

northern rock foundation
**Third Sector
Trends Study**



Taking stock, moving on:

**A summary report and position statement at the end of
the first phase of study**

Tony Chapman (Teesside University)

Fred Robinson (St. Chad's College, Durham University)



July 2011

www.nr-foundation.org.uk/thirdsectortrends

Contents

| | | |
|---|---|----|
| i | Acknowledgements | 5 |
| 1 | Introduction | 7 |
| 2 | Aims and methods | 9 |
| 3 | The policy context | 11 |
| 4 | The characteristics of the third sector | 13 |
| 5 | Characteristics of third sector organisations | 20 |
| 6 | Taking stock | 25 |
| 7 | Moving on | 33 |
| 8 | References | 37 |

i

Acknowledgments

We gratefully acknowledge Northern Rock Foundation for funding the Third Sector Trends study and for the Foundation's support throughout the project. We also want to thank the Third Sector Trends Advisory Board for their support and advice throughout, and particular its chair, Professor Cathy Pharoah.

We are immensely grateful to all the members of the third sector who have contributed to this study in our foresight panels, in the case study work and in the large questionnaire survey. Additionally, we have benefited from the many conversations about our research with friends and colleagues in the third sector and public sector over the last three years.

We want to thank all the members of our research team and expert consultants who have contributed so much to the project over the last three years: Emma Bailey, Beth Baxter, Victoria Bell, Judith Brown, Georgina Chinaka, Robert Crow, Emma Dunkerley, Chris Ford, Sue Shaw and Peter van der Graaf.

1 Introduction

After studying the third sector at close quarters in North East England and Cumbria for the past three years, we have a good story to tell about its work and its strong contribution to the well-being of individuals and communities. We find a sector which has many enthusiastic and committed people who work as trustees, volunteers and employees. It is a sector which meets many of the needs of individuals, communities of place and communities of interest. We find a sector which is often well placed to identify routes for social opportunity as well as championing the cause of people who experience the consequences of a wide range of social problems.

Third sector organisations (TSOs) come in many shapes and sizes. They range from small community organisations or clubs which serve their members one way or another, to very large organisations with many employees and volunteers which provide services on behalf of local or national government. Irrespective of their legal form, their size, their history, and their beneficiary focus, we find that most TSOs are clear about their mission, know how to marshal their resources to do their work, and know what their capabilities are.

Many times during the process of doing this long-term and intensive research, we have stated that we are not advocates for the third sector, but rather advocates for what it can achieve for its beneficiaries. We think of our role as critical friends rather than as cold-hearted inquisitors. It is true, however, that our work has involved us undertaking a kind of 'health check' on the workings of the third sector. This means, that in addition to the good things we have seen, we have also uncovered things that many members of the sector may be disappointed to hear, may not want to know about or may not want to face up to. It was our brief to undertake a 'root and branch' study of the sector. This does not mean that we respond with a no-holds-barred 'warts and all' exposé of the sector. Instead, we have aimed to give a balanced view.

In undertaking this health check, the Northern Rock Foundation wanted us to move beyond diagnosis and deliver a prognosis on the future of the sector in response to social and economic changes. Social scientists are careful not to make predictions – especially when concerning complex and fluid phenomena. We do not, therefore, overstate what we think the consequences of current political and economic changes might be. That does not mean, however, that we shrink from drawing conclusions that are well founded on the evidence we have produced.

A health check analogy could be pushed one stage further: to prescribe remedies for the problems we have identified. There's not much point in wagging our fingers and offering paternalistic advice on what *should* be done if we know there is little prospect that such things can be done, or will be done. We need to be aware of the limits to what can be recommended and implemented, just as we need to be hard-nosed about stating when the

third sector is unrealistic about what it can deliver or is unreasonable about what it expects others to do for it.

The third sector is certainly hungry to achieve a lot for its beneficiaries. The passion its people have for the causes they champion produces many demands for attention and support. But TSOs operate in a complex social market with finite financial and human resources. So competition can be intense and arguments rancorous. Competition produces winners and losers in the third sector in much the same way as it does in the private sector. But, driven by their values and passion for their causes, such competition can fuel arguments about unfairness and sometimes produces dire warnings about consequences.

We cannot take part in such debates, and certainly, we cannot help in the process of prioritising needs. But what we can and must do is to make an assessment of the consequences of competition for the way that the sector presents itself to outsiders, and how competition affects the internal dynamics of the third sector. In sum, a central purpose of this study is to help the third sector, as a whole and in its constituent parts, to achieve a realistic understanding of the limits of what it can achieve.

This summary report has a number of objectives. We begin by outlining what the Northern Rock Foundation wanted us to achieve from this study, and how we went about the research. That is followed by an overview of the current policy context. We then seek to analyse the characteristics of the third sector, drawing on our own data and evidence collected by our colleagues at Southampton University and NCVO. We explore some myths and realities, and show how the sector can usefully be analysed in terms of how organisations are 'positioned'. In relation to the current economic and political climate, some groups of organisations are evidently more vulnerable than others.

We then present findings on how TSOs operate, drawing on our case study research, and identify strengths and weaknesses within the sector. That is followed by a discussion of the sector's dynamics, in relation to: representation; infrastructure support; impact assessment; professionalism; innovation and flexibility; leadership and governance; partnership; and independence. The final section presents some key messages, highlighting issues that need to be resolved so that the sector can achieve its potential in meeting the needs of the communities it serves.

2 Aims and methods

The objectives of the study

The Northern Rock Foundation commissioned Teesside University and Southampton University to undertake the Third Sector Trends Study. The aim of the study was not limited to the interests of the Foundation. Rather, the intention was to provide an evidence base to inform policy-making on third sector investment by foundations, the public sector and the private sector. Prior to this study, many taken-for-granted assumptions about the values, mission and practices of the third sector went untested and unquestioned. Consequently, it could be difficult to make sound strategic decisions about the likely benefits of investment in projects and in initiatives to support the development of the third sector.

The brief for the Southampton team, together with their colleagues at NCVO and Guidestar UK, was to undertake a mapping exercise of the third sector in North East England and Cumbria. The purpose of the research was to establish a strong statistical foundation in order to establish the shape, structure, purpose and activity of the sector.

The Teesside research team was charged with the task of undertaking a thorough qualitative and quantitative assessment of the social dynamics of the sector as a whole, including relationships with other sectors. The longer-term intention of this aspect of the research was to undertake longitudinal research in order to find out how the third sector responds to changes in the social, political and economic environment.

As a well funded long-term project, the teams were also asked to develop and trial new methodological approaches to the study of the sector. This was important for the Northern Rock Foundation, as criticisms had often been levelled at previous research work on the third sector for its partiality. A key aim of this methodological work was to provide a sound understanding of the strengths and the limits of evidence so that policy judgements can be well informed and justified.

Methodological approach

Southampton University, NCVO and Guidestar UK collected and merged data from national databases and local listings on the third sector. In addition, surveys were undertaken on unregistered organisations which are not present on national databases – known as ‘below the radar’ organisations. The statistical analysis of these datasets produced findings on the sector which could be compared with national data and could also provide a baseline dataset for analysis by the Teesside researchers.

Teesside University's work has had four strands:¹

- A series of 29 in-depth interviews in the spring/summer of 2009 with TSOs which support the third sector. These 'local infrastructure support organisations' included Councils for Voluntary Service, voluntary development agencies, Rural Community Councils and other sub-regional and regional organisations which support the sector.
- A series of 50 case studies of TSOs across the study region (the 'TSO50'). The sample was designed to capture data on organisations of different sizes (including national organisations) and serving different groups of beneficiaries. The analysis included the development of a scoring tool to assess organisational effectiveness.
- The establishment of three 'foresight panels' of stakeholders from the public, private and third sectors in the study region. The foresight panels met in spring 2010 to debate sector opportunities and threats which had been identified in the previous two phases of research and had been prioritised by panel members prior to the meetings.
- A questionnaire survey of over 1000 TSOs in the study region was undertaken in the early summer of 2010. The aim of the survey was to explore findings from the earlier phases of research in more depth and to identify key sector characteristics. The study also collected attitudinal data on sector strategy, planning and future prospects.

