Nonprofits’ Receipt of Government Revenue in China: Institutionalization, Accountability and Political Embeddedness

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Government funding constitutes a key source of revenue for nonprofits to survive. However, how to acquire government funding has not received sufficient scholarly attention yet, and the limited number of studies yields three major limitations. In order to address this knowledge gap, we examine the extent to which accountability, institutionalization, and political embeddedness affect nonprofits’ receipt of government revenue and the amount acquired from the government from the perspective of interorganizational relationship, particularly the government-nonprofit relations angle. Using two years panel data derived from a sample of 382 social service organizations in Guangdong Province, China, the research shows that nonprofits that are accountable to the government, more formalized, and hold (or once held) cadre positions at county and municipal level are more likely to acquire government funding. The effect of political council membership and being accountable to the public are relatively limited.

Keywords: accountability, institutionalization, political embeddedness, nonprofit receipt of government revenue

INTRODUCTION

Establishing government-nonprofit partnership as a key mechanism in delivering social services has spread globally over the past decades (Salamon, 2006), even including authoritarian regimes, in which (quasi) public agencies have dominated the social service delivery system for decades. Compared with government bureaucracies, nonprofits have been demonstrated to be more effective and efficient (Domberger & Jensen, 1997; Savas, 1982, 1987) and much more flexible and responsible in meeting diversified and localized social needs (Salamon, 1987; Salamon & Anheier, 1998). The important role of private organizations as the pivotal providers of publicly funded social services has been widely acknowledged by policy makers. Consequently, for nonprofits, particularly social service organizations (SSOs), government funding constitutes an important revenue source to survive in increasingly competitive market (Salamon, Sokolowski, & Haddock, 2017).

The funding relationship between nonprofit and government agencies has been extensively discussed in the studies of both public administration and nonprofit, respectively. The former predominantly focuses on how government agencies manage the contractual relationship strategically to achieve the presumed effective outcomes advocated by privatization theory (Moynihan et al., 2010; Slyke, 2007), whereas the latter emphasizes how dependence on government funding influences the involvement of nonprofits in political advocacy from the civil society lens (LeRoux & Goerdel, 2009; Lundberg, 2017). By contrast, how nonprofits acquire government funding from the government-nonprofit partnership has not yet received sufficient scholarly attention (Dong & Lu, 2019; Lu, 2015), even though it has become a critical concern for nonprofit practitioners.

Among the limited studies focusing on nonprofits’ receipt of government revenue, most of which revolve around the interorganizational relationships among nonprofits (e.g., interorganizational collaboration), the external environment in which nonprofits operate (competitive markets and niche location)
and organizations’ characteristics (e.g., advocacy activities, formalization and professionalization) (Dong & Lu, 2019; Garrow, 2010; Lu, 2015; Rich, 1989; Stone, Hager, & Griffin, 2001; Wood & Theobald, 2003). Three characteristics are emerged from the existing literature. First, all of the prior studies are conducted in the Western context with only one exception (Dong & Lu, 2019), which prevent us to have a clear understanding of how government-nonprofit relations influence government funding preference in the non-Western societies, particularly in the authoritarian regime, where government-nonprofit partnership is a relatively new phenomenon (Jing & Hu, 2017; Krasnopolskaya, Skokova, & Pape, 2015). For instance, it’s widely known that in democratic societies, nonprofits being accountable to the public is highly important. However, what is the case in an authoritarian regime? Besides, many nonprofits have been demonstrated to hold political connections with the governments (Cheng & Wu, 2020; Johnson & Ni, 2015; Kim & Kim, 2014), whereas barely anything is known as to how being accountable to the public and political embeddedness would influence nonprofits’ receipt of government revenue. Second, the inconsistency of the findings of existing studies makes it challenging to have a systematic and comprehensive understanding of the determinants of nonprofit receipt of government revenue. For instance, the results concerning professionalization and formalization are mixed (Dong & Lu, 2019; Lu, 2015; Seo, 2016; Suárez, 2010). Third, the prevailing use of cross-sectional data reveals the constraints of data availability, in which time-invariant heterogeneity across organizations are not accounted for. Thus, a superior identification is needed.

From the perspective of institutional theory, this study addresses this knowledge gap by framing three types of strategies nonprofits exert in response to institutional pressures and expectations, including institutionalization, accountability and political embeddedness. It empirically examines the extent to which these survival strategies influence nonprofits’ receipt of government revenue. We place public-nonprofit partnership in the context of China, while using a two-year panel data (2016 and 2018) with a random sample of 382 SSOs in Guangdong Province.

The remainder of this article is organized as follows. We begin by discussing the background, conceptual framework and hypotheses. Next, we set out the data, sampling, and analytical approach with details of the process of empirical work. Finally, after analyzing our empirical results, a systematic discussion of the theoretical and practical implications is included.

