



# What type of nonprofit organization is preferred in government contracting in China?

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## Abstract

Government contracting with nonprofit organizations in service delivery has become a widespread practice in the public administration landscape. This research explores what kinds of nonprofits are more likely to receive government funding for service delivery. Viewing nonprofits' pursuit of government funding as an interorganizational effort, we examine the contextual and organizational factors that influence nonprofits' receipt of government funding. Using the data collected from a nationwide survey of Chinese nonprofits, we find a close contractual relationship between government and nonprofits. Further analysis suggests that policy advocacy, board co-optation, external competition, and organizational formalization have positive impacts on leveraging government funding, while interorganizational collaboration and organizational professionalization do not appear to play a significant role. To our knowledge, this study represents the first nationwide survey research on government–nonprofit contracting in China. The findings expand the literature by adding new empirical evidence from an authoritarian context.

## Points for practitioners

This study examines the contextual and organizational factors affecting Chinese nonprofit organizations' receipt of purchase-of-service contracts from government.

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The results indicate that nonprofit organizations engaging in more policy advocacy activities, having more people with government working experience on governing boards, facing stronger competition in resource acquisition and service delivery from operating environments, and embracing more formal structures and procedures in organizational operations would receive more government contracts.

### **Keywords**

Chinese nonprofit sector, government contracting, government funding, government–nonprofit relations

### **Introduction**

In recent decades, third-party government has become a widespread governance model in many countries (Salamon, 1995). Indeed, since the New Public Management reform in the 1980s, governments have changed their approach to public service provision (Pollitt and Bouckaert, 2004). In many cases, instead of providing services directly to citizens, governments employ financial mechanisms such as contracts and grants to fund nonprofit organizations to serve citizens. As a result, there is growing government funding of nonprofit activities in service delivery. Government thus becomes an important funder of the nonprofit sector. According to Salamon, Sokolowski, and Haddock's (2017) estimate, among the 41 countries in their study, government funding accounts for an average of approximately 35% of nonprofit sector revenue.

This significant funding relationship between government and nonprofits has received substantial attention. Previous studies have examined various aspects of this contractual relationship but with a focus on how public administrators manage the relationship in order to ensure high-quality outcomes and how nonprofits manage the relationship to advance their missions (e.g. Haque, 2004; Kettl, 1993; Lee, 2012; Lu, 2016; Mosley, 2012; Van Slyke, 2003). One question in this strand of research that has yet to be well studied is what kinds of nonprofits are more likely to receive government funding.<sup>1</sup> A small body of literature has explored this question, identifying a number of organizational and environmental factors such as nonprofits' board size, bureaucratic orientations, overhead costs, and niche location (e.g. Ashley and Van Slyke, 2012; Garrow, 2011; Lu, 2015; Stone et al., 2001; Suárez, 2011). However, the findings in the existing literature are still inconsistent and have thus not been sufficient to provide a systematic understanding. Moreover, existing studies mostly focus on government–nonprofit contracting in Western countries, with less attention paid to the non-Western context. Thus, our existing knowledge might not be fully applicable to non-Western societies. It is these intellectual gaps that served as the motivation for our study.

The present study expands the existing literature by identifying the contextual and organizational factors affecting nonprofits' receipt of government funding in

China.<sup>2</sup> Using the data collected from a self-administered nationwide survey of 318 nonprofits in China, we find a close contractual relationship between government and nonprofits, indicated by a significant share of government funding in nonprofits' total revenue. Regression analysis further suggests that policy advocacy, board co-optation, external competition, and organizational formalization have positive impacts on drawing government funding, while interorganizational collaboration and organizational professionalization seem not to play a significant role. To our knowledge, our work represents the first effort to collect nationwide data to study government–nonprofit contracting in China. The findings make a contribution to the literature by adding new empirical evidence from an authoritarian context, and also have practical implications for public and nonprofit management.