Taken together, these elements of the study have produced robust data to explore the anatomy and dynamics of the third sector in North East England and Cumbria. The study allows for the triangulation of data from each of these sources and has provided an unprecedented opportunity for in-depth analysis and appraisal of sector strengths and opportunities.

¹ The reports from each of these studies are free and available to download on-line at http://www.nr-foundation.org.uk/thirdsectortrends/tt_reports.html.

3 The policy context

The change of government in May 2010 brought about a significant change in the political environment. The coalition government expects the third sector to play an increasing role in the delivery of public services, as the 'Big Society' grows and state provision declines. The government wants civil society to take a lead:

'The Big Society agenda is not a Government programme; it is a call to action. The agenda contains a great deal of opportunity for the voluntary and community sector to do more and have a greater say.'
(Office for Civil Society, 2010a: 12).

Government third sector policy² has, of course, to be set in the context of managing the UK's public sector budget deficit, which is resulting in substantial cuts to public spending. The government recognises that the cuts will have a major impact on the third sector but, nevertheless, the Minister for Civil Society, Nick Hurd, expects that the sector will 'play its part in responding to the huge challenges we face.... it is imperative that the sector, and the social capital it generates, is not weakened during this difficult period' (Office for Civil Society, 2010b: 3).

It is too early yet to know clearly how cuts and policy changes will impact upon the third sector, but we think the following issues are important.

- Firstly, the abolition of regional structures, together with a shift to 'localism', will alter the landscape of third sector-public sector relationships. While the government does believe in building strong partnerships, it seems less convinced about the benefits of funding formal inter-sector partnership working and considers that partnership relationships should develop organically and be self-sustaining.
- Secondly, the government appears to be less interested in investment in 'capacity building' and 'infrastructure support' and instead has expressed a preference for supporting TSOs delivering front-line services by contract. There is also a strong interest in

² Upon taking office, the former Office of the Third Sector has been renamed the Office for Civil Society (see Office for Civil Society 2010a/b/c. Government has also started to widen its definition of what constitute civil society organisations (CSOs) to include new social enterprises which have been hived off from the public sector, for-profit cooperatives and worker cooperatives and possibly even some small and medium size enterprises (SMEs). This widening of the scope of the third sector was initiated some time ago by the NCVO when they added a new section of charities to its annual almanac – including, controversially, universities and public schools. For a more detailed discussion see Alcock (2010).

incentivising and measuring the impact of front-line work and introducing 'payment by results'.

- Thirdly, government remains committed to support for small local community organisations – although it is not yet clear how much will actually be done to support them.
- Fourthly, there is a strong commitment to encouraging volunteering – but at present this does not look likely to be backed up with much government investment; indeed, there have already been significant cuts in national support organisations.
- Finally, there is an increased emphasis on the encouragement of giving to the third sector, through individual donation, philanthropy or corporate giving in association with corporate social responsibility programmes.

As these policies are rolled out over the next months and years, we will watch carefully to see which areas of the third sector benefit and which lose out. At the same time we will be watching to see which TSOs are willing and able to take advantage of new opportunities--and which choose not to.

4 The characteristics of the third sector

We have already published several reports on the detailed findings from the Northern Rock Foundation Third Sector Trends Study. It is not our intention to repeat all the findings here, but we do want to draw on our research to explore the sector's characteristics and, especially, to consider how different parts of the sector are positioned in relation to the changing context within which they are operating.

Shape and size of the sector

Before turning our attention to the more 'conceptual' analysis of sector dynamics, we start with a brief overview of the findings of our colleagues from Southampton University and NCVO on the structure of the third sector in North East England and Cumbria.³ In North East England there are 4,760 registered charities with a collective income of £731m and with assets valued at £1.3bn. In Cumbria, the figures are 2,216 registered charities with an income of £164m and assets of £340m.

The distribution of charities by size is similar in North East England and Cumbria to the rest of the UK. But the share of income is lower on a per capita basis. Average charity incomes are lower than for the rest of the UK. The average is £153,400 in North East England and £73,000 in Cumbria compared with £307,500 nationally.

In terms of their beneficiaries, about one in five charities in North East England provide social services. There is an over representation of charities in the area of economic and community development in the region. In Cumbria, about a fifth of charities also provide social services. There is an over representation of development and education charities and village halls.

Charities in North East England are more reliant on public sector funding, standing at nearly 49% of sector income, compared with 38% nationally. Dependence on public sector funding in Cumbria by contrast stands at only 29%. Over half (56%) of charity income in North East England is earned (including from public sector contracts). Voluntary contributions amount to 35% of income. In Cumbria, 60% of income is earned and 35% comes from voluntary contributions.

Employment and volunteer estimates are have also been produced by Southampton University. Paid employees in charities number between 21,600 and 22,600. Paid employees in other third sector organisations number between 10,050 and 14,200. 1,600 charities are employers and 1,900 non-charities are employers. The overall estimate for employees in North East England is 37,000, representing 3.1% of the workforce.

³ See Kane and Mohan, 2010a, 2010b, Mohan *et al.* 2011a, 2011b, available from http://www.nr-foundation.org.uk/thirdsectortrends/tt_reports.html.

Paid employees in charities number between 4,625 and 5,250 in Cumbria. Paid employees in other third sector organisations number between 1,800 and 3,800. It is estimated that there are about 450 charities which are employers. The estimated number of employees is 9,050, which is about 3.8% of the paid workforce in Cumbria.

It is estimated that there are about 143,000 volunteers in North East England and 52,800 in Cumbria. It is estimated that 24% of the population in North East England and 27% in Cumbria offer some voluntary help each month, contributing over 10 million and 2.5 million hours respectively of voluntary work annually.

Third sector dynamics - is this a sector?

An important feature of the third sector is its diversity in terms of values, institutional structures and objectives. This diversity defies attempts by the sector itself, government or academics to bring all component parts of the sector together, theoretically or pragmatically, into some kind of whole. We began by conceptualising a 'big picture view' of the sector in different ways: as a mosaic, as a jigsaw, and as an abstract painting.⁴

It is tempting to conceptualise the sector as a **mosaic**, made up of lots of different 'types' of organisations. However, our research shows that TSOs which, ostensibly, have the same structures and do the same kinds of things are very diverse. A policy approach based on isolating all the different organisational types into discrete categories and then deciding how to fund or develop them would be fundamentally flawed. The research suggests strongly, therefore, that any attempt to divide the sector up by organisational category would be misleading.

Using a **jigsaw** perspective, which might assume that the component parts of the sector 'fit together' (whether that is defined by geographical areas, type of organisations, relationships in the sector, and so on) would also be flawed. We now know that there are many strong connections not just within the third sector, but also between the third sector and the organisations which fund them, and with their communities of interest.

Apart from relationships with funding bodies which tend to be pretty stable, we find that relationships within the sector can be surprisingly fluid, superficial and ephemeral. This is not to say that people do not know each other or that they cannot mix easily. There is insufficient integration of activity, either formal or informal, to really justify the jigsaw analogy. Instead we find a competitive environment where 'live and let live' arrangements produce 'understandings' about boundaries to avoid turf wars. The cost of this lack of integration, when opportunities arise for formal collaboration, is that relationships can be too immature to produce the levels of trust required to make partnerships work well.

Government and its agencies, charitable foundations and local authorities may dream of easy access through one door to a third sector which is

⁴ These arguments are developed further in Chapman and Robinson *et al.* (2009) *A Mosaic, Jigsaw or an Abstract?* Available from: http://www.nr-foundation.org.uk/thirdsectortrends/tt_reports.html

cohesive, integrated and compliant to their procedures. But that is not going to happen – this is not a jigsaw.

