Capturing diversity: a typology of third sector organisations’ responses to contracting based on empirical evidence from homelessness services

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From 1997 to 2010, successive New Labour governments presided over significant increases in both the funding and regulation of third sector organisations (TSOs) and in the contracting-out of service provision responsibilities to TSOs across a wide range of policy areas. This was accompanied by the more widespread use of competitive tendering to allocate these contracts and a greater emphasis on monitoring the outcomes achieved by providers. The funding and policy environment in which TSOs operate was thus radically altered under New Labour, but the effects of these changes have been far from uniform across the third sector. Early indications suggest that the Coalition government’s Big Society agenda will entail the delegation of still more public service provision responsibilities to TSOs and other community-based actors, and as such it is vital that the strengths, weaknesses and particular capacities or niche roles of different organisations are identified and understood, not only by policy-makers and commissioners, but also by the third sector practitioners who will be required to re-negotiate their organisations’ roles and relationships as the policy and funding environment is further re-worked.

The impacts of changing state-third sector relations have become the focus of a growing body of academic research, and there has been much discussion about the potential erosion of TSOs’ autonomy, distinctiveness, and ability to engage with local communities, for example (e.g. Wolch, 1990; Fyfe and Milligan, 2003; Osborne and McLaughlin, 2004; Cairns et al., 2005). These issues are highly relevant to the organisations and processes studied as part of this research, but this paper is primarily concerned with capturing the variation in TSO responses to contracting. Previous work on this theme has highlighted the potential for bifurcation between TSOs that are involved in government contracts and therefore relatively well-resourced and professionalised, and those that are independent of the state and reliant on volunteers and donations (e.g. Knight, 1993; Fyfe and Milligan, 2003). However, Milligan and Fyfe’s (2005) research on TSOs in Glasgow suggested that, although it was in some respects useful, the distinction between so-called ‘grass-roots’ and ‘corporatist’ TSOs (see also: Brown et al., 2000) was an oversimplification of a far more complex reality.

Given the diversity of the third sector, it is perhaps unsurprising that TSOs exhibit divergent responses to policy and funding changes. However, this variation points to the need for a more nuanced conceptual framework that allows us to better capture the complexity and variety of TSOs’ experiences, and enables both academics and policy makers to communicate more accurately about the characteristics, strengths and limitations of different types of TSOs. This paper presents a typology of TSO responses to contracting, based on empirical research involving 20 organisations that provided services for single homeless people in Southampton and Hampshire,
in South East England. Whilst it is not suggested that a typology derived from this limited evidence base will necessarily be transferable to other locations or fields of activity, the typology resonates with the findings of previous third sector studies, and may therefore serve as a useful tool for reflection or conceptual development in other contexts.

The paper briefly describes the empirical study and then presents the typology, providing a short description of each of the four ‘ideal types’ that comprise it. The accompanying working paper offers a fuller review of previous work in this area, as well as more detailed information about the case study and further discussion of the typology and its implications for policy and theory.

**Background**

The empirical research upon which the paper is based sought to explore the impacts of contracting – and the tendering and monitoring processes in particular – on TSOs providing services for single homeless people in Southampton and Hampshire, two local authorities in South East England. A combination of qualitative and quantitative methods was used. The qualitative research comprised 26 semi-structured interviews. These were conducted in 2007/08, and the interviewees included representatives of 20 service-providing TSOs, as well as the manager of a local infrastructure TSO and two local government representatives who were involved in commissioning homelessness services. Quantitative data from annual reports and other documentary sources were used to categorise the TSOs according to characteristics such as annual income, income sources, and volunteer involvement.

The quantitative data reveal something of the diversity of the TSOs involved in the study: the organisations’ annual incomes ranged from less than £20,000 to over £100,000,000, for instance. There was also considerable variation in the extent to which the organisations relied on income from government contracts. These differences partly reflected the different types of services that the organisations were providing, which ranged from soup kitchens and drop-in meals services, to day centres, night-shelters, hostels and move-on accommodation. Diversity with regard to the impacts of contracting also quickly became apparent from the evidence gathered, and this led to the need for and subsequent development of a typology in order to make sense of the data and communicate the findings effectively.

The Supporting People programme, introduced in 2003, was the main source of government funding for the majority of the TSOs studied, and as such, the impacts of this programme were a key focus of the research. In both local authorities, the number of homelessness services and providers contracted by local government was being rationalised significantly, partly due to the need to reduce costs (larger contracts were deemed to be more cost effective) but also because of the need to better co-ordinate provision in order to make the previously complex network of services easier for homeless people to navigate. The tendering and quality measurement processes introduced as part of the Supporting People programme were having significant implications for many of the TSOs studied: however, not all the TSOs were involved in contracting, and those that were had experienced and responded to it in different ways. In view of this, the typology presented below provides a framework through which this diversity can be conceptualised, allowing a more nuanced and carefully differentiated narrative to be presented and thereby giving voice to the differing experiences of different types of TSO.

**A typology of TSO responses to contracting**

The organisations in the study were classified into four types according to their characteristics and their experiences of and responses to the contracting processes described above: Comfortable Contractors, Compliant Contractors, Cautious Contractors, and Community-based Non-contractors. These types were derived from analysis of both the interview data and the quantitative data about TSOs’ characteristics. In many cases TSOs with similar characteristics exhibited similar responses to contracting, but where there was a discrepancy between them, the response took precedence in determining an organisation’s type.

The typology is inductive or ‘grounded’ in the sense that it is derived from analysis of the empirical data, but it is also (inevitably) an
abstraction or simplification of a more complex reality and some of the organisations studied departed from the characteristics associated with their ‘types’ in certain respects.

**Type 1: Comfortable Contractors**

This group consisted of providers that were either housing associations or had de-merged from housing associations in order to specialise in support services for vulnerable client groups. They operated at a regional to national scale and did not involve volunteers in service provision, nor did they have any voluntary income. Being competitive, innovative, cost-efficient and entrepreneurial were key values for Comfortable Contractors, and establishing a good reputation and brand image were cited as very important by providers of this type. These values (and the practices that ensued from them) corresponded closely with local governments' need to reduce costs and maximize value for money and meant that these organisations were relatively well prepared for competitive tendering. The Comfortable Contractors tended