## **Theoretical framework**

We explore the factors shaping nonprofits' receipt of government funding from an interorganizational relationship perspective. In particular, we consider a nonprofit's pursuit of government funding as an interorganizational effort to build connections to funding agencies for resources and legitimacy (Galaskiewicz, 1985). In this way, the likelihood that a nonprofit receives government funding depends on the nonprofit's boundary-spanning activities with government, as well as its organizational characteristics and external environment (Aldrich and Herker, 1977; Noble and Jones, 2006).

### *Boundary-spanning activities*

Boundary-spanning activities are efforts performed by an organization to bridge its interorganizational boundaries in order to facilitate the acquisition of external information and resources. We focus on two boundary-spanning activities that are widely discussed in the interorganizational relationship context: policy advocacy and board co-optation (Galaskiewicz, 1985). Policy advocacy refers to nonprofit participation in the policy process to shape public policy and government practice (Pekkanen and Smith, 2014). As part of their civic tradition, nonprofits in Western countries usually engage in a variety of policy advocacy activities, such as testifying before legislative committees, lobbying legislative bodies, and joining government advisory committees, in order to inform policymaking (LeRoux and Goerdel, 2009; Lu, 2018; Mosley, 2010; Reid, 1999). In the Chinese context, scholars observe that the political and social changes of recent decades have created room and opportunities for nonprofits to be involved in the policy process (Teets, 2013; Zhan and Tang, 2013). Indeed, empirical evidence suggests that Chinese nonprofits do participate in policy advocacy to influence government decision-making, employing tactics like serving on government-organized guidance committees, offering policy suggestions to government officials, and disseminating policy reports to the public. For example, Zhang and Guo's (2012) survey of over

200 nonprofits in three Chinese provinces found that, on average, nonprofits commit approximately 9% of their organizational resources to advocacy activities. Li et al.'s (2017) nationwide survey of 267 Chinese environmental nonprofits reported an even higher level of advocacy engagement.

Engagement in policy advocacy might facilitate the flow of government funding in two ways. First, policy advocacy provides access channels for nonprofits to connect with policymakers and understand government priorities and preferences. These closer relationships with government enable nonprofits to gain an information advantage in the competition for government funding. Further, through policy advocacy, nonprofits have the chance to exert influence on government program administration. Nonprofits may thus take advantage of these linkages to manipulate rule making and program development, which again gives them a favorable position in influencing government funding allocation (Kelleher and Yackee, 2009). Garrow (2011) found that nonprofits in Los Angeles involved in advocacy have a higher chance of receiving government support, and Mosley (2012: 841) noted that nonprofits in Chicago are “highly motivated to participate in advocacy in the hopes of solidifying funding relationships”:

H1: Nonprofits engaging in more policy advocacy will secure more government funding.

Co-optation, as Selznick (1949: 13) defined it, describes “the process of absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence.” Essentially, co-optation is an organizational strategy to cope with environmental uncertainty (Allen, 1974). Organizations typically choose to co-opt those who they depend on or pose threats to them. By co-opting external elements into an organization's decision-making structure, the organization obtains access to new resources and gains external legitimacy support, which further enhances its organizational stability and performance. A common co-optative behavior in nonprofit operations is to absorb important elements from the organizational environment—particularly powerful people with a legitimate status—into a nonprofit's governing board (Zald, 1969). Provan (1980) and Lu (2015) documented that nonprofits often co-opt influential people and community leaders to form “powerful” boards and take advantage of their connections and influence in the acquisition of funding.

There are reasons to believe that Chinese nonprofits' board co-optation could enhance their government funding prospects. Scholars have extensively demonstrated that the party-state system plays a decisive role in shaping the development of the Chinese nonprofit sector. For example, Frolic (1997) described Chinese civil society as a state-led civil society, and Ni and Zhan (2017) observed that Chinese nonprofits seek political embeddedness in the party-state regime. In this institutional context, co-opting elites from the party-state system into nonprofits' governing boards constitutes a strategic choice for nonprofits to create linkages to government and, probably more importantly, gain political support.

With enhanced political legitimacy, government-connected nonprofits are able to achieve a favorable resource environment, especially in government funding allocation. Research suggests that although grass-roots nonprofits (i.e. nonprofits without a government background) can have access to government funding, government contracts are more often awarded to organizations with strong connections to government (Simon, 2013; Zhao et al., 2016). Hsu and Jiang (2015) identified that nonprofits with founders who previously worked in the party-state system are more likely to form partnerships with government in order to gain access to state resources:

H2: Nonprofits engaging in more board co-optation will secure more government funding.