BACKGROUND, THEORETICAL FRAMEWORK, AND HYPOTHESES

SSOs and Receipt of Government Revenue in China

Over the last few decades, China has not only witnessed an economic take-off but also a scale-up of the nonprofit sector (Spires, 2011). Given the unique political and societal context of China, the burgeoning of the nonprofit sector is usually viewed as a China-specific case with distinct attributes. In most of the existing literature, Chinese nonprofits are either viewed as a natural source of democratization, such as grassroots organizations (Ho, 2001; Saich, 2000; Teets, 2014) or as a tightly controlled sector without autonomy, such as government-organized organizations (Unger & Chan, 1995). Either line of research has only partially captured the dynamic relationship between the nonprofit sector and the Chinese government. In fact, the government-nonprofit relation is far more complicated and sophisticated due to the shifting of political priorities over the past few years. For instance, the Chinese government, like its Western counterparts, has gradually tried to incorporate the ideology and principles of privatization into social governance by devolving the responsibility for social welfare provision to the nonprofit sector (Jing, 2008; Teets, 2013; Zhao, Wu, & Tao, 2016). To set up its own “contracting regime”, the central government has issued Circular No. 96 (the State Council, 2013) and Notice No. 96 (Ministry of Finance, 2014) on purchasing social services from nonprofits in 2013 and 2014, respectively. Put simply, the Chinese government is currently more than a regulator, and it plays an important role in collaborating with nonprofits as to the provision of social welfare.
In contrast with the traditional approach of delivering social services by the government or through mass organizations, the government encourages social innovation by outsourcing to social forces. By introducing market mechanisms and robust performance evaluations, the Chinese government can not only stimulate incentives for implementing contracts but also greatly improve the efficiency and effectiveness of social service delivery. However, recognizing the importance of nonprofits in sharing social responsibility does not necessarily mean that civil society is allowed to “bloom” (Jing, 2015; Teets, 2013). Instead, to keep the civil society as a subsidiary to the state apparatus, the government employs differentiated control strategies over the SSOs according to their political leanings and the public goods they provide (Kang & Han, 2008). Specifically, the government encourages the development of GONGOs and SSOs by contracting out social services with them while exerting strict control over the advocacy-oriented organizations, such as organizations focusing on LGBT, gender equality, labor rights and environmental protection.

Scholars coined the concept of “administration absorbing politics” (xingzheng xina zhengzhi) to describe the relationship between nonprofits and the government in the era of privatization (Kang & Han, 2008). On the one hand, like their Western counterparts, Chinese nonprofits adopt standard management practices, such as program planning and evaluation, quantitative performance measurement, and independent financial audits (the State Council, 2013). On the other hand, the government arranges the routine activities and operations of nonprofit organizations to a varying degree and more importantly, appoints or nominates the leaders of nonprofit organizations to serve at the government or its subordinate branches, such as the political council. In other words, nonprofit organizations are absorbed into the administrative system.

Like nonprofits in the Western context, it is also not easy for Chinese nonprofits to procure government funding. The number of registered nonprofit organizations has increased from 320,000 in 2005 to 866,000 in 2019 (Affairs, 2006-2017), which has led to increasingly intense competition among nonprofit organizations. To acquire the limited amounts of government allocation, nonprofit organizations have to compete with one another and with government-organized organizations that are institutionally entrenched in the government regime and share an exclusive trust with government agencies. Meanwhile, a fundamental barrier preventing nonprofits from entering the market for social services is that the Chinese government, particularly the local government agencies, lacks adequate knowledge about nonprofits and thus takes a distrustful attitude towards them (Jing & Hu, 2017). To earn government trust, or in the long run, to secure state-led resources, nonprofit organizations not only have to comply with the strict accountability and transparency rules required by the purchasing policies and laws but also build political relations with the government (Spires, 2011). Among others, one of the most typical strategies that nonprofits adopt is to invite former cadres (mainly retired) to join the boards or the leadership of the nonprofit organizations (Ho, 2007; Johnson & Ni, 2015; Ni & Zhan, 2017); coupled with holding a position at the political council as noted above, nonprofits thus build political ties with the government, which helps them access a favorable policy treatment and more government allocations.

To summarize, like its Western counterparts, the Chinese government has embraced the ideology of privatization in the social governance system and has started the process of establishing a “contracting regime” with the nonprofit organizations, which has, in turn, reshaped the nonprofit sector. To survive in an increasingly competitive environment, nonprofit organizations are supposed to adopt the management practices advocated by the new public management, adhere to the much stricter accountability rules promulgated by the Chinese government, and forge political ties with the government as a strategic choice in the face of administrative absorption and control.

Nonprofits’ Strategical Responses to Institutional Pressure and Receipt of Government Revenue

Drawing from institutional theory, the behaviors of
organizations can be greatly influenced by the highly institutionalized environments they are embedded in (DiMaggio & Powell, 1983). The three mechanisms of institutions, consisting of strong coercive, normative and mimetic pressures (Scott, 1991), drive organizations to adopt managerial practices in conformity to expectations and standards required by institutional entities (Reitan, 1998) from which organizations gain the legitimacy and resources needed to survive (Meyer & Rowan, 1977). Early institutional theory studies either take organizations merely as the passive receivers of institutional pressure or overlook organizations’ agency (e.g., Selznick, 1949, 1957), whereas ever since the introduction of institutional entrepreneurship by P. DiMaggio (1988), organizations’ agency and reaction to institutional analysis have been greatly emphasized (Covaleski & Dirsmith, 1988; P. J. DiMaggio & Powell, 1991; Oliver, 1991). Oliver (1991) argues that as a result of external pressure and expectation, organizations exert active agency and take various strategic responses to survive. According to the degree of active agency, organizations’ reactions can be identified as varying from passive acquiescence to proactive manipulation. In this study, we follow this typology and systematically propose the strategic responses nonprofits exert in coping with institutional pressure.