We came to the conclusion that there is no prospect of finding an all-embracing ‘rational’ account of the sector. And we think that any attempt to do so would be a conceptual imposition which might make sense to people outside the sector, but little sense to people inside the sector. So, the big picture analogy we have adopted compares the third sector with an **abstract** painting. Such paintings use complex artistic language which is somewhat impenetrable. And interpretation is the responsibility of the viewer.

The abstract analogy encapsulates why people in the third sector see the big picture in so many different ways. Furthermore, most people seem to feel comfortable with this diversity of opinion. But they do not like it when outsiders are critical of this diversity, or worse, try to force upon them some kind of order.

To a sceptical viewer, who prefers to look at more representational pictures, the abstract painting can be read as chaotic. So it is understandable that outsiders might view the third sector as disorganised if they have in mind a worked out model of its structure, functions, interactions and boundaries as they ‘ought’ to be. It may also lead them, in a well meaning way, to want to ‘improve’ the sector.

Such improvements might include: the development of ‘professionalism’; the successful ‘management of innovation’; the ‘measurement of success’; the ascription of ‘added value’; the promotion of ‘good leadership’; the move away from ‘grant dependency’ to ‘more businesslike’ contracting; and so forth.

We conclude that consideration of such ‘improvements’ needs to be viewed in the mirror of the onlookers’ interests and should be considered with reference to a critical awareness of whose interests they serve. Definitions of ‘professionalism’ in relation to third sector activity might be contested, for example, on the grounds that it is being used to encourage procedural compliance rather than a more old-fashioned ‘judgement’ on what needs to be done.

The abstract analogy allows us to adopt a critical perspective so that the many elements of the sector are not forced into analytical categories which lack real meaning. Most importantly, the abstract analogy allows us to question the salience of importing external views of what the sector ought to be without knowing what the limits of change are or need to be.

Myths and realities

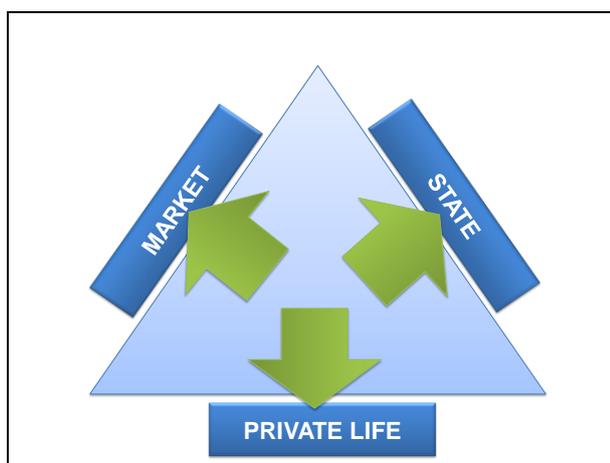
As the above discussion suggests, few people subscribe to collective views about the constitution and role of the third sector. By comparing themselves with other sectors, a number of *myths*⁵ have emerged about

⁵ Myths, according to anthropologists, are not necessarily falsehoods. Instead, they are regularly retold stories which help a society to know itself. The myth of St George and the Dragon in England, does not merely tell society that its people are courageous – it

the third sector which may not, ultimately, stand up well to empirical investigation. We do not want to labour the point, but feel that it is important that the sector recognises that some of the myths it has built about itself may not be unique to the sector, and they may not be characteristic of the sector at all.

Essentially, the problem we have come across is that the sector is very clear about what it is *not* – but is not anything like as clear about what it *is*. This is understandable because the sector sits somewhere in the middle between other sectors in society. As Figure 1 shows, the third sector is surrounded by ‘sectors’ which, for one reason or another, have adopted particular practices.

Figure 1: **The position of the third sector organisations in relation to other sectors**⁶



The relative positioning of individual TSOs is strongly affected by their organisational values, structure, mission and capability. As a whole, however, we have observed that members of the third sector often liken themselves to each other by stating that they are ‘different’ from members of the other sectors.

Thus, members of the third sector differentiate themselves from the private sector by stating that they are ‘value driven’ rather than ‘profit driven’; that they are less competitive and put the value of their beneficiaries first; that they can work better in partnership because of shared values; and, that they ‘add value’ to society (rather than to shareholders) in a way that private sector organisations can’t.

Similarly, members of the third sector differentiate themselves from the public sector by stating that they are not ‘hidebound’ by bureaucracy and consequently are more innovative and flexible; that they are closer to the communities they work with than the public sector could be; that they involve their beneficiaries in their work; and, that their ‘independence’ allows them to challenge inequalities and campaign for groups in a way that the public sector does not.

suggests that they are *more* courageous than people in other societies. Whether the myth is true or not is not very relevant.

⁶ This diagram is a simplification of a more complex diagram to illustrate a conceptual paper which examines third sector positioning – see Evers and Laville (2004).

The third sector also recognises that it does not occupy the same space as private life. It works in the realm of civil society, bringing people together from many walks of life to achieve shared objectives, rather than pursuing personal interests or the interests of private societies or clubs which only serve the interests of their members.

These comparisons have produced a number of myths about the third sector in the sense that the sector tends to claim that it has a monopoly of certain values and practices. This seems to us to be self-evidently untrue. There are many people in the public sector, private life and the private sector who can and do make a contribution to society which is above and beyond their personal or organisational interests. Nevertheless, these acknowledged defining features do, in some sense, provide the glue to bring the people of the third sector together and make them feel that they are part of something different and something special. That said, it is clear that different TSOs occupy different positions in relation to other sectors, and these positions strongly affect the way they practice.

Positions and places⁷

Concluding that the third sector is best viewed as an abstract phenomenon which is reinforced by myths can hardly be described as helpful unless it can be put to some use analytically. We gain insight, however, by referring to the **position** of individual organisations in relation to other sectors – rather than by focusing solely on organisational typologies. This developed from our large scale survey (the TSO1000), building on all the other research evidence we have gathered. Having analysed the data, we have been able to identify four broad categories of organisation on the basis of their position.

- ***Entrepreneurial organisations (which mainly deliver direct services to beneficiaries)***

These organisations, which are most advanced in planning for their future, share some similar characteristics. They tend to be quite well established (set up in the 1980s and 1990s), are medium sized in terms of income and operate at a larger scale beyond the neighbourhood or a single local authority level. They are more likely to provide direct services to beneficiaries and they generate much of their funding through earned income or from contracts. These organisations are characterised by a businesslike attitude. They plan actively to increase their income and are willing to collaborate with other organisations across sectors and engage in partnership bidding to secure future funding. Moreover, they are quite successful in this and invest significantly in capacity building by providing training for their staff, volunteers and trustees. This group of organisations,

⁷ This analysis is developed in a working paper, see Chapman, *et al.* (2010) *Keeping the Show on the Road*, http://www.nr-foundation.org.uk/thirdsectortrends/tt_reports.html.

comprising roughly 15-25% of TSOs in the sector, are the entrepreneurial representatives of the sector, constantly on the lookout for opportunities, combining a strong sense of business acumen with professional values.

- ***Established organisations (which are embedded in their communities or place or interest)***

These long established organisations are positioned more closely to their community of place or interest. They feel quite secure about their future but, with few or no employees and relatively close horizons, they are less interested in increasing their income, are not keen to work in partnerships or to work across sectors. The majority of their income is generated through grants, self generated income and gifts, and more rarely contracts. Some are partially reliant on long-running service level agreements from local authorities.