### *External environment*

Nonprofits usually engage in competition with other nonprofit and for-profit organizations for resources (e.g. funding, clients, and staff) and service delivery (MacIndoe, 2014; Marwell and McInerney, 2005). Lu and Dong (2018) delineated high levels of nonprofit-sector density in many Chinese localities. The external competitive landscape that nonprofits face has implications for their revenue strategies (Seo, 2018). As the operating environment becomes more competitive, nonprofits may strategically modify their revenue strategies to seek more government funding for at least two reasons. First, government funding is largely stable compared with other revenue sources: unless large policy changes and budget cuts are implemented, government funding in public service programs is roughly predictable, with greater continuity over time (Gronbjerg, 1993; Van Slyke, 2003). In this way, nonprofits may want to seek government funding to stabilize their resource bases and make them better positioned to address external hostility.

Second, a large body of literature suggests that government-funded nonprofits are more likely to leverage resources from other revenue sources, such as private donations, because government funding can serve as an indicator of competence and trustworthiness to other potential funders (Lu, 2016). This signaling effect of government funding may be particularly appealing to Chinese nonprofits since government funding provides them with strong legitimacy support (Ni and Zhan, 2017). As such, nonprofits may be more motivated to seek government funding and take advantage of the crowding-in effect of government funding to enhance their resource bases and survival prospects. In fact, Garrow (2011) observed that human service nonprofits in Los Angeles facing greater competition from their peers are more likely to have government support:

H3: Nonprofits operating in a more competitive environment will secure more government funding.

Another strategy that nonprofits often employ to cope with environmental turbulence and uncertainty is interorganizational collaboration (Guo and Acar, 2005; Huxham and Vangen, 2013). Through developing various forms of collaboration, nonprofits gain access to external resources and develop institutional linkages to enhance their legitimacy (Baum and Oliver, 1991; Pfeffer and Salancik, 1978). In this way, they buffer themselves from environmental uncertainty and fluctuation, making their operating environment more stable and predictable. Scholars report that Chinese nonprofits have increasingly collaborated with each other to overcome resource barriers, foster collective actions, and engage in policy advocacy.

Interorganizational collaboration might affect nonprofits' receipt of government funding in competing ways. First, collaboration can play an educational role in promoting information sharing and interorganizational learning (Addicott et al., 2006; Powell et al., 1996). Nonprofits can thus be exposed to government funding opportunities and learn how to more effectively work with government. Second, networking with external stakeholders allows member organizations to pool their individual resources and enhance their collective legitimacy (Human and Provan, 2000). Third, a nonprofit's participation in and management of collaborations indicate its organizational capacity (Suárez, 2011). All of these elements might be perceived favorably by funding agencies. However, collaborations may also help nonprofits moderate external pressures and stabilize resource environments, leaving them with weaker incentives to seek government funding. Actually, existing empirical evidence is mixed on this question. Suárez (2011) found that a nonprofit's degree of involvement in interorganizational collaborations is positively associated with its amount of government funding in San Francisco, but Guo and Acar (2005) suggested an inverse relationship between the two variables among nonprofits in Los Angeles. Given the mixed evidence, we propose a non-directional hypothesis:

H4: Nonprofits' extent of involvement in interorganizational collaborations will affect their receipt of government funding.

### *Organizational characteristics*

In addition to external environmental dynamics, a nonprofit's internal structure has an impact on its likelihood of receiving government support. We focus on two aspects of nonprofit operations: organizational formalization and professionalization. Formalization, or bureaucratization, represents the extent to which an organization is governed by formal structural components such as hierarchical authority, formal rules and procedures, and disciplined chains of command. According to Weber's (1978) seminal work, an organization with these formal components could systematically control and coordinate the work of its members, accomplishing large-scale administrative tasks with high instrumental efficiency.