In the field of government procurement of social services, the government agency constitutes an important role in triggering institutional constraints and exerting pressure on nonprofits through the allocation of resources and conferral of legitimacy (Frumkin & Galaskiewicz, 2004). To strive for government purchase, nonprofits essentially expose themselves to institutional pressures from the government, conforming to the specific regulation, purchase criteria of social services and bidding process mandated by the government. Thus, following organizations’ strategic responses to survival pressure derived from the institutional environment as proposed by Oliver (1991), this study identifies three dimensions to explore the determinants of nonprofits’ receipt of government revenue: institutionalization (with both professionalization and formalization included), accountability and political embeddedness. Specifically, institutionalization corresponds to the acquiescence end, as organizations have to adapt themselves to the preceding institutional frame or structure in a taken-for-granted and legitimate way. For instance, the organizations aspire to achieve isomorphism through adhering to the requirement imposed by the higher level of government or imitating successful management practices adopted by other SSOs. Political embeddedness is close to the manipulation end, the most proactive response to external pressure. As it has been emphasized by Oliver (1991) that, “a social service agency, for example, may cultivate or advertise its ties to an influential charitable foundation in order to demonstrate to other potential public and corporate donors that it is deserving of resources and support (p 158)”, cultivating political embeddedness with the governments are definitely among the critical approaches. Particularly in China, the government exerts control over the allocation and acquisition of resources available to nonprofits, thus, establishing political ties is a strategy widely adopted in nonprofit sector (Ni & Zhan, 2017). Accountability, or to say, disclosing information to the funder of resources falls somewhere in between acquiesce end and manipulation end. Accountability means much more than keeping to the rules, it attempts to change the stakeholders’ perception and cognition by offering information and ultimately, to achieve the organizations’ goals. Nevertheless, this is not a definitive classification.

Institutionalization
Institutionalization captures the process of adhering to institutionalized norms, rules and expectations, aiming at becoming isomorphic with an institutional context (P. J. DiMaggio & Powell, 1983; Meyer & Rowan, 1977). As Frumkin and Galaskiewicz (2004) state, “organizations do not always embrace strategies, structures, and processes that enhance their performance but, instead, react and seek ways to accommodate pressures following external scrutiny and regulation” (p.285). As the main source of institutional pressure, government agencies are increasingly appealing to the use of formalized management practices in organizations, such as long-term strategic plans, independent financial audits
and quantitative performance evaluation (Hwang & Powell, 2009; Suárez, 2010). Organizations adhering to these normative practices and codes of conduct are deemed acceptable. As a result, institutionalization is largely driven by the extent to which nonprofit organizations pursue managerial principles as expected by the government in the view of privatization and new public management. Consistent with this line of rationale, institutionalization is much more like a dimension under government-nonprofit relationship in the era of outsourcing rather than a characteristic of nonprofit organization as proposed by prior studies (Dong & Lu, 2019; Lu, 2015; Suárez, 2010).

Drawing upon existing literature, we argue that there are two elements of institutionalization that may influence NPOs’ receipt of government revenue: professionalization and formalization. First, professionalization measures the share of specialized expertise and paid personnel over volunteer laborers in an organization (Brint, 1994). It is theoretically plausible that compared with volunteers, professionals and full-time employees are more competent in adhering to occupational norms and standards, as well as in carrying out rationalized management practices advocated by new public management (P. J. DiMaggio & Powell, 1991; Hwang & Powell, 2009). The incorporation of professionals into nonprofits is recognized by government agencies as being in line with institutional norms and as being qualified to secure government grants and contracts. However, empirical findings concerning the effect of professionalization on acquiring government revenue are not consistent. Focusing on the 501 (c) (3) charitable organizations in the San-Francisco Bay Area, Suárez (2010) finds a significantly positive relationship between professionalization and the amount of government funding received. By contrast, Lu (2015) conducts similar research in Maryland, reveals a relatively little impact of professionalization on the likelihood of drawing on government funding. Similarly, Dong and Lu (2019) find no significant relationship between professionalization and receipt of government funding. Confronted with the inconsistent results, further exploration is demanded.

Second, formalization is one of Weber’s (1947) bureaucratic ideal type, and central to his conception of formalization is that organizational rules and procedures, together with a set of normative management practices and performance evaluations being adopted within the organizations, promotes the effective coordination of work (Briscoe, 2007; Juillerat, 2010). Institutionalsists argue that institutional rules, the processes of formulating rules and fulfilling formalized procedures in organizations lead to higher legitimacy, especially when these endeavors are in line with the expectations and norms promulgated by the principal stakeholders (AbouAssi & Bies, 2017). Empirically, Dong and Lu (2019) find that organizational formalization has a positive impact on receipt of government revenue in China, whereas other scholars reveal a reversed causality between government revenue and organizational formalization. Focusing on Korean nonprofits, Seo (2016) suggests that organizations with more funding received from the government tend to be formalized, given that administrative controls and supervision are usually accompanied with government funding. However, no solid conclusion is drawn due to the limitations of cross-section data.

H1a: Professionalization and formalization are positively associated with nonprofits’ receipt of government revenue, respectively.

H1b: Professionalization and formalization are positively associated with the share of revenue from government, respectively.

Accountability
Accountability refers to “the means by which individuals and organizations report to a recognized authority (or authorities) and are held responsible for their actions” (Edwards & Hulme, 1996). As a multifaceted concept, it is reflective of a commitment or an appropriate relationship with stakeholders. With the use of an array of accountability mechanisms, typically including publicizing financial reports and other governance-related information (Meijer, 2003), the organizations give an account to the stakeholders, who in turn measure organizations’ performance
by external criteria (Ebrahim, 2005). Therefore, accountability helps organizations to maintain a sense of legitimacy by shaping favorable perceptions of reputation and public trust among stakeholders effectively (Becker, 2018; Black, 2008), and in turn, facilitates nonprofits to acquire recourse from the stakeholders. An extensive amount of empirical studies on nonprofit fundraising reveal that being accountable to donors brings in donations (e.g., Sargeant, West, & Jay, 2007; Zhou & Ye, 2019), yet relatively few investigating the effect of resource mobilizing of being accountable to the government.