These organisations are characterised by their relatively small size, usually operating at the neighbourhood or single local authority level. This group, comprising about 40-60% of the sector's organisations are the most established and conservative group in the sector. They deliver valuable service to their local beneficiaries – with whom they often have long-standing relationships - and are mainly concerned with consolidating their work. In many of the smaller organisations, the members are, effectively, the beneficiaries. They operate on a strong value basis and are less open and responsive to demands from funders and policy makers. They are less concerned with capacity building and formal partnerships, formal business practice and training.

- ***Less secure organisations (which grew or emerged in the 'boom years')***

This broad group, which represents roughly 20-30% of the sector, appear to look either in the direction of the established entrepreneurial TSOs or the more traditional embedded local charities. These organisations have usually been operating for some time and experienced significant growth during the period of Labour government, or may be fledgling organisations which emerged in response to significant investment in government regeneration initiatives.

They may have benefitted from the upsurge in investment in community development and may have gained significant assistance in their establishment through capacity building and infrastructure support. Organisations with these broad characteristics mainly operate at a local authority level but sometimes across local authority boundaries and have some experience in partnership bidding, although not always successfully so. They tend to earn a significant part of their income through providing services (possibly in consortia with other partners) on a contract basis to local statutory services or local strategic partnership bodies. Within this broad category, we suspect there are two further sub-positions.

Some of these organisations appear to be ***closer in position to more successful entrepreneurial TSOs***, but they are less mature and less independent organisations and are very concerned about public sector budget cuts. They are planning to respond to cuts by, amongst other things, getting more involved in public service delivery and partnership.

They are hoping to move towards the position of the more established entrepreneurial organisations we have identified.

Other organisations seem to be less active in scanning the horizon and forward planning. They may have blocked off some of the options which may be available to them because they feel such choices are against their core values and mission. But they also tend to be less well informed about potential opportunities and imagine that 'barriers' exclude them from serious consideration. Sometimes they do not apply for smaller scale grant funding where they do have a reasonable chance of success. These organisations seem to be ***closer in position to the more established and traditional TSOs*** but may not have sufficient assets or regularised core income, nor be sufficiently embedded in their communities, to weather future storms. Many may be affiliated or federated to other organisations, but are not necessarily protected by this status.

Due to their smaller size, economic fluidity and frailty, lack of community embeddedness and stronger dependency on local contracts, both of these sub groups may be more at risk in the current economic and political climate and need to reposition themselves by making difficult decisions. Such decisions might include thinking about: whether to accept that they have to reduce the scope of their operation significantly; whether to reshape what they do to find new sources of income; whether to work with or merge with other organisations; or, whether to accept that their organisation has come to the end of its natural life and should close.

These positional profiles are inevitably fuzzy, but do seem to reflect reality on the ground and do provide a basis for discussion about the future well being of the third sector in North East of England and Cumbria.

5

Characteristics of third sector organisations

Our research method sought to look at the third sector from different standpoints, with each element of the study informing and developing the others. Conceptual, empirical and quantitative work on the sector as a whole provided an overall—and complex - picture, while our large scale survey enabled the identification of groupings of TSOs and their position in the sector. In addition, we undertook detailed case studies of a sample of 50 organisations (the TSO50) which provided a way of looking at strengths and weaknesses. We could look at the very different ways in which TSOs organise themselves and begin to see which are doing well, and which ones are struggling.⁸

The TSO50 study yielded a great deal of information and detail. To assist the analysis of the case study data, a scoring tool was developed which categorised their organisational activity under four broad headings: foresight, enterprise, capability and impact. Bringing all the information together and using these concepts, we were able to gain insight into the shape of the sector and its operating characteristics. The findings are presented here under the four main headings, each of which has five analytical components. This element of the research allowed us to get a real purchase on the dynamics of the sector.

Foresight: is defined as the capability of an organisation as a whole to be able to anticipate change and develop strategic plans to accommodate, or exploit opportunities arising from change.

Knows what they are there to do and who they serve

Nearly all organisations have a very clear understanding of who their beneficiaries are. Meeting the needs of beneficiaries is at the core of organisational mission and culture and is a significant driving force which shapes nearly all other aspects of organisational activity.

Plans on the basis of realistic appraisal of capability

In nearly all cases, planning is based on organisational mission and a realistic appraisal of current capability. Most organisations seemed to be operating more or less at the right size to meet their objectives - very few were driven by a desire to grow as an objective in itself.

Leaders are focused on long-term objectives

Organisations generally had strong and effective leaders, irrespective of whether or not they established the organisation. Leaders play a crucial role in terms of maintaining organisational sustainability and focus.

⁸ This brief review summarises main points from a working paper, see Chapman and Robinson *et al.* (2010) *What makes a third sector organisation tick?*

Governing body understands aims and supports plans

The efficacy of governing bodies is mixed and was dependent upon a number of factors such as: commitment and involvement; competence and skills mix of trustees; beneficiary representation; and (with the exception of purely voluntary organisations) the strength of the productive relationship between governing body and chief officer.

Would consider making hard decisions in response to challenges

Many TSOs had experience of making hard decisions in the past in order to secure their future viability. In some cases these were very positive decisions, where the organisation decided to take a new direction which carried potential risks. In other cases, hard decisions were forced upon organisations by changes in their pattern of funding.

Enterprise: is defined as the organisation's capability to marshal its resources and prioritise its energies to achieve the objectives it sets itself in its strategic mission.

Knows how to spot and assess opportunities

TSOs' capability to spot and assess opportunities is dependent on how outward looking they are. Networking is the most effective way of anticipating change. TSOs generally exploit networks in order to improve their own service provision.

Knows when to compete or cooperate with others

TSOs are generally good at assessing when it is better for them strategically to compete with other organisations and when it is most beneficial for them to work cooperatively. Cooperation between TSOs which operate in rural areas appears to be particularly strong - the quality of cooperation is related to the relatively low density of TSOs in rural areas, but is also dependent upon the role larger organisations play in fostering cooperative action.

Uses innovation to meet beneficiary needs

The evidence does not show that the desire for, or necessity of, innovation is of great importance in defining what drives TSOs. It is clear that whether the organisation considered that they were using innovation or not, the needs of the beneficiaries were at the forefront of their work and so, for many, innovation was seen as a means to an end.

Has an organisational culture which is responsive to change

Responsiveness to change depends to a large extent on the size of organisations and where they sit in their organisational life-cycle.

Maintains useful relationships with stakeholders to achieve aims

Organisations generally had very good relationships with the public sector organisations or foundations which supported them through grants or contractual agreements. TSOs worked hard to maintain good relationships. Relationships with the private sector were seriously underdeveloped or non-existent.

Capability: is defined as an organisation's ability to employ, manage, and develop its resources in order to achieve its strategic objectives.

Staff, trustees and volunteers are properly prepared to perform their roles

TSOs give serious consideration to their responsibilities in preparing staff successfully to undertake their roles. Training is regarded as an important priority but can be limited by resources, especially in smaller TSOs.

In several organisations, there was a well trodden pathway from beneficiary/client to voluntary work, and also some movement into employment.

Is appropriately professional in approach to practice

Organisations generally operate at an appropriate level of professionalism according to their resources and mission. Larger TSOs have strong organisational systems and recognise the importance of communicating their professionalism to funders and beneficiaries.

Leaders often develop flat organisational structures to create inclusive and empowering organisational cultures. Very small organisations often exist to serve the interests of their members rather than a wider constituency of beneficiaries - in such circumstances, procedural issues can be of low importance.

Can work effectively with other organisations

In instances where they do, TSOs work effectively with other TSOs and can see the benefits of working in partnership. These partnerships often depend on the chair/chief officer and their relationship with other organisations, or the networks or allegiances that they build with each other.

Smaller organisations were the most likely to seek support from larger TSOs which offer infrastructure support (such as legal advice, back-office services, funding assistance, and so on). Reliance on infrastructure organisations was, in general, quite limited.

