they had created. They had all recognised that they needed to grow: if the organization budget was $4 million then the goal became $12 million annually. This growth was not attained intra-organizational but inter-organizational. Some of these organizations were forming supra-third sector organizations where three to eight large field service organizations were combining together under a 'brand'. They individually delivered similar services from the same funding sources. These re-branding exercises were requiring significant restructuring of governance, management and service delivery models. They were also associated with anticipated increased growth geographically (into new areas) and
increased diversification service-wise (outside of previously existing niche or specialist service areas). There was nothing that was considered to be 'too big' at this point.

Medium-sized organizations

A different group of third sector organizations emerged in the late 1980s. These medium-sized third sector organizations emerged as advocacy organizations, with an interest in a specific client-group or an interest in the needs of people living in a geographical area. These differed from the small community-managed third sector organizations that expanded their geographic areas or their service-types. Instead, these organizations started with a more extensive geographical area and later became managers of government-funded services. The acquisition of the funded-service manager role was either deliberately planned or happened by default. In the first case - that of deliberate choice, the medium-sized third sector organization emerged to provide a temporary auspice organization for new local services (established with government funding). The primary function of this type of organization was to provide the interim organizational infrastructure, while working with the community to develop local community-managed organizations. Where management of funded-services was by default, early attempts to develop local organizations were not advanced sufficiently to satisfy government funding organization requirements (or else the local community-managed organizations had collapsed), and the government funding organization had made continued funding dependent upon the involvement of the medium-sized organization. The organizations faced internal tensions created by their dual roles as managers and as advocates. It was because of these two aspects - the primacy of advocacy and the tension with the provision role - that the group of organizations experienced decline in the 1990s. The negative image of advocacy made the organizations' endeavours to secure organizational infrastructure more difficult. Government funding organizations reacted adversely to any use of government service funds (and even management fees) to finance what they perceived as advocacy activities (or peak activities). The advocacy roles were also overwhelmed by the funded-service manager roles. The reshaping was displayed in four forms: the extinction of the organization, withdrawal from the advocacy role, withdrawal
from the funded-service management role, and attempts to remain a provider through a renewed advocacy role.

In 1995-2005 there were temporary revivals of medium-sized organizations plus new organizations of this type, which operate across policy fields. These re-energised or new organizations took on the development role not to create new smaller organizations but to develop new services or reinvigorate existing services, which they inevitably retained. They often represent the only organizational infrastructure in an area and survive by taking on diverse services from 'failed' organizations (that are de-funded by government or willingly surrendering funded services back to government). They experience periods of instability related to changes in funding waves across multiple policy fields yet government often approaches them outside of arms-length funding models to take on service funding. These organizations were recognising their strength as infrastructure providers and actively engaging in negotiation around their organizational needs, within service funding, with government.

**Small (new) organizations (or provision units)**

A further composite scenario was the occurrence of new creations for service provision in the 1990s. These creations included new third sector organizations and new provision units (that were established under a variety of auspices). Where new organizations were not created, the new provision units were attached to existing large organizations. The provision units were managed externally to the main structures of these organizations. All of the newly-created organizations/units were experiments with new service delivery models. The organizations/units reported considerable assistance from government workers in their creations. In some cases, there were government workers with specific job descriptions that included the creation of these organizations/units. However, there was a rapid disengagement by government workers after creation as increasingly arms-length relationships were developed with government officers. These new third sector organizations/units were also created when organizational infrastructure funding was not just "out-of-vogue", but deemed "unnecessary" by government funding organizations.
These organizations/units were to be "lean and mean". Voluntary coordination was assumed (if indeed coordination was considered at all) and government funding was strictly for services only. The organizations fought hard to have a coordination-fee included in individualised funding, and used these to establish minimal facilities and paid coordination.

By 2005 these small (new) organizations/units had virtually disappeared. They had ceased operations, been consumed as organizations, or given up the direct management of services. These latter two changes were formalised by handing over the funded service to the larger organization for direct 'management' or by taking on a management contract with the larger organization (but keeping the separate legal identity for the organization). Hence some of these organizations still existed in name but not in actual operation.

