

Third Sector Futures Dialogues

Big Picture Paper 4

Is the third sector being overwhelmed by the state and the market?

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"My personal view is that some charities have become dependent on the state. And I think that most members of the public, when asked, would say a charity is an organisation funded from private donations, not public funds."

(William Shawcross, Chair of Charity Commission, 29 November 2012)

"Delivering public services for beneficiaries on contract does not make charities dependent, nor need it mean mission drift... The notion that these organisations are dependent little satrapies is ludicrous."

(Sir Stephen Bubb, CEO of ACEVO, 5 December 2012)

This exchange of views between William Shawcross and Stephen Bubb reignited a longstanding debate over the place of third sector organisations (TSOs) in the welfare system. This is not simply a matter of the rightful boundary (artificial or otherwise) between state and third sector. The new public management reforms of the 1980s and 90s saw the marketisation of state welfare services in the UK, initially through the development of internal markets and later, particularly under New Labour, through the competitive tendering of welfare services to private and third sector organisations. We are thus faced with two interrelated (although theoretically distinct) dynamic processes through which the changing nature of the state impacts upon the third sector – the marketisation of the welfare state and the privatisation of welfare

services. By marketisation we mean the process of entering into, participating in, or introducing market competition in service delivery. By privatisation we mean the transfer of ownership or delivery of state services to private (including third) sector organisations. Together these processes have changed the relationship between government and (some parts of) the third sector via the introduction of procurement and performance measurement strategies.

The third sector is also influenced more directly by the wider permeation of market based ideologies in society. In addition to TSOs entering markets to deliver public contracts, increasing attention has been paid to the adoption of private sector organisational structures, management practices and ways of thinking and behaving, alongside a developing trend of replacing private donations and grants with revenue derived from the sale of goods and services ([WP 69](#)).

This paper explores the politics of marketisation and the third sector. It draws on quantitative evidence collated by TSRC to understand the extent to which the third sector relies upon financial resources from the state and market, and on qualitative research exploring the consequences for TSOs of dimensions of privatisation and marketisation.

The politics of the third sector and marketisation

The role of TSOs in service delivery and marketisation of the third sector has not been wholly welcomed. For example, at a recent seminar co-organised by TSRC, Andy Benson of the National Coalition for Independent Action (NCIA) set out what could be described as the 'old left' position whereby public services should be funded through taxation and delivered by government agencies. The role of TSOs should be to hold the state to account, develop new services and persuade the state to take over the delivery of these services.

To some extent therefore the dividing lines are political and ideological. But this is not simply a matter of (old) left versus (new) right. For instance, in the UK much of the social enterprise agenda was driven by those on the left, particularly from within the co-operative movement. Thus on the left there is a split between those favouring state provision of welfare services and a modernising 'third way' position which attempts to marry the dynamism of markets with social democracy. Similarly some on the right have long adopted a position not dissimilar to that of NCIA, with influential neoliberal think tanks such as the Institute for Economic Affairs claiming that "*many charities have become little more than government subcontractors, charging fees to provide services... very few charities now offer any real alternative to the statutory approach*". On the other hand Big Society policy rhetoric envisions a significant role for TSOs in the delivery of public services ([WP 82](#)).

What can we learn from quantitative data?

Drawing on data from the 2008 National Survey of Third Sector Organisations (NSTSO), TSRC researchers have estimated that 36% of third sector organisations received some public money – either from central or national government ([WP 45](#)). Fourteen percent of third sector organisations regarded statutory funding as their most important

source of income. Larger organisations were more likely to receive some public funding.

Separate analysis of the NSTSO data found that 28% of organisations received 'earned' income through contracts or trading ([WP 43](#)). However if membership fees or subscriptions are included as commercial income, this figure rises to 56% of the organisations surveyed.

It is not possible to tell how much income comes from a particular source using the NSTSO data. However analysis of a sample of charity accounts, collected by TSRC in partnership with NCVO, suggests that around 79% of statutory income received by charities is of a commercial nature (fees for service or payments for contracted services). This analysis, reported in the NCVO UK Civil Society Almanac, estimates that 38% of charities' total income comes from statutory sources. 55% of total income comes from commercial sources - over half of this is commercial income from statutory sources.

Clearly the state as primary funder has considerable influence over the third sector. At present neither the NSTSO data nor the analysis of charity accounts permit longitudinal analysis (although this will become possible in the future). However, TSRC analysis ([WP 69](#)) shows that commercial revenue became gradually more important to general charities between 2000 and 2008, rising from around 40 to 49% of total income, and that commercial revenue is a partial replacement for grants and donations.

It is important to remember of course that most third sector organisations receive little or no money from government or commercial types of revenue if membership fees and subscriptions are excluded. Nevertheless it would appear that the state and market are having a growing influence over the third sector, at least as measured quantitatively through revenue sources. The trends suggest that the largest TSOs are becoming increasingly reliant on statutory and/or commercial revenue. So what does this mean at the level of organisational practice for TSOs?

What can we learn from qualitative research?

Innovation

Innovation is widely held to involve the development of new (or existing) solutions to (new or) existing markets, with social enterprises playing a key role here. But innovation involves a complex set of processes which provides both benefits and challenges to TSOs ([WP 83](#)). It has been argued that exposing TSOs to market principles will unleash their innovative capacity. TSRC research into homelessness service providers suggests that innovation is a key value for some TSOs contracting with the state ([WP 41](#)). However TSRC research also shows that reliance on highly specified government contracts might adversely impact on TSOs capacity to innovate ([WP 83](#), [WP 92](#)). Questions remain as to how governments might seek to utilise the innovativeness of TSOs approaches to tackling social problems without at the same time constraining that same innovation.