Plans and manages finances effectively

More confident TSOs integrate many different aspects of their work with the aim of securing their financial future by building close relationships with key stakeholders in funding organisations, communicating their successes well, and prioritising time for pre-bidding activity when opportunities were expected to come along.

Understands and implements relevant procedures and practices

A common perception is that statutory bureaucratic processes can be a costly and damaging impediment for TSOs - especially in terms of the attraction and recruitment of volunteers. We found no evidence to support this view and organisations did not resent time or resource invested to process such checks.

Impact: is defined as the organisation's capability to serve its beneficiaries effectively and to make a wider contribution to the community of practice within which it works, to the third sector in general, and to civil society broadly defined.

Communicates role and impact successfully to relevant audiences

Although most TSOs believed that they were well respected in the field within which they work and in the areas where they operate, approaches to communications were patchy and inconsistent.

For national TSOs, profile raising was easier, to some extent, because they had a national recognisable brand to identify them. But this did not always serve their local interests, because local funding bodies assumed that they were wealthier organisations than they actually are.

Beneficiaries are appropriately involved in activities and development

In a minority of TSOs beneficiaries *are* very closely involved in shaping the mission and practices of organisations. In some organisations, user engagement is structured, integrated and ingrained in the culture of the organisation. In most cases TSOs decide, on the basis of professional experience and practice, how to serve the interests of beneficiaries.

Benefit to users is considered and assessed

TSOs, for the most part, had a tendency to measure their impact only if they were obliged to do so by funders. And where that is not a requirement, benefit was 'assumed' rather than tested. Often this notion rested on an assumption that 'we *know* what we are doing'.

Makes a positive contribution to the third sector

The third sector is regarded as something special to the people that are in it. Most members would want to make a contribution to the well-being of the sector in general terms through cooperative behaviour. Often this benefited the organisations within which individuals worked, but this was not the *only* motivation.

Seek to maximise impact on social wellbeing

Members of the sector articulated the 'special' contribution of the third sector by claiming that they 'added value' to their work. The production of social capital was regarded as a by-product of their day to day work. Many TSOs are deeply embedded in the areas within which they work and make a very significant contribution to community sustainability.

These findings provide a snap-shot view of the way that TSOs work. But these interesting findings only represent the initial results from our work. Our task now is to visit the TSO50 again in the summer of 2011 and then again in 2012 to see how they are getting on. Having developed a methodology to assess the performance of organisations against 20 different criteria, as shown above, the next phase of work will involve asking TSOs to think about their views on their performance in relation to each criterion. We hope that in most cases TSOs will include their board of

trustees or management committees in the process. This will allow us to compare our own judgements on organisational strengths with theirs.

Any measure of performance against criteria is open to criticism. But we feel that our approach is useful because it is undertaken in a longitudinal study. We will be in a unique position to see, for example, whether a high level of organisational investment in certain tasks or strategies was worth their while or not. It may be the case that investment in some activities suits some TSOs' interests very well, but is of little value to another TSO.

The assessment of the impact of change is a central concern of this project. Only three years into the research, there has been something of a sea change in government policy and a very significant transformation in the economic environment. We will soon know whether organisations in the TSO50 have fared well or badly in consequence. We need to know this if useful recommendations are to be made to TSOs about the way that they should invest resources to improve their foresight, enterprise, capability and impact.

6 Taking Stock

The insights we have gained from all the different elements of the research have led us to draw a number of broad conclusions about what we now know about the third sector as a whole, in its constituent parts and its relationship with other sectors and society more generally.

Our work is not yet half way done in this long-term study. And inevitably, the first phase of work has produced new questions that we did not expect to ask when we started. As we explore the possible consequences of change on the third sector as time goes on, we anticipate several new future lines of enquiry. We summarise some of these below.

We present a summary of the broad conclusions we have drawn so far. The purpose of this summary is to stimulate discussion, not to present our final word on all matters. If that were ever possible, this is certainly not the right time to do it. The third sector is facing a time of significant change.

Economic pressures, due mainly to cuts in public spending are likely to have a big impact. Change in the policy environment is also moving fast – presenting new opportunities and also some threats to the well being of individual TSOs and the third sector as a whole. The big issues of the day are likely to change too – public concerns invariably shift from one social cause to another - often in unpredictable ways. This may impact on the extent of public giving to charities and may also affect the volume and flow of volunteers in new directions.

We know that there are many meetings and events going on in the region at the moment to consider the possible impact of change. We hope that the conclusions we draw below help to focus and inform these debates.

Inter-sector relationships

TSOs are generally very good at maintaining good relationships with funders on a one-to-one basis. Most TSOs feel trusted and valued by the organisations which fund them. Collectively, however, the sector finds it hard to represent its interests effectively as a unified voice. We doubt that this objective is ever likely to be achieved due to the complex dynamics and structure of the third sector.

Local umbrella organisations (such as CVSs or VDAs) generally know that they can rarely be in a position to represent those parts of the sector which they know too little about and interact with rarely. Sector intelligence at a local level tends to be quite poor, which often makes representation of sector interests difficult. Collecting and maintaining up-to-date information on the local third sector can be very costly – well beyond the means of many local umbrella organisations. Consequently, their lists of local organisations are often incomplete and out of date. Lack of robust intelligence undoubtedly undermines argument about sector strengths and weaknesses.

Given the difficulties surrounding describing the third sector in holistic terms, which we have alluded to, umbrella organisations are right to be circumspect about claiming to be the voice of the sector. But some do have very strong community links, or help manage networks of smaller community organisations, so that when the public sector wants to know about community issues, they know where to go.

As the localism agenda strengthens over time, this may benefit local umbrella bodies to some extent, provided that their area of influence and operation is closely aligned with those of agencies and authorities which manage budgets. It could be the case that local authorities will start working together more closely to use their limited resources more effectively. If that turns out to be the case, then local umbrella bodies will need to be in a position to respond to new opportunities on behalf of the organisations they represent. Many umbrella organisations are already working together effectively, but the impetus to do this may increase over the coming months and years – so now is probably the time to start talking if it isn't happening already.

The structure of the public sector is changing fast in the region and that is bound to impact on inter-sector communication. Regional structures are being dismantled and other public sector bodies which formerly managed commissioning have also closed down or are in the process of doing so, such as the Learning and Skills Councils, Primary Care Trusts, and so on. Usually the larger, more enterprising TSOs which deliver services under contract (especially so in the case of some of the national charities which have a significant level of activity in the region) work relatively autonomously and their relationship with the public sector is usually a direct one. This may start to change too as established structures are abandoned or reconfigured. We do not know what effect these changes will have on the nature and quality of relationships; we will be monitoring this and considering how effective third-sector representation can be best achieved in the future.

What we do know is that when the public sector wants to talk to 'the third sector', it is probably necessary to recognise that there are different people it needs to bring to the table depending upon the purpose of the discussion. The positioning of individual TSOs relative to other sectors will make them more or less interested in or useful for different purposes. There are umbrella bodies in the region which represent the particular interests of TSOs which operate in similar ways - such as cooperatives, mutuals and other 'social enterprises'. Sometimes these may be the right organisations to bring to the table, and can provide the route by which the public sector can reach the right kinds of organisations.

Infrastructure support

Those organisations which offer infrastructure support for TSOs have enjoyed boom years under the last government. Funding for such work has been generous and continuously given. This is not likely to continue under the present government. In the current climate it is likely that there will be insufficient public funding available to maintain current capacity for infrastructure support – even if demand for that support remains high. It is all the more important now, therefore, that the impact of infrastructure

support on sector wellbeing can be convincingly demonstrated. This may involve closer targeting of infrastructure support to those TSOs that really need it rather than providing a sector wide offer of support.

Our research may help organisations which offer infrastructure support to work out which organisations they may be in the best position to serve. Often this support will be the provision of practical advice on legal, safeguarding or funding issues, or practical support through the provision of back office services (such as printing, payroll, accounts, etc.) which small organisations could not afford to provide or do not have the skills to do themselves.