Bardach and Lesser (1996) have argued that accountability consists of two fundamental dimensions: to whom an organization is accountable and for what results. The “whom” is usually defined as how responsive and answerable the organization is to its principals, while the “for what” is defined as the outcomes achieved for the organization and its principals. In nonprofit resource-mobilizing studies, disclosing the information of organizational performance and governance has been identified as key accountability practices (Curtin & Meijer, 2006; Saxton & Guo, 2011). As for “to whom”, Ebrahim (2003, 2005) has proposed that nonprofits are accountable to three types of stakeholders: upwards to authorities and donors, downwards to the public and clients and internally to their missions and staff.

Aligned with this line of rationale, accountability might influence nonprofits’ receipt of government revenue in two ways. First, nonprofits hold upward accountability directly to the government through disclosing information to the government, particularly the potential funders, who in turn assess organizations’ performance. Second, in relation to the nonprofits in social service delivering, beyond acting as a principle for nonprofit contractors, the government also acts as an agent for the public in the provision of public services (Ashley & Slyke, 2012). Therefore, nonprofit should also hold downward accountability to the public, through which government agencies could be answerable to the citizens for how nonprofit contractors contribute to the general well-being by providing social services (Kettner & Martin, 1998). This leads to our second two hypotheses:

**H2a:** Accountability to the government and the public are positively associated with nonprofits’ receipt of government revenue, respectively.

**H2b:** Accountability to the government and the public are positively associated with the share of revenue from government, respectively.

**Political Embeddedness**

Political embeddedness refers to “bureaucratic, instrumental, or affective ties to the state and its actors” (Michelson, 2007). Extensive empirical studies in both private and nonprofit sectors identify that political embeddedness or political ties with the state are beneficial to organizations in maintaining survival advantages, especially in seeking resources controlled by the authoritarian state (Baum & Oliver, 1991; Faccio, 2006; Xin & Pearce, 1996; Zheng, Ni, & Crilly, 2019).

The way that political embeddedness influences the acquisition of state-controlled resources varies (Johnson & Ni, 2015; Xin & Pearce, 1996). In the light of prior studies, three typical ways have been identified. The first is that politically embedded in political institutions could act as a signal of organizational legitimacy and reputation (Johnson & Ni, 2015; Ni & Zhan, 2017). In China, the public-nonprofit partnership is a new phenomenon (Jing & Hu, 2017). As such, government officials have no experience in this field, and often take a distrustful attitude towards nonprofits (Klijn, 2002; Smith & Smyth, 1996). Organizational legitimacy and reputation, as the intangible capital of nonprofits, helps government agencies to avoid potential risks and to make sound resource-allocating decisions. Second, political embeddedness lends nonprofits easier and faster access to information in terms of the preferences of government agencies (Wang & Qian, 2011), allowing nonprofit practitioners to write more favorable program proposals. Third, political ties, to some extent, facilitate the cultivation of personal ties, which benefits nonprofit leaders in earning trust from government officials (Johnson & Ni, 2015). As a
result, government funding is promised. As such, we propose that nonprofits with political ties could access more resources controlled by the state, especially in terms of government funding.

**H3a**: Political embeddedness is positively associated with nonprofits’ receipt of government revenue.

**H3b**: Political embeddedness is positively associated with the share of revenue from government.

**RESEARCH METHODS**

**Sample and Data Sources**

We choose Guangdong Province as the focal region of this study. Guangdong Province, usually known for its economic boom and openness to the international market, is also the pioneer of social governance system reform in China. In 2012, Guangdong became the first province to issue the regional policy regarding social organizations purchasing social services (General Office of the People’s Government of Guangdong Province, 2012). The data are collected from two waves of the survey conducted by our team: the first wave in 2016 and a followed-up wave in 2018. Unlike nonprofit in the US that are clearly identified by tax codes, SSOs in China have no official classification. With the assistance of practitioners, we identify SSOs with the following characteristics: a) legally registered as non-governmental and non-commercial entities; b) providing services for the marginalized groups, such as poor and elderly people or people with disabilities; c) having professional staff, such as social workers and rehabilitators; and d) receiving private donations and public funding from the local government. Since no list of SSOs is available, in the 2016 wave, we compiled a complete list by gathering data from multiple sources, including the Guangdong Provincial Civil Affairs Bureau, the major municipal bureau of civil affairs, organizations’ websites, and regional-supporting institutions. It is worth noting that the four sources are not mutually exclusive but always complement each other. Based on that, we determined the sampling frame, with 1,124 SSOs included. Given that the limited sample size and possibly low response rate, we did not adopt a stratified sampling method. Instead, we employed three types of data-collecting methods to improve the response rate. First, we sent e-mail invitations with a link to an online questionnaire included to the organizations for which an e-mail address was available. Second, for the organizations that had difficulty accessing e-mail, we asked the regional-supporting institutions for assistance with informing and connecting with the targeted organizations. Phone calls are also made to invite these organizations to participate in this research. Third, for the organizational leaders who preferred interviews, we conducted face-to-face interviews using the standardized questionnaire. With 697 organizations effectively responding to the survey, the response rate reaches 62% in 2016, which is reasonable and acceptable in nonprofit studies (Baruch & Holtom, 2008; Hager, Wilson, Pollak, & Rooney, 2003). In 2018, we re-invited the identified 697 organizations to engage in our research by similar channels. As part of this wave of the survey, some identical questions are asked. We collect 428 effective responses from 697 organizations, with a response rate of 61.4% (428/697=0.614). In this study, we included 382 samples after data cleaning.