**Variable organizations**

Alongside these change-scenarios, there were instances of 'no change' between 1985-1995. These fell into two groups: funded-service management organizations and advocacy organizations. The funded-service management organizations that did not change managed a single service and had a single government funding organization. The advocacy organizations that did not change were small in membership and had no government funds, but they covered wide geographical areas and focussed on the needs of a specific group in the community. These organizations had all actively rejected growth through managing further funded-services, or been unable to attract acceptable growth funding. The advocacy third sector organizations had fiercely rejected the funded-service management role.

In the 1995-2005 period, these organizations did continue to operate but were at grave risk of disappearing. By 2005, 'no change' was not a realistic option for funded-service management organizations. They were considered to be stagnant not stable by government funding organizations and were ripe for takeover. These 'takeovers' were consciously designed and enacted with little or no consultation through the actions of
government funding officers in shifting funding between organizations under the guise of viability concerns.

**Preliminary interpretations**

Overall by 2005, there seemed to be two ends of the spectrum in the third sector within the Western Australian community and health services sector. At one end of the spectrum, there were 'small' organizations that were declining through service attrition or non-growth. Their catch cry was their 'uniqueness' argued on the basis of local community need, specific client group needs or the particularity of their service model to the locality or client group. There was a strong desire to retain organizational identity and an overwhelming concern that should they disappear their client group or locality would not be serviced.

At the other end of the spectrum, there were 'big' organizations that were pursuing strategies to enhance that 'bigness' with seemingly no constraints to 'bigness'. Their catch cry was their 'necessity'. These organizations wished to move beyond financial viability and service and governance model sustainability strategies. They were actively pursuing strategies that ensured an ongoing need for them (and sense of importance attached to them) as perceived within the wider (often state or national) community. This was perceived to improve their negotiation power with government funding bodies. There were very few organizations that positioned themselves as having strategies to stay somewhere between these two ends of the spectrum.

Between 1985-1995 there was little difference in change directions for organizations located in metropolitan and regional areas. This was consistent with the 'enterprise culture' in which 'place' did not appear to matter in the application of managerialist and economic rationalist change agendas and reform outcomes were generally not place-specific. However in the period 1995-2005 there was considerable areal differentiation in changes and outcomes were very place-specific.
In the regional area there was considerable stagnation of third sector organizational infrastructure with very little new infrastructure genesis or development beyond 1995. Organizational infrastructure was frail with some consolidation within towns but not within regions. Basically one organization would get stronger within a town and physically absorb available service funding. This also happened without the loss of separate legal organizations but with in essence one active 'organising' force within a town. In these towns, supra-worker collectives existed through workers from each third sector organization formally acting on the committees of many other third sector organizations. Effectively this means the same group of people (workers) were doing the governance of all of the organizations. Formal merger has occurred in some of these situations.

In the metropolitan area, there was phenomenal growth of some third sector organizations alongside the demise of others. This realigning of third sector organizational infrastructure meant in some cases losing the 'organization' from a place while retaining a service delivery unit which was often mobile (attached to an organization operating at a higher geographic level). In other cases, localities were gaining services from new policy fields where there never was, and never will be, organizational governance locally.

**Work to be done**

This, now longitudinal, study has generated a base-line for 1985 third sector organisational infrastructure in two localities; a detailed analysis of change from 1985-1995 and an accompanying synthesis of the main themes in the changes across the two sites and the six third sector scenarios; and this preliminary analysis of change from 1995-2005 within each of the six scenarios. The next immediate steps are to complete the detailed analysis within each scenario for 1995-2005 and synthesize broader themes in third sector organizational change for the period 1995-2005 and for the longer period 1985-2005. This work will then need to be linked to a more detailed elaboration and consideration of environmental change (particularly government policy change and
funding regime change contributing to third sector adaptation and isomorphism), and emergent third sector provider paradigms.

References