Those organisations which need training and support to engage in public service delivery by contract, or which want to trade services in the open market will need different forms of specialist support. This might best be provided (for free or a small charge) by other larger well established third sector organisations on the basis of reciprocal benefit. Sometimes it may need to be provided through a brokerage service or via a competent umbrella body able to demonstrate that it has the requisite skills and resources to deliver such support. In sum, we advocate a 'horses for courses' approach.

Impact of the sector

We find a sector that values itself and generally feels valued by those organisations and people it serves. Often members of the third sector earnestly claim that aspects of their work are of greater value than the public or private sectors can achieve. Such claims are based on the presumed ability of the sector to 'add value' to the investment made, or to suggest that the sector reaches those parts of the community that other sectors will not or cannot reach. But we find reluctance in many TSOs to show convincingly which aspects of their work are 'special'.

Of late, we have recognised increased pressure, from public sector funders in particular, for the third sector to demonstrate these claims with evidence. To demand that the third sector is more effective at demonstrating the impact of its work is one thing. Identifying an economical, consistently applied and practicable methodology which produces reliable evidence that is accepted by those who fund the sector is another.

We feel that funders are well within their rights, in principle, to expect the TSOs they invest in to respond positively to requests for indicators of impact. But we doubt that funders themselves yet know what evidence will persuade them that an organisation has achieved what is wanted. As our work progresses, we want to explore the boundaries of unrealistic and realistic expectations about measuring impact. Furthermore, it is our intention to find out whether impact assessment, as such, is what funders really *need* to know.

We don't yet know very much about how organisations learn from their experiences. But as the study progresses, we will find out. We want to know if (and which) TSOs learn from mistakes or successes. We also want to know how others can benefit from this know-how through training and awareness- raising.

At present, our data suggest that those organisations that take planning seriously, that invest in their staff and volunteers through training, and that undertake studies or audits to see how well they are doing are amongst the strongest TSOs. Knowing which organisations are good at learning and investing in their people may be a vital indicator of organisational capability from the point of view of those who invest in the third sector. Furthermore, we suspect that indicators of organisational capability might, ultimately, be much more important to funders than emphasis on impact assessment.

Professionalism within the third sector

Government and its agencies have been concerned for some time about the need for professionalism within the third sector. For the most part, these observations only concern those TSOs which work to contract to deliver public services – or what we call the more entrepreneurially positioned organisations. Our evidence suggests that these TSOs generally achieve or exceed expectations of professionalism in terms of approach to practice and in the way that business relationships are maintained.

Public sector disquiet about third sector professionalism, from our observations, seems to centre on the activities of smaller community-oriented TSOs. This is clearly not fair if these organisations do not make a contribution to those activities which require such practices to be performed. Nevertheless, stories circulate amongst funding bodies that TSOs disregard professional protocol to achieve what they want.

We know that ‘horror stories’ circulate about difficult relationships with some TSOs, however, we also know they are not typical and suspect that they are exceptional. What can happen, however, is that such stories of frustration can be used to justify public sector officers to ‘wash their hands’ of the third sector – as if it were one homogenous entity. This leaves all TSOs at risk, and often unfairly, of being tarred with the same brush.

With the exception of the more entrepreneurial TSOs, we find that ‘professionalism’ in the third sector is generally understood in a different way from the public sector. For the most part, these smaller, localised TSOs largely rely on their ‘judgement’ based on belief, long-established practice and experience. There is much competition to define the best way of doing things – but not that much evidence to show what works best. We came to the study with no pre-determined ideas on professionalism and we are keeping an open mind.

Innovation and flexibility

We find a sector where many TSOs are flexible in their outlook on the way they do things. This flexibility derives in part from the fluidity of the funding environment which effectively forces many TSOs to go with the flow of a funder’s expectations. Innovation, we think, is often confused with flexibility. Innovation is often flagged by government as a major strength of the third sector and politicians like to trumpet examples of it in their speeches. Tender specifications often require applicants to demonstrate innovation in

previous projects or explain how innovative approaches to practice will be achieved in the proposed programme.

We do not find a consistent picture on what constitutes innovation or find much evidence to suggest that achieving innovation is, of itself, a driving force for many people in the sector (compared with the application of consistent good practice). For the smaller, community embedded TSOs, innovation may be more common, particularly at the point at which organisations start up. Often these TSOs are run entirely on a voluntary basis – and part of the pay off for that might be a strong imperative to do things their own way.

We expect that public sector funding will become even more outcome driven in future. The government’s interest in ‘payment by results’ signals this clearly. This, by definition will encourage more consistent approaches to practice – and the room for innovation may be limited. But we are not sure that this is much of a problem. Those entrepreneurial TSOs which are positioned to do this kind of work run on different lines from the smaller community embedded organisations, and their business-like orientation has acclimatised them to such expectations.

Claims about innovative approach to practice, we find, is often more to do with a public relations approach to ‘branding’ of continuous good practice in the organisation concerned. This seems to be more pronounced in national charities which invest more heavily in branding. We need to explore this further to find out if funders need to think about what they mean by innovation before they demand it, and ask whether their requirement for it is for the right reasons. Through the TSO50 we will find out how expectations about innovation and flexibility interact in strategic terms. Calling for innovation as an article of faith may be a flawed idea – by the end of this research, we should be able to come to a settled view on this.

Governance

Governance of TSOs has become a more demanding task, especially for larger TSOs which come face-to-face more often with regulatory frameworks. We find that the evidence is mixed on the performance of boards across the third sector. And while we question that there is a general problem with boards, there is no doubt that some are ineffective because they muddle through, miss opportunities and make poor decisions. Many board members lack certain key skills, especially in relation to financial planning and legal matters; it is therefore of real concern that only 20% of the organisations we surveyed provide training for their trustees.

TSOs can take steps to build better boards. Some undertake regular audits of their board members, identify skill and knowledge gaps and actively recruit by advertising board positions or by headhunting candidates. In these TSOs, board membership is presented as a personal development opportunity and a chance to serve and contribute. Furthermore, board members receive the training they need, are encouraged to learn and develop and are able to see that they have contributed to the organisation’s success. Some organisations have job descriptions for board members and

a few have formal appraisals. Above all, these boards are consciously developed and nurtured – and their members are thanked. Those who have taken this kind of positive, proactive approach generally appear to be amongst the most successful TSOs.

Some TSOs struggle to develop their boards, especially if they have little capacity and operate in places where active citizens are thin on the ground. What is of concern, though, is that some do not even try. There are chief officers and chairs who could not imagine requiring trustees to do training. Some chief officers prefer it that their boards are weak and do not challenge them. Some boards are unwelcoming of newcomers. As in other sectors, it can be convenient to believe that change is not possible.

Nevertheless, we suspect that governance is improving, possibly as a result of ‘capacity building’ in the sector. But tensions remain about how to construct the ‘ideal’ board. On the one hand, there is a strong belief that one of the sector’s greatest strengths is its rootedness in the communities it serves. On the other hand there is an urge - or there is external pressure - to ‘professionalise’. These tensions can present important dilemmas in building the board.

The pressure to professionalise is stronger in the more entrepreneurial TSOs which rely more heavily on contracts or trading services. They need to be able to cost their services, tender for contracts, negotiate a competitive environment, be open to collaborations, and perhaps mergers. In these TSOs chief officers want board members with business skills. However, that can result in the marginalisation, even alienation, of the grass roots members, including those people who originally saw the need, had the vision, started the organisation, are carriers of the history and custodians of its values.

Furthermore, the space for service user representation on the board becomes even narrower. As it is, many organisations struggle to bring service users on to their boards, even though that is thought to be good practice and very much in keeping with the ethos of the sector. These tensions are difficult and insufficiently recognised and discussed.