Professionalization describes the shift in organizational staffing towards an increasing reliance on a paid workforce with specialized and subject-matter knowledge gained through formal training (Salamon, 2012). In nonprofit studies, professionalization is mostly reflected by the increasing use of paid staff rather than volunteers (Hwang and Powell, 2009; Suárez, 2011).

Over the past several decades, there has been a growing push for greater formalization and professionalism in the nonprofit sector in many countries (Hwang and Powell, 2009; Kreutzer and Jäger, 2011; Salamon, 2012). This shift is largely due to legitimacy pressure from the external institutional environment: organizations governed by formal structures and staffed by a paid professional workforce are believed to be more credible (Hwang and Powell, 2009; Meyer and Rowan, 1977). Indeed, formalization and professionalization could help nonprofits streamline their organizational routines, facilitate organizational effectiveness, and decrease the risk of failure in the delivery of government-funded services, making them more attractive to government funders. Meanwhile, only formalized and professionalized nonprofits are likely to possess the necessary administrative capacity (e.g. management systems and financial professionals) to meet the financial and programmatic accountability requirements involved in applying for and managing government funding. In fact, Smith and Lipsky (1993) and Lu (2015) found that human service nonprofits with higher degrees of structural formalization are more preferred in government funding allocation. Suárez (2011) and Stone et al. (2001) noted that nonprofits using fewer volunteers and more paid personnel could receive more government support:

H5: Nonprofits with higher levels of formalization will secure more government funding.

H6: Nonprofits with higher levels of professionalization will secure more government funding.

## **Empirical context and method**

We test our hypotheses in the Chinese context. Since the open-door reform in the late 1970s, the Chinese regime has gradually moved toward a semi-authoritarian system (Ho, 2007). Along with political and social changes, government authorities have adopted increasingly favorable policies toward the nonprofit sector in areas such as registration, fundraising, and service delivery (Hildebrandt, 2011; Saich, 2000; Teets, 2014). As a result, over the past several decades, the Chinese nonprofit sector has experienced significant growth in its size and impact (Lu and Dong, 2018; Teets, 2014). According to the Ministry of Civil Affairs of China (2018), as of the end of 2017, there were over 760,000 registered nonprofits (including associations, private non-enterprise entities, and foundations) in mainland China, representing a more than 300% increase since 2000. During the same time period, those

nonprofits engaged 8.64 million full-time employments and 73 billion RMB donations. In addition, the scope of unregistered nonprofits has also grown substantially in recent decades. Scholars estimated that there are over 1 million unregistered nonprofits in China (Deng, 2010). The Chinese nonprofit sector is now an active player in the policy process and engages in service delivery across a variety of fields, such as education, environmental protection, poverty reduction, and health care (e.g. Li et al., 2017; Yu, 2016; Zhang and Guo, 2012).

Recognizing the positive role that nonprofits can play in effectively serving vulnerable populations and mitigating social conflicts, Chinese government authorities at all levels started to form contractual relationships with nonprofits and even encourage them to become government contractors (Teets, 2012; Zhang, 2018; Zhao et al., 2016). Although service contracting has been a government practice in some localities for several decades, large-scale government–nonprofit contracting in service delivery did not occur until the late 2000s. Since then, there have been a growing number of local experiments across Chinese territory and government policy guidance from both central and local governments (for more comprehensive reviews of the development of government–nonprofit contracting in China, see Jing and Chen, 2012; Wang and Snape, 2018). For example, the State Council issued the Guiding Opinion on Government Purchase of Services from Social Forces in 2013, providing regulatory guidance on government–nonprofit contracting practice across the country. In 2016, the Ministry of Finance issued the Guiding Opinion on Supporting the Cultivation of Social Organizations through Government Purchase of Services, urging governments at all levels to increase their purchase of services from nonprofits and ensure that at least 30% of their new public service procurement is through contracting with nonprofits.