**Dependent Variables**

We include two forms of government revenue as the dependent variables: the receipt of government revenue (a dummy variable) and the proportion of revenue received from the government (%), since an organization can acquire government revenue, but it does not necessarily mean it could get a large...
share of government revenue. For government revenue, we include those received from government agencies, institutions, community workstations and neighborhood committees.

**Independent Variables**

**Institutionalization.** Based upon previous studies (Lu, 2015; Suárez, 2010) and the reality of Chinese SSOs, we develop a professionalization index with seven items (see Table 1). The item is coded as “1” if the answer to either of the seven professionalization items listed in Table 1 is yes, otherwise coded as “0”. The professionalization score ranges from 0 to 7, with the higher score representing the higher level of professionalization. An analysis of reliability based upon Cronbach’s alpha is carried out to determine the internal consistency of these items. A Cronbach’s α=0.7823 indicates a solid level of internal consistency. Formalization is measured by the formalization index, using five items constructed by Mosley (2011) (see Table 1). The item is coded as “1” if the answer to either of the five formalization items is “yes”, otherwise coded as “0”. The formalization score ranges from 0 to 5 (Cronbach’s α=0.7416).

**Accountability.** It is measured according to whom organizations disclose information (“accountable to whom”) and the areas of information disclosure (“accountable for what”). In light of previous studies (Nie, Liu, & Cheng, 2016; Saxton & Guo, 2011; Zhu, Ye, & Liu, 2018), we develop an information disclosure index with 14 items (see Table 1). For accountability to the government, the item is coded as “1” if the organization discloses information to the government, while coded as “0” if not applicable. Therefore, the accountability score ranges from 0 to 14. A Cronbach’s alpha of 0.8615 implies a high degree of internal consistency of these indexes. For accountability to the public, the item is coded as “1” if the organization discloses information to the public, while coded as “0” if not applicable. The accountability score ranges from 0-14 too (Cronbach’s α=0.7635).

**Political embeddedness.** The political embeddedness is measured using two questions. The first is whether the organization’s leadership, board members or the founder hold or have once held a position at any level of the government or the Communist Party, suggesting

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4 In China, financing is required to be separated from accounting.
the highest level of the government achieved. The second is whether the organization’s leadership, board members or founder is an incumbent member of the political council, including the People’s Political Consultative Conference (PPCC) or the People’s Congress (PC), and inform the highest level of PPCC and (or) PC achieved. For the two questions, the item is coded as: “1” = township level, “2” = “county level”, “3” = municipal level, “4” = provincial level, “5” = state level, “0” = otherwise. For both of the two questions, the highest levels that organizations achieved are included.

**Control Variables**

Control variables identified by previous studies as having critical influences on nonprofits’ receipt of government revenue are also included in this study. We first control for organizational age and age square, since an inverted U-shaped relationship of age and nonprofits’ revenue is found (Zhu et al., 2018). We also control organizational annual expenditure, which is determined as a predictor of organizational capacity (Ni & Zhan, 2017; Zhu et al., 2018). Then, consider that the Chinese government is very sensitive to policy advocacy (Hsu, Hsu, & Hasmath, 2017; Kang & Han, 2008; Wu & Chan, 2012), along with the empirical evidence that nonprofits’ policy advocacy efforts influence their receipt of government funding (Garrow, 2010), we construct a dummy variable to suggest whether the organization engaged in any policy advocacy activities. The item is assessed based on the statement “Has your organization been involved in any policy advocacy activities for the benefit of your clients or the purposes of promoting certain policies?” It is coded as “1” if replied to with “yes” and as “0” if with a “no”.

**Data Analysis**

To assess the impact of a series of hypotheses on SSOs’ receipt of government revenue and the share of revenue received from government, the regression specifications are shown as follows:

\[
\text{Receipt}_{it} = \alpha + \beta_1 S_{it} + \beta_2 F_{it} + \beta_3 D_{it} + \beta_4 Z_{it} + \mu_{it} + \varepsilon_{it}
\]  

(1)

\[
\text{Share}_{it} = \alpha + \beta_1 S_{it} + \beta_2 F_{it} + \beta_3 D_{it} + \beta_4 Z_{it} + \mu_{it} + \varepsilon_{it}
\]  

(2)

where Receipt\(_{it}\) is a dummy variable to indicate whether SSO\(_i\) received government revenue at year \(t\), while Share\(_{it}\) is the share of revenue from government revenue received by SSO\(_i\) at year \(t\). Three sets of hypotheses are included in the model, in which \(S_{it}\) is a vector of institutionalization measures; \(D_{it}\) is a vector of accountability measures and \(F_{it}\) is a vector of political embeddedness measures. \(Z_{it}\) indicates a series of control variables, and \(\mu_{it}\) is the organizational individual effect while \(\varepsilon_{it}\) a random disturbance.