The current economic situation evidently presents some hard challenges for the boards of voluntary organisations, and makes it all the more important that they are engaged, active and competent. They need to be able to lead and steer their organisations through turbulent and very uncertain conditions and, indeed, may even have to confront situations that threaten their organisation’s survival. More than ever, they will need to be true to their values and seek to support their service users, while, at the same time, keeping focused on sustaining their organisation as a viable ‘business’.

Working in partnership

Developing consortia and partnerships within and across sectors has been strongly supported by significant levels of public funding. But we find a sector that is uncomfortable about such relationships – especially so when they are formalised. The more entrepreneurial organisations are more willing and able to get involved with networks, consortia and formal

partnership working – but even here, we find that few are brimming with enthusiasm.

What we now know is that calls (or demands) for consortia and partnership working within the third sector, or between public, private and third sectors have probably not been anything like as successful as common sense might suggest they should. There has been more success in the establishment of networks of organisations which form a community of interest or community of place - though often providing that funding is made available to support them.

In some areas we find a plethora of partnerships that developed under the previous government, often crossing over each others' spatial and thematic boundaries. Some areas of activity, such as the development of community networks, seem to have had some success – especially so because they were linked closely to the work of Local Strategic Partnerships. Formal networks which provided opportunities for communities of interest to meet and discuss issues also seem to have thrived as entities – but it is not altogether clear what many of them have achieved, or whether there is sufficient impetus within them to continue to exist if funding for service functions cease.

In a sense the third sector may have missed a trick in relation to these networks. Instead of using them to consolidate good working relationships between TSOs which could provide a strong basis upon which consortia or formal partnership working might flourish, they have been mainly focused upon representing or lobbying public sector bodies to pursue the interests of such organisations in funding terms. We suspect that with the loss of funding, many of these networks will collapse. If this is the case, that will probably tell us that relationships have remained fairly shallow. But that has yet to be explored in depth.

We have found that there is informal cooperation and mutual support within the sector but relationships between TSOs are often undeveloped. This affects the ability of TSOs to work together when opportunities arise. The speed at which TSOs have to respond to tenders for public services, for example, all too often demands that organisations throw themselves together without having tested their relationships and built mutual understanding and trust. While the third sector may blame the commissioning cycle for this – the brute fact of it is that the sector needs to recognise that it is its own responsibility to prioritise the building of strong relationships.

Independence

One reason why TSOs lack enthusiasm about partnership working is their tendency to prioritise organisational independence. Independence is defended both for positive and negative reasons. On the positive side, we recognise that when people freely invest their time and energy in a cause it is justifiable that they want to do things their own way. This can produce effective solutions to problems because the people who run the organisation know the locality, and can empathise with peoples' situations. Such organisations can be successful primarily because their participants

are the beneficiaries. So it is not surprising that they do not want to compromise their approach by working with others.

On the negative side, we have found many examples of organisations working on the same themes in the same localities, producing rivalry and competition. Often this focuses on accessing funding to keep individual organisations going, rather than collectively meeting the needs of beneficiaries. The result can be the over-production of services which are relatively under-funded and therefore do not achieve as much as they might. It's difficult to see how this problem can be tackled however, given the demonstrable lack of interest in merging and collaboration. So the problem of overproduction of services is more likely to be resolved through the closure of some organisations.

Summing up

The observations we make above draw upon the evidence and understanding we have gained so far. In between the lines, it is clear that some recommendations are bubbling up beneath the surface on what we think constitutes good organisational practice for TSOs which occupy particular positions. But it is not yet time for us to declare them because there is some more work to do.

At the organisational level, we repeat the TSO50 study this summer. We will see how these organisations have fared and report on that around Christmas time. More importantly, we will work on the organisational self-appraisal tool that we are developing with these TSOs – so that we can produce an evidence base on what practices really work for organisations which are positioned in different places in the third sector, and identify those practices which yield little return on investment. We want this to be easy to use, and for it to be thought provoking enough to galvanize boards into action on issues that they may have not attended to in the past.

At a sector level, we will repeat the TSO1000 study in 2012. This will provide us with some time series data on how the structure and dynamics of the sector have changed over the last few years. Most importantly, next time around, we will explore the issue of sector impact more closely in order to demonstrate more clearly the value of the work that is done for beneficiaries.

7 Moving on

We have moved a long way in the past three years and have reached a new level of understanding about the structure and dynamics of the third sector. The problem with a lot of third sector research in the past is that it is commissioned explicitly to find out what the sector wants to hear. Too often the objective is to provide evidence which can be used by the sector to promote sector interests.

The Northern Rock Foundation took the view that this was no longer good enough and sought to undertake a root and branch reappraisal of sector dynamics. Their aim was to commission researchers to find out what kinds of organisational practices work well and what don't, and find out what the sector needs to know in order to improve its practice. The intention was to help funders understand the sector better so that they can make better decisions on where to invest, and find out what practices produce the greatest social impact and identify those practices which have barely any impact – or worse, produce negative consequences.

We conclude with some key messages that we are keen to emphasise:

- The third sector should not be considered as a concrete entity, but instead, that it occupies a social 'position' which is surrounded by other sectors. TSOs work best when they know where they stand in relation to these other sectors and are comfortable in their shoes. Those TSOs which do not know where they stand need to do something about it – rather than trying to cover too much ground – or worse, become anxious and cross about things which are beyond their control or reach.
- Funding bodies and strategic bodies need to recognise that they do not need to talk to the whole of the third sector when there is an issue on the table to discuss. They need to recognise, no matter how attractive they find the idea, that they will not find 'one door' to the third sector. Such bodies have to ask the right people to come to the table at the right time. Sometimes, they will invite organisations which are very close to the community – to give them access and insights on needs or the limits of change. At other times they will need to invite organisations to talk about delivery. Bringing in the wrong organisations to the wrong fora can be a waste of resource. Finding out who to bring to the table is not a straightforward issue. This is something that the third sector needs to tackle to make life easier not just for others, but also for themselves.
- The third sector often feels that it is marginalised or excluded from strategic decision making by the public sector or that its impact is limited. This can lead to a view that the third sector is always operating at the behest of others' agendas. Or that the local third sector's fate is subject to the machinations of outsiders, such as national charities. If the third sector is marginalised or excluded, this is probably for complex reasons – some of which the third sector

can do very little about. What it can do is to represent its 'potential' to the public sector more successfully, rather than focusing too narrowly on its 'interests'. Its interests are broad and deep because the third sector is hungry to do a lot of good work – but it can't all be achieved. So the third sector, or communities of interest within it, need to narrow their focus onto what is realistically achievable and align this closely with the organisations with whom they wish to work.

- Partnership and consortia working is currently of limited interest to much of the third sector. Often, intra-sector cooperation is limited and relationships remain relatively immature. Those organisations which have an interest in working together have to begin the process themselves. They have to try each other out and build trusting relationships – taking small steps at a time. Then when there are opportunities for collaborative working, they will be ready to act. This may not mean that they have equal partnerships – but it does mean that organisations have to be comfortable about where they sit. It is not up to government at local or national level to achieve this for the third sector.
- The third sector is less good at involving its beneficiaries and finding out what impact its work has than we imagined would be the case. We are not sure how much of a problem this is. When we talk about beneficiaries, we refer to the people who the organisation reaches out to and supports, one way or another. We are not talking about organisations where its members are the beneficiaries. We don't yet know if involving beneficiaries in organisational practice and strategy is more, equally, or less important than the use of good judgement by experienced practitioners. However, claims about being close to beneficiaries are cherished by many in the sector and form the basis of efforts to gain resource for what they do. Organisations need to be in a position to be able to demonstrate what they do successfully.
- The third sector clearly values its aim to be inclusive and supportive of the people it employs as paid staff or volunteers. We do find that the sector brings people into its organisations who might otherwise find it hard to be included. But third sector organisations do not invest as much as we expected they might in developing the people who work for them as employees, trustees or volunteers. While we can't explain this fully yet, it is clear that those organisations which do invest in training tend to be amongst the most efficient and effective organisations. Are they effective organisations because they train, or do they train because they are effective organisations? This is something we need to answer in the next stage of our work.
- The sector tends to be gloomy about its financial footing – even in the good times. In previous reports, we have referred to this as the 'abyss mentality'. This may be inevitable, because the social market has grown so much and there is always so much scope to identify more and more social need that could be met. Competition over resources produces animosity and rivalry and can lead to the over-production of capacity – potentially resulting in the watering down of the impact of the organisations operating in a particular field. Given

the general lack of interest in merging and collaborative working this situation will continue. If the sector is facing the prospects of contraction some TSOs may have to close. Having too many organisations in a sector which are barely surviving may be, ultimately, detrimental to the needs of beneficiaries they want to serve. While we understand how difficult this can be for organisations, we think boards should be decisive on this issue when it is time to be so.