The rise of government–nonprofit contracting in service delivery in China has attracted growing scholarly attention. For example, Jing and Chen (2012) examined government–nonprofit contracting in social services in Shanghai and found that the contracting programs usually involve a limited level of competition. Through a case study of service contracting in compulsory education in Shanghai, Teets (2012) concluded that government–nonprofit contracting leads to increasing pluralism in local public policy and positive changes in the state–society relationship. Zhao et al. (2016) reported the positive effects of service contracting on the social service delivery system and the development of nonprofit organizations through a qualitative study of service contracting in Beijing. Within this growing body of literature, to our knowledge, little research has systematically examined the factors affecting Chinese nonprofits' receipt of government funding. In addition, the existing empirical basis for understanding government–nonprofit contracting in China is dominated by case studies based on interviews or surveys conducted in a few localities such as Beijing and Shanghai. Although these studies offer important insights, their external validity in explaining the full spectrum of government–nonprofit contracting in China cannot be guaranteed. A key obstacle in advancing the research on this topic is the lack of nationwide data on Chinese nonprofits.

We collected our data through a self-administered nationwide survey of nonprofits in China. Given that there is no nationwide list of nonprofits available to academic research, we resorted to the NGO Directory published by China Development Brief (CDB) (see: <http://www.chinadevelopmentbrief.org.cn>). CDB is a nonprofit publication devoted to facilitating communication on nonprofits in China. Since its establishment in 1996, it has served as China's first independent information platform, providing research, consultancy, and resource-sharing services to nonprofits, foundations, individuals, and research institutions. The NGO Directory is a database that was initially created in 2005 by CDB and contains information on nonprofits in China across a variety of service fields, such as animal welfare, public health, education, and poverty reduction. Nonprofits may choose to register with CDB on a voluntary basis in order to use its platform to disseminate information for purposes like promotion and recruitment. CDB may also invite nonprofits and include them in the NGO Directory. In sum, the NGO Directory may represent the group of Chinese nonprofits that are relatively active and sustainable over time.

We drew 2147 organizations that are located in mainland China from the NGO Directory in April 2017. To ensure the representation of nonprofits from each province in our sample, we formed a stratified random sample of 700 organizations. After a careful review of the selected organizations, we removed 111 organizations using the following criteria. We first removed nonprofits that were not registered with government entities,<sup>3</sup> those that had been closed, and those that were duplicates in the NGO Directory. We then removed organizations that reported zero annual income and that had an organizational status as a for-profit business entity. These procedures yielded a final sampling frame of 589 organizations.

Before conducting the large-scale survey, we pre-tested our survey questionnaire with three nonprofits in Beijing in a face-to-face format. We then programmed the revised questionnaire on Wenjuanxing, a Chinese online survey platform that allows users to collect and analyze data. The survey asked a variety of questions concerning nonprofits' organizational structures and operations in 2016, and generally required approximately 10 minutes to complete. We sent out the first round of survey invitations via email and Tencent WeChat (a Chinese multipurpose social media platform) to the executive directors or equivalent of the 589 target organizations in May 2017. We then sent three rounds of follow-up reminders through various channels, including landline phones, cell phones, emails, and WeChat messages, over the following six weeks. Finally, we received a total of 318 valid responses, leading to a response rate of 53.98%.

We use two dependent variables to measure the scope of government funding received by a nonprofit for service delivery: one dichotomous variable on whether the nonprofit receives funding from any government sources (yes = 1, no = 0); and one continuous variable on the monetary amount of the funding from all government sources (in RMB and then logged to reduce skewness). On the independent variable side, policy advocacy engagement was measured by the extent to which a nonprofit engages in policy advocacy activities through executive and/or

legislative bodies to influence government policies (never = 0, occasionally = 1, frequently = 2, very frequently = 3). Board co-optation was measured by the percentage of governing board members with working experience in the party-state government apparatus.