Competition and collaboration

The third sector has previously been portrayed as being different to the private sector through a collaborative approach to problem solving. Exposure to markets is likely to change the ways in which TSOs collaborate. It is possible to identify two fairly distinct stages in the third sectors exposure to public services markets. A first stage saw TSOs drawn into competition with each other as niche providers of services, but remaining relatively shielded from competition with the private sector, through programmes such as Supporting People. Research by Heather Buckingham into Supporting People and homelessness service providers suggested that competition between TSOs was deemed detrimental to co-operative inter-organisational relationships. Buckingham raised the question as to whether *the distinctive characteristics of TSOs and the relationships between them might be undermined, particularly in providing for vulnerable social groups*.

Evidence from TSRC's research into the work programme ([WP 92](#)), however, suggests these lessons have not been learned. Indeed whereas under Supporting People, homelessness service providers were largely shielded from exposure to competition with private sector providers, under

the work programme third sector providers were given no special treatment (despite some of the rhetoric involved). Thus the changing mechanisms through which the third sector is drawn into the delivery of privatised welfare crucially represents the culmination of a shift from niche provision - in which TSOs' specialist skills were valued and resourced - to a single generic programme for all benefit groups – in which TSOs are treated merely as alternative providers.

The Public Services (Social Value) Act which comes into force this year may have some limited impact on this through the requirement that public authorities consider wider social value when commissioning public services contracts. However TSOs should not be too optimistic here. The original bill aimed to provide preferential treatment for TSOs, but this was substantially watered down in the final legislation, which does little more than 'nudge' commissioners to consider social value.

Mission drift?

Mission drift is a potential problem for TSOs engaging in service delivery ([WP 20](#)). TSRC's research on employment services raises concerns that those TSOs which are able to successfully engage are influenced by powerful isomorphic pressures, into working in similar ways, and delivering similar interventions to organisations from the private sector in particular. For instance, *gaming behaviour* remains endemic whereby TSOs are drawn into creaming off those clients easiest to place into employment and avoiding or 'parking' those deemed too expensive to place into the labour market ([WP 92](#)).

Mission drift might also be a problem for TSOs engaging in the sale of goods and services to non-state actors. While this type of social enterprise activity may allow TSOs greater autonomy from the state, the need to make a surplus exerts different pressures on organisational value and practices ([WP 50](#)). Many social enterprises find that financial and social goals are misaligned, or indeed diametrically opposed. A popular claim from 'social entrepreneurs' is that organisations have to be tough by prioritising sales at the expense of social goals to protect the long term needs of their organisations ([WP 5](#)).

However TSOs often display considerable agency and creativity when negotiating tensions between

social and economic objectives. They may be able to adapt to, or even shape, the unwritten rules of the game by positioning themselves as different entities to different stakeholders in order to access a wide range of resources ([WP 23](#)). Evidence from TSRC's research into housing organisations ([Report 88](#)) shows that TSOs may be able to strategically deploy different combinations of resources such as social mission, trust, reputation, charitable income, commercial revenue and voluntary effort in order to engage in markets while avoiding erosion of third sector identities ([Report 53](#) and [Report 54](#)). While little is known about the longer term implications of negotiating hybrid entities for TSOs, TSRCs longitudinal Real Times study is beginning to address this question.

Concluding thoughts

The third sector is often depicted as occupying a space between (and sometimes overlapping with) the state and the market. This 'tension field' has been widely recognised for some time, and it would be wrong, therefore, to suggest the third sector is suddenly now being overwhelmed by the state and the market. Although a relatively small number of very large TSOs rely heavily on government funding and/ or revenue from the sale of goods and services, most TSOs receive little or no funding from these sources. Nevertheless there has been an increase in state funding in the new century, particularly through contracts. There has also been a rise in the sales of goods and services to other customers. These revenue streams now constitute over half of the sector's income. So are there any broader implications from this for TSOs?

Engagement in the contracting process may hamper TSOs innovative capacity as they become delivery agents for programmes developed by government officials. However it might also be argued that by engaging with markets TSOs can unleash their full innovative capacity and compete with private commercial providers to deliver services with a social mission. But competition is a double edged sword which may undermine the collaborative approach taken

by TSOs to achieving social goals. Moreover when entering competition with private companies, as in the Work programme, TSOs have not fared well.

Competition with private providers, also often involves mimicking the gaming behaviour of private firms and the compromise of social goals. From the perspective of government, TSOs can appear a cheaper alternative to private firms due to their ability to draw upon a hybrid range of resources. However it remains unclear as to whether volunteers and donors will remain willing to contribute to TSOs which become more like private firms. Perhaps a split is emerging within the third sector which sees some organisations increasingly relying on sales of goods and services to deliver activities specified by the state and/or funded through the market; and a wider third sector which relies on the contribution of private donations and voluntary effort. These dynamics add to the sense that the 'sector' is a rather a fragmented collection or alliance of groups and organisations ([WP 89](#)).

What is more, considerable work still needs to be done to understand the relationship of the third sector with the state and the market, and to challenge the rhetoric of 'overwhelming'. Many of the welfare services now being privatised and marketised were originally delivered by the third sector and were scaled up as a consequence of their adoption by government. Similarly the third sector has historically played a role in the development of the market as can be seen from the pioneers of the co-operative movement. It could be argued that more recent innovations such as the movement towards co-production of services or the campaign by TSOs such as Fairer Tax to persuade multinational companies such as Starbucks to recognise their social obligations reflect the third sector's current influence upon the state and market. Future research might begin to explore the qualitative and quantitative dimensions of the third sector upon the state and market both in resisting marketisation and privatisation, and also in creating a more socially cohesive society.

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