- Due to public spending cuts, the sector is facing hard times over the next few years – especially in North East England where TSOs’ dependence on public sector funding is very high. Unlike small businesses which tend to have shorter life spans, TSOs tend to want to keep on going, no-matter what. Organisations may need to reflect on their practices and if they are confident of their position in the sector, they will be more informed about their future potential and whether they should grow, decline or ‘batten down the hatches’ for survival. It may be that infrastructure support organisations need to give more thought as to how they can help unsustainable organisations to wind up their operations – rather than encouraging them or helping them to limp on. Such practice would require courage, tenacity and sensitivity – but may bring long-term benefits to the users of sector services. It may be the case that people who have volunteered for one organisation that has closed will volunteer for another organisation in time, although we have no evidence yet to support this assertion. There is much evidence to show that third sector employees make these transitions easily.

As we argued in *Keeping the Show on the Road*, we are confident that the future of the third sector in North East England and Cumbria is much more secure than might be presumed. We think that a majority of organisations will see their way through the next few years – perhaps in reduced circumstances for some. Others will be able to capitalise upon opportunities which are coming their way and grow.

Those organisations which sit more closely in their communities of interest and place, especially if they have been established for a long time, will have the momentum and tenacity to keep going. The larger more entrepreneurial organisations which are effective at scanning the horizon for opportunities, invest in their boards, staff and volunteers through training, plan well and are keen to demonstrate and communicate their impact should continue to do well – even if some of the things they would like to do have to be put on hold for now.

TSOs which were established or grew during the time of the previous government when the funding situation was much easier may find life harder if they were mainly dependent on public sector funds. But we do not want to be overly pessimistic about this. Some of these organisations may well thrive in the face of adversity. We will, of course, be there to watch what happens. This report is not about brow-beating funders into giving the third sector more money. It would be unrealistic of us to do that, if we even imagined that such a report could be written that had that outcome in the current climate.

There isn't that much money about, we all know that, but writing a report to say the sky is falling in, would equally be of no advantage.

This report has shown how the third sector is structured, what its dynamics are and, it is hoped, shows the potential of the many TSOs that constitute the sector. We have outlined how many factors interact and work to the benefit of the beneficiaries the sector seeks to serve. On the whole the sector does feel valued by those organisations which fund it and there are certainly positive relationships between people within and between sectors.

We have said quite a lot of things which should be of interest to the public sector and other bodies which fund the third sector. We hope that we have strengthened their position when we say that they should not succumb to arguments which are unfounded. We encourage the public sector to be more selective when it invites people from the third sector to make a contribution to the agenda they have set. But equally, we insist that they do not expect more from the third sector than they would from the private sector or themselves. The public sector, in particular, may find that it needs the third sector more than ever – so it is in their interests to maintain good relationships and to continue to invest resource in the third sector where they are persuaded it can yield most benefit.

It is probably time, more so than was the case in the last decade, to work even harder to maintain and build on the good relationships that already exist between sectors. This might involve a lot of 'grown up' conversations, demanding a fair bit of give and take on all sides. To help those conversations, we have tried in this report to clear away some of the debris which can interfere with proper dialogue. We hope that we have offered some thoughts to help TSOs decide when they need to get involved in some debates, but not others – depending upon where they are positioned in relation to opportunities. The last thing we want is for our evidence and argument to be used as a cause for complaint – we think it should be used as a call to action: action with realistic and beneficial outcomes.

8 References

- Alcock, P. (2010) 'A strategic unity defining the third sector in the UK', *Voluntary Sector Review*, 1:1, 5-24.
- Bell, V., Robinson, F., Chapman, T., van der Graaf, P., Shaw, S., Brown, J. and Chinaka, G. (2010) *Forearmed with Foresight: speculations on the future development of the third sector in North East England and Cumbria*, Newcastle: Northern Rock Foundation, October.
- Chapman, T. Robinson, F., Brown, J. Ford, C., Shaw, S. Crow, R. and Bailey, E. (2009) *A Mosaic, Jigsaw or Abstract: getting a big picture perspective on the Third Sector in North East England and Cumbria*, Newcastle: Northern Rock Foundation, June.
- Chapman, T., Brown, J., Ford, C. and Baxter, E. (2010c) 'Trouble with champions: local public sector – third sector partnerships and the future prospects for collaborative governance in the UK', *Policy Studies*, Vol. 30, No,6, pp. 613-630.
- Chapman, T., Robinson, F., Brown, J., Crow, R., Bell, V. and Bailey, E. (2010b) *What makes third sector organisations tick? Interactions of foresight, enterprise, capability and impact*, Newcastle: Northern Rock Foundation, February.
- Chapman, T., van der Graaf, P., Bell, V., Robinson, F. And Crow, R. (2010a) *Keeping the Show on the Road: a survey of dynamics and change amongst third sector organisations in North East England and Cumbria*, Newcastle: Northern Rock Foundation, October.
- Evers, A. and Laville, J.L. (2004) 'Defining the third sector in Europe', in: A. Evers and J.L. Laville (eds.) *The Third Sector in Europe*, Cheltenham: Edward Elgar., pp 11-44.
- Kane, D. and Mohan, J. (2010a) *Mapping Registered Third Sector Organisations in the North East*, Newcastle: Northern Rock Foundation, October.
- Kane, D. and Mohan, J. (2010b) *Mapping Registered Third Sector Organisations in Cumbria*, Newcastle: Northern Rock Foundation, October.
- Mohan, J., Rajme, F.G. and Kane, D. (2011b) *Paid Work and Volunteering in the Third Sector in North East England*, Newcastle: Northern Rock Foundation, February.
- Mohan, J., Rajme, F.G. and Kane, D. (2011b) *Paid Work and Volunteering in the Third Sector in Cumbria*, Newcastle: Northern Rock Foundation, February.
- Mohan, J., Kane, D., Wilding, K. Branson, J. and Owles, F. (2010) *Beyond 'Flat Earth' Maps of the Third Sector*, Newcastle: Northern Rock Foundation, February.
- Office for Civil Society (2010a) *Building a Stronger Civil Society: a strategy for voluntary and community groups, charities and social enterprises*, London: Cabinet Office.
- Office for Civil Society (2010b) *Better Together: preparing for local spending cuts to the voluntary, community and social enterprise sector*, London: Cabinet Office.
- Office for Civil Society (2010c) *Exposure of the voluntary, community and social enterprise sector to cuts in public funding*, London: Cabinet Office.



The Old Chapel, Woodbine Road
Gosforth, Newcastle upon Tyne NE3 1DD

Tel: 0191 284 8412

Fax: 0191 284 8413

Minicom: 0191 284 5411

Email: generaloffice@nr-foundation.org.uk

Website: www.nr-foundation.org.uk

Charity Commissioners' Reference Number
1063906