We measure the competition landscape that a nonprofit faces in resource acquisition and service delivery using the extent to which a nonprofit perceives competition pressure from other nonprofit and for-profit organizations in four areas: (1) obtaining funding; (2) recruiting staff and volunteers; (3) delivering goods and services; and (4) expanding service jurisdiction. Each item was measured on a four-point scale, with never = 0, occasionally = 1, frequently = 2, and very frequently = 3. The Cronbach's alpha for this variable is .7529, and principal factor analysis reports that the eigenvalue for these four items is 1.6727. We employ five indicators to capture the extent to which a nonprofit engages in collaborations with other nonprofit and for-profit organizations: (1) obtaining funding; (2) developing new programs or services; (3) expanding service jurisdiction; (4) sharing information; and (5) conducting policy advocacy. Each item was measured on a four-point scale, with never = 0, occasionally = 1, frequently = 2, and very frequently = 3. The variable is the sum of these five items. The Cronbach's alpha for this variable is .7785, and principal factor analysis shows that the eigenvalue for these five items is 1.8018.

Formalization represents the extent to which a nonprofit is governed by formal structures and procedures. We asked survey participants to identify whether the organization possesses the following components (yes = 1, no = 0): (1) clear agency rules, policies, or bylaws; (2) formal job descriptions for staff positions; (3) a division of labor based on staff expertise; (4) the performance assessment of staff; and (5) the independent auditing of organizational finance. The variable is the sum of these five dichotomous indicators, with a Cronbach's alpha of .7982 and an eigenvalue of 1.8732. Professionalization in a nonprofit setting emphasizes the increasing use of paid staff rather than volunteers in organizational operations and service delivery. We measure it using the ratio between full-time paid staff and volunteers.

In addition, we include three control variables on basic organizational characteristics. Organizational size is operationalized as the number of full-time-equivalent staff. Organizational age is calculated based on the founding year of a nonprofit. Finally, we control for a nonprofit's primary service area. Given that many Chinese nonprofits simultaneously engage in multiple service areas, we asked each survey participant to provide three major service programs that the organization provides. Based on this information, we classify all the nonprofits that we surveyed into six broad service areas: arts and culture; education; environment; human service; health care; and social benefits (e.g. capacity building and philanthropy).

## **Results**

Table 1 reports the descriptive statistics for all variables used in the analysis. These descriptive results present interesting findings. In particular, among the

**Table 1.** Descriptive statistics.

Variable	Mean	SD	Min	Max
Government funding (0/1)	.717	.451	0	1
Government funding (log)	8.841	5.781	0	17.323
Advocacy engagement	1.123	.741	0	3
Board co-optation	.241	.288	0	1
Competition	5.223	2.609	0	12
Collaboration	5.689	2.306	0	12
Formalization	4.148	1.123	0	5
Professionalization	1.349	8.321	0	125
Age	5.679	4.249	1	29
Size	15.244	30.718	1	436
Arts and culture	.107	.309	0	1
Education	.421	.495	0	1
Environment	.189	.392	0	1
Health care	.097	.297	0	1
Human service	.116	.321	0	1
Social benefits	.063	.243	0	1

Note:  $N = 318$ .

318 nonprofits under study, 228 organizations (71.69%) received government funding for service delivery in 2016. Again, within our sample, the average amount of government funding per nonprofit is 698,822 RMB and the average percentage of total revenue from government sources per nonprofit is approximately 36.70%. In sum, our data indicate a significant scope of government–nonprofit contracting in China and consequentially a close funding relationship between the two sectors.

We then perform regression analysis to test our hypotheses. Two regression models are used to account for the two dependent variables, respectively. Both regression models are reported in Table 2. In Model 1, we employ a logistic regression with the dichotomous dependent variable to examine how our independent variables shape nonprofits' likelihood of receiving government funding. In Model 2, we employ an ordinary least squares (OLS) regression with the continuous dependent variable to examine how the independent variables influence the magnitude of government funding received by nonprofits. As we can see from Table 2, both models are statistically significant at the 1% level, indicating that they are able to produce meaningful implications. Overall, the results from both regression models are largely consistent, which allows us to interpret the findings with more confidence.