Specifically, we adopt a two-phrase process in this study. First, for the analysis of a panel dataset with binary dependent variable, there are usually three estimation techniques: conventional logit model with aggregated data (between-effects model), fixed effect (FE) logit and random effect (RE) logit (Maume, 2004). The regression specification is presented as:

\[
P\left(\text{receipt of government funding}_{it} = 1|\mathbf{x}_{it}, \beta, \mu_i\right) = \Lambda\left(\mu_i + \mathbf{x}_{it}'\beta\right) = \frac{e^{\mu_i + \mathbf{x}_{it}'\beta}}{1 + e^{\mu_i + \mathbf{x}_{it}'\beta}}
\]  

(3)

where \(\Lambda\left(\cdot\right)\) is the logistic cumulative distribution function, \(\mathbf{x}_{it}\) is a vector of regressors, \(\beta\) is a vector of coefficients, and \(\mu_i\) is the organizational individual effect.

In equation (1), \(\mu_i = \mu\) for any \(i\) represent a pooled logit model without the organizational individual effects, which can only analyze the differences between SSOs, but not the changes within SSOs. If the organizational individual effects exist and \(\mu_i\) is uncorrelated with \(\mathbf{x}_{it}\), it is a RE logit model. When \(\mu_i\) is correlated with \(\mathbf{x}_{it}\), it is a FE logit model. A problem with FE logit is that it requires changes on...

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5 Generally, government officials are still of great influence after they left the position (for instance, retiring). Therefore, we take incumbent and retired government officials into account. Comparatively, the representatives of the PPCC and the PC’s influence decrease once they leave due to the five-year term. As such, only the incumbent representatives of PPCC and PC are considered.

6 Note that PPCC starts at county level. But it will not affect our study since we choose the highest level of both PPCC and PC.

7 Even though, nonprofits are tightly controlled by the Chinese government, they still could initiate or engage in advocacy activities, especially the unsensitive forms, such as lobbying and negotiation.
the dependent variables, and only those with statues changed are maintained in the model. For instance, the SSOs that received government allocation in both years are dropped from the model. Since our study is concerned with both access to government funding and the amount acquired from government, RE logit is more appropriate for testing H1a, H2a, and H3a.

Second, as for H1b, H2b, and H3b, the following procedures are adopted in the light of previous studies (Wooldridge, 2002; Zhang, Li, & Li, 2014). We first use the Breusch-Pagan Lagrange multiplier test to determine the more appropriate model between the panel data method and the pooled ordinary least square approach. The results of the test indicate the existence of unobserved organizational effects in our data. Therefore, the panel data method is adopted since this method could model the unobserved individual effects related to the same units. We then conduct standard Hausman test to weigh between FE and RE. The insignificant p-value for a Hausman test suggests that independent variables are not associated with the unobserved effects (P-value=0.214, 0.135, 0.301, and 0.353 for model 4-6 as well as full model 2 in Table 4 respectively). As such, RE models are used.

For each of the two dependent variables, we include four models to test the hypotheses: one model each for accountability, institutionalization, political embeddedness, and one full model.

Table 2. Descriptive Statistics of Variables

| Variable | Frequency (n) | Percentage (%) |
|----------|--------------|----------------|
| Receipt of government revenue (Yes=1) | 434 | 56.80 |
| Share of revenue received from government | Mean=0.43 | S.D.=0.56 |
| **Institutionalization** | | |
| Professionalization index | Mean=1.98 | S.D.= 3.05 |
| Formalization Index | Mean=1.31 | S.D.= 1.01 |
| **Accountability** | | |
| Be accountable to the government | Mean=8.04 | S.D.=9.12 |
| Be accountable to the public | Mean=7.01 | S.D.=8.12 |
| **Political embeddedness** | | |
| Cadre position (No=0) | 554 | 72.51 |
| Township level | 65 | 8.51 |
| County level | 82 | 10.73 |
| Municipal level | 57 | 7.46 |
| Provincial level | 6 | 0.79 |
| State level | 0 | 0 |
| Political council membership (No=0) | 632 | 82.72 |
| Township level | 26 | 3.40 |
| County level | 42 | 5.63 |
| Municipal level | 59 | 7.72 |
| Provincial level | 4 | 0.52 |
| National level | 0 | 0 |
| Organizational age | Mean=5.51 | S.D.=4.11 |
| Annual expenditure (thousand RMB yuan) | Mean=752.32 | S.D.= 1955.16 |
| Advocacy activities (Yes=1) | 92 | 10.47 |

Note: S.D. is short for standard deviation; N=764.
### Findings

#### Overview of the Sample

Table 2 summarizes the descriptive statistics of the total sample. Over half of the sample organizations identified received government revenue, which is much larger than that of grassroots NGOs (Spires, Tao, & Chan, 2014). The average amount of government revenue received by SSOs is only 676 thousand yuan, while an obvious funding gap exists between SSOs. In addition, the majority of SSOs do not have political connections with the government in terms of holding cadre positions (72.51%) and being members of the political council (82.72%). The average organization’s age is 5.51. Taken together, these findings suggest that SSOs in China are quite young and politically marginalized.