First, we explore how a nonprofit's boundary-spanning activities affect its receipt of government funding. To begin with, both models lend support for the positive role of policy advocacy engagement: a one-unit increase in the level of advocacy engagement is associated with increases in the likelihood of receiving

**Table 2.** Regression results.

Variable	Model 1	Model 2
Boundary-spanning		
Policy advocacy	.403** (.200)	.396** (.162)
Board co-optation	.212* (.118)	.083* (.043)
External environment		
Competition	.093* (.054)	.080* (.045)
Collaboration	.032 (.063)	.082 (.055)
Organizational characteristics		
Formalization	.206* (.119)	.221** (.102)
Professionalization	-.022 (.039)	.015 (.014)
Size	.047*** (.018)	.021*** (.007)
Age	-.037 (.036)	.043 (.032)
Education	1.146** (.523)	-.841 (.841)
Environment	1.386** (.597)	-1.605* (.854)
Health care	.519 (.590)	-.834 (.892)
Human service	.126 (.609)	-.097 (.797)
Social benefits	1.353** (.591)	.078 (.826)
Constant	-1.927 (.842)	-5417 (1.3010)
N	318	318
Chi-square	45.54***	
F		9.51***
Pseudo R-square	12.06%	
R-square		24.24%

Notes: Regression coefficients reported with standard errors in parentheses in Model 1 and with robust standard errors in parentheses in Model 2. In service area dummies, arts and cultural nonprofits are the reference group. \*  $p < .1$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$ .

government funding (by .403 log odds) and in the amount of government funding (by 39.6%). Both associations are statistically significant at the 5% level. In this way, engagement in policy advocacy facilitates the flow of government funding. Next, both analyses also support the impact of board co-optation in a similar fashion. For every one percentage-point increase in board co-optation, the likelihood of receiving government funding increases by the log odds of .212 ( $p < .1$ ), and the amount of government funding increases by 8.3% ( $p < .1$ ). As such, board co-optation could be a useful tool in securing government support.

Second, we examine the impact of the external environment. The regression results indicate that the external competition landscape that a nonprofit perceives matters to its revenue income from government sources. For every additional level of competition pressure perceived by nonprofits, the possibility of attaining government support increases by .093 log odds ( $p < .1$ ), and the amount of government support increases by 8% ( $p < .1$ ). However, the data analysis results do not seem to show support for the effect of interorganizational collaboration. Although increases in the degree of interorganizational collaboration may be associated

with increases in both the likelihood of obtaining government funding and the amount of government funding, neither relationship is statistically significant even at the 10% level, implying that interorganizational collaboration might not be a forceful factor in shaping nonprofits' government funding prospects.

Third, we analyze the effects of two organizational characteristics and again reach mixed findings. On the one hand, formalization helps leverage government funding. For a one-unit increase in organizational formalization, the log odds of attracting government funding increase by .206 ( $p < .1$ ), and the amount of government funding increases by 22.1% ( $p < .1$ ). On the other hand, professionalization might not play a significant role in attracting government funding since the signs of the coefficients in the two regression models are not consistent and, more importantly, both coefficients are not statistically significant at the 10% level.

## Discussion and conclusion

Over the past several decades, government and the nonprofit sector have become increasingly intertwined and interdependent in various countries around the globe. Under this institutional context, government purchases of services from nonprofits and reliance on these third-party actors in service delivery constitute a widespread public administration practice. This contractual relationship has attracted substantial attention from various lenses. We extend this body of literature by exploring the factors shaping nonprofits' receipt of government funding. Research on this question has both public and nonprofit management implications. On the public administration side, the increasing government dependence on nonprofit contractors in service delivery highlights the importance of effective contracting management (Kettl, 1993). In this regard, what type of nonprofits would be preferred by funding agencies in contractor selection becomes a necessary public management question. On the nonprofit management side, with government representing one important funder of the nonprofit sector, a key issue for many nonprofits is how to strategically manage the funding relationship with government.

In the present study, we attempt to contribute to the literature by examining the organizational and environmental factors that shape nonprofits' receipt of government funding in China. Although government–nonprofit contracting has been a public administration practice in China for a few years, no large-scale empirical studies have been conducted. Our survey data from a national sample indicate a significant scope of government–nonprofit contracting in China and a close funding relationship between the two sectors. Further data analysis suggests that advocacy engagement, board co-optation, external competition, and organizational formalization play positive roles in attracting government funding. In contrast, interorganizational collaboration and professionalization may have limited impact. The findings make a contribution to the literature by adding new empirical evidence from a non-Western context and providing practical implications.

First, nonprofits' boundary-spanning activities with government are quite effective in leveraging government funding. On the one hand, engagement in policy

advocacy allows nonprofits to enter the government system and participate in the government decision-making process, which further enables nonprofits not only to gain information about government preferences and priorities, but also to shape government program administration and funding allocation. On the other hand, co-opting people with working experience in the party-state system to nonprofits' governing boards could play a symbolic role in sending legitimacy signals to external constituencies. Moreover, and probably more importantly, these "powerful" board members could help nonprofits build access channels to funding agencies. Such embeddedness could facilitate the flow of government support (Ni and Zhan, 2017). Putting these two findings together, we concur with previous studies on the Chinese nonprofit sector in arguing that government-connected nonprofits would enjoy a favorable resource environment, at least in government funding allocation (e.g. Ho, 2007; Teets, 2012; Zhao et al., 2016). In other words, nonprofits seeking government funding should first take measures to establish institutional linkages, not necessarily financial ones, to government.

Second, when comparing the coefficients and statistical significance of advocacy engagement and board co-optation, we note that advocacy engagement seems to have a more forceful impact in influencing nonprofits' receipt of government funding. In this way, although board co-optation is beneficial to facilitating government funding, nonprofits' direct participation in the policy process to influence government decision-making plays a more robust role in securing government funding. This finding implies that if they aim for government funding, nonprofits should be not only funding recipients, but also active policy players who engage with government agencies to manipulate the funding environment and shape funding allocation. A government often does what it is persuaded to do. Nonprofits need to participate in the policy arena to enhance their funding prospects and represent their constituents.

Third, we find that nonprofits operating in a competitive environment receive more government funding. Part of the reason is that government funding promises higher levels of stability over time and legitimacy endorsement. As such, government funding becomes especially appealing to nonprofits involved in strong external competition in resource acquisition and service delivery. Nonprofits may thus strategically choose to first rely on government funding to stabilize their resources and then cope with external hostility. Moreover, the results indicate that nonprofits with higher levels of formalization attain more government funding. Indeed, formalized organizations are usually more favored by funding agencies because they are more predictable and credible, which minimizes the possibility of contract failure or poor performance. Nonprofits may thus need to formalize their structures and operations if they are interested in seeking government funding.

Our study suffers from several limitations, which means that the findings should be interpreted with caution. First, we cannot guarantee the external validity of our findings in explaining the entire Chinese nonprofit sector and its contractual relationship with government. The nonprofits included in our study may only represent Chinese nonprofits that are relatively active and formal. Second,

the data for this study were collected through a self-administered survey with nonprofit executives in 2017. The usual caveats concerning the survey method and cross-sectional data thus apply. In particular, a number of variables are measured using survey data based on nonprofit executives' perception, which might not be totally accurate. The cross-sectional nature of the data also implies that our findings should be best understood as correlative rather than indicating causal relationships. Third, in gauging the scope of government funding received by nonprofits, we followed previous studies to ask nonprofits to report the government funding that they have received from all government agencies at all levels of government as a whole, without further differentiating the sources of government funding, but we recognize that the requirements and preferences of funding agencies may differ by government agency and level. Fourth, we have no data to capture the characteristics of the founders of the nonprofits under study. It is possible that nonprofits with government-connected founders are in a better position to engage in policy advocacy and board co-optation, and further secure government funding.<sup>4</sup>

Despite the limitations, our work represents the first effort to collect nationwide nonprofit data in order to quantitatively study government–nonprofit contracting in China. The work has implications for the broader literature on government–nonprofit relations. We welcome future studies to build on this exploratory work in order to dig deeper into the funding relationship between government and nonprofits in China and elsewhere.

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### **Notes**

1. Unless specified, in this article government funding refers to funding through government purchase-of-service contracts, excluding other types of government funding such as subsidies and vouchers.
2. We examine government–nonprofit contracting in mainland China, excluding Hong Kong, Macao, and Taiwan.
3. Non-registered nonprofits are not eligible to receive government contracts in China.
4. We thank one reviewer for this observation.

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