#### Factors Affecting the Receipt of Government Revenue

We introduce two types of analyses, one for nonprofits’ receipt of government revenue and the other for the share of revenue received from the government in Table 3 and Table 4, respectively. In Models 1-3 and 4-6, we present the empirical results of our three sets of core independent variables separately, including institutionalization, accountability and political embeddedness, and contrast them with the control

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Table 3. Random Effect Model: Receipt of Government Revenue

|                     | Model 1          | Model 2          | Model 3          | Full Model 1   |
|---------------------|------------------|------------------|------------------|----------------|
| **Institutionalization** |                  |                  |                  |                |
| Professionalization | 1.29 (0.33)      | 1.25 (0.24)      | 1.04*** (0.05)   | 1.04** (0.06)  |
| Formalization       | 1.04*** (0.05)   |                  |                  |                |
| **Accountability**   |                  |                  |                  |                |
| Accountable to the government | 1.42**(0.04)   | 1.31* (0.05)    |                  |                |
| Accountable to the public | -1.20 (1.05)   | -1.20 (1.06)    |                  |                |
| **Political embeddedness** |            |                  |                  |                |
| Cadre position (ref=0) |                  |                  |                  |                |
| Township level      | 0.90 (0.46)      | 0.90 (0.46)      |                  |                |
| County level        | 0.67** (0.03)    | 0.65** (0.03)    |                  |                |
| Municipal level     | 0.54 (0.02)      | 0.56 (0.02)      |                  |                |
| Provincial level    |                  |                  |                  |                |
| Political council membership (ref=0) | 0.66 (0.16) | 0.54 (0.15) |                  |                |
| Township level      |                  |                  |                  |                |
| County level        | 0.24 (0.24)      |                  |                  |                |
| Municipal level     | 0.45 (0.29)      | 0.46 (0.30)      |                  |                |
| Provincial level    |                  |                  |                  |                |
| **Control variables** |                  |                  |                  |                |
| Organizational age  | 0.36** (0.05)    | 0.34* (0.05)     | 0.34* (0.04)     | 0.29*** (0.05) |
| Organizational age square | -0.21** (0.02) | -0.21* (0.02) | -0.21* (0.02) | -0.21*** (0.02) |
| Ln annual expenditure | 0.30 (0.42)     | 0.34 (0.42)     | 0.34 (0.45)     | 0.30 (0.42)   |
| Advocacy activities | 0.11 (0.10)      | 0.11 (0.09)      | 0.11 (0.10)      | 0.13 (0.09)   |
| Constant            | -2.56*** (0.14)  | -1.97*** (0.12)  | -2.15*** (0.16)  | -1.28*** (0.13) |
| Observations        | 764              | 764              | 764              | 764            |
| Number of groups    | 382              | 382              | 382              | 382            |

Note: Table shows coefficient with standard error in parentheses. *** p<0.001, ** p<0.01, * p<0.05.
variables. The Full Models 1 and 2 integrate the three independent variables and all the control variables to comprehensively examine the influence of the key predictors on nonprofits’ receipt of government revenue.

In Model 1, only formalization is found to be strongly associated with the likelihood of acquiring government funding; thus, H1a is partially supported too. Model 2 reveals that being accountable to the government in terms of publicizing the organizations’ yearbook and disclosing information in the areas of finance, performance and governance substantially contributes to the receipt of government revenue, whereas being accountable to the public has no such impact. These findings lend partial support to H2a. In Model 3, compared with organizations without political connections, the organizations whose leadership, board members or founders hold cadre positions at county level and municipal level are indeed more likely to receive government funding. This finding is consistent with the studies on government-organized nonprofits (Ni & Zhan, 2017; Zhou & Ye, 2018). But the organizations who are members of political councils do not have any effect as predicted, thus, H3a is partially supported. In addition, in Full Model 1, all
the key predictors continue to have explanatory power in predicting organizations’ receipt of government revenue.

The results of the amount acquired from government (see Table 4) are generally the same as that of the receipt of government revenue, except for professionalization. Both professionalization and formalization have a significant influence on the share of revenue from government, which lends full support for H1b. As shown in Model 4, H2b is again partially supported, as the government is more likely to allocate revenue to organizations that are being accountable to the government but not those being accountable to the public. Model 6 reveals that organizations’ leadership or board members holding cadre positions at municipal and provincial level is highly positively associated with the share of revenue from government, whereas having members of the political council does not have any impact. Therefore, hypothesis H3b is partially supported. In Full Model 2, all the predictors, except for political council membership and being accountable to the public, continue to contribute to the amount acquired from the government.

Comparing the results of the two Full Models, we find that professionalization increases the amount acquired from government, whereas are not able to increase the possibility of receipt of government revenue significantly. In addition, the amount acquired from government decreases as nonprofits age. Annual expenditure may increase the possibility of acquiring a larger amount of government funding but do not affect accessing government funding. Nonprofits’ policy advocacy efforts have no effect on both the receipt of and the amount of government funding. Taken together, we conclude that after controlling for predictors at the organizational level, including an organization’s age, age square, annual expenditure, and advocacy activities, being accountable to the government and increasing the level of formalization alongside building political connections with the government at county and municipal level of government are substantially conductive to SSOs’ receipt of government revenue and the amount acquired from government, respectively.

**Robustness Check**

To check the robustness of our analysis, first, we used other forms of the dependent variables, the absolute amounts (log form) of government revenue in 2018. The results are consistent with our prior results. Second, random subsamples with various sample sizes were adopted (Zhang et al., 2014), the results for which are significantly similar to our results in Table 2.

**DISCUSSION AND CONCLUSION**

Given the prominence of government funding for SSOs to realize financial stability and sustainability within the privatization movement, securing government funding is not only a practical concern for nonprofit practitioners but also a theoretical issue demanding further academic exploration. Besides, for policy entrepreneurs, government funding is one useful approach among the complex array of policy tools (Ashley & Slyke, 2012). Improving the effectiveness of this type of tool might be achieved by identifying the preferred nonprofits contractors. From the perspective of institutional theory, we frame three hypotheses and test them using two years of panel data (2016 and 2018) derived from 382 SSOs in Guangdong Province, China. Specifically, we propose institutionalization, accountability and political embeddedness as the three types of strategical responses to institutional pressure, and examine the extent to which each of them influences nonprofits’ receipt of government revenue and the share of revenue from government, respectively. We find that institutional theory contributes to better explanation of the influence of government procurement of services from nonprofit in China, in which nonprofit-government partnership is relatively new and government plays a dominant role in shaping the development of nonprofit sector. It is revealed that as strategic responses, nonprofits that are more formalized, accountable to the government, hold (or once held) cadre positions at county and municipal level of government agencies are more likely to acquire government funding. The effects of political council membership and being accountable to the public are relatively limited.
Specifically, the results contribute to our understanding of nonprofits’ formalization and professionalization by adding new evidence from China. In line with Dong and Lu’s (2019) study, the significant coefficients associated with formalization demonstrate that conformity with institutionalized norms and rules is effective for achieving government subsidies. That is, in order to gain government funding, SSOs should formulate the institutional rules and procedures that are compatible with institutional criteria and adopt common management strategic tools that are highly valued by the government. Additionally, results show that organizations staffed with full-time and paid executives and professionalized accountants and cashiers are much more likely to receive more government grants and contracts than other nonprofits.

Our findings reveal a complicated mechanism entrenched in accountability, in which being accountable to the government is positively associated with both the receipt of government revenue and the amount acquired from government, whereas no correlation can be found with being accountable to the public. This suggests that the government, as the allocator of public funds, is exclusively concerned with nonprofits’ answerability and responsiveness to the government, although being accountable to the public is supposed to be the prioritized principle of the government. The intricate findings might be China-specific. Unlike in liberal democracies, the Chinese officials are appointed by their superiors, usually from a higher level of government agencies, which leads them to have strong incentives to hold upward accountability to their powerful superiors rather than downward accountability to the public (Chien, 2010). Thus, the governments are only concerned with whether nonprofits disclose information to themselves or not. In addition, disclosing information might cause trouble, such as criticizing and questioning a nonprofit’s financial and governance performance, which often is regarded as a potential risk to social stability by governments. This implies that although the Chinese government adopts the same mechanism of government-nonprofit partnerships as its Western counterparts, it has its characteristics shaped by institutions it is embedded in. For instance, the statistical insignificance of being accountable to the public revealed from the results induces us to reflect on what social influences, in the privatization era, the lack of the public’s involvement would bring. Further exploration is needed.

Seeking political relations with government agencies at the personal and organizational level is widely taken as the most proactive response and a useful strategy that nonprofits adopt in response to the external uncertainties (Zheng et al., 2019). The findings in our study are partially consistent with previous literature that, nonprofits’ board members holding cadre positions at county and municipal level contributes to nonprofits accessing to and gaining more government subsidies. However, political council membership does not approach statistical significance in gaining government revenue. The statistically insignificant effect of political council membership could be the result of the specialty that in China. All types of social resources are largely in the hands of governments (particularly local governments) but not of the political councils. Even though recent studies emphasize the increasing importance of the Chinese political councils in “political consultation” and “democratic supervision” (Cho, 2002; Yan, 2011), our study shows the limited influence of members of political councils on government resource allocation.

Identifying the most effective responses when faced with institutional pressure is a necessity. Thus, based upon our findings, several practical implications could be drawn. First, nonprofits’ formalization and professionalization are highly valued by government agencies in China. Nonprofits’ internal governance, such as formal structure and routines, greatly leads to better access to resources and facilitates their possibility of gaining government revenue. Second, being accountable to government is identified as a survival strategy for nonprofits striving for government procurement of public services. Dealing with information asymmetry by disclosing information enable nonprofits to more government revenue. Third, considering the decisive role of government in the procurement of public services, cultivating political embeddedness with government helps nonprofits
maintain a favorable position in acquiring government revenue. In particular, the study reveals that political embeddedness is greatly driven by holding cadre positions, which is of significant value in securing both tangible and intangible resources that are tough or costly for other nonprofits to reach. It is worth noting that although those strategic responses to institutional pressure might be effective in gaining government funds, as for SSO practitioners, they should also be aware of the long-term managerial effect while taking advantage of the short-term financial gains. For instance, government funding gained through formalization might crowd out charitable donations, since donors share different preferences of organization characteristics with governments (Zhu et al., 2018).

LIMITATIONS

The study is subject to three limitations. Firstly, this empirical study is constrained by the representativeness of the data set. Since we only focus on SSOs in Guangdong Province, the study cannot confirm the external validity of the findings and can barely generalize the results. Future studies may employ a more comprehensive data set on nonprofits to explore the government-nonprofit partnership at the national level. The second limitation relates to the measurement of political embeddedness. The forms of political embeddedness vary with the political institution and the societal and cultural context of countries. Holding a cadre position and being political council membership are two primary forms of political embeddedness in China, but this is insufficient to wholly capture the approaches of political embeddedness or to measure political embeddedness in Western democratic regimes. Future studies may go beyond these two forms of measurement and develop more nuanced ways to verify whether organizational legitimacy gained through political embeddedness is effective across countries. Lastly, it is still insufficient to measure accountability with the degree to which organizations disclose their financial and program information, since it captures “how SSOs report to their stakeholders” rather than the degree of “being responsible for their actions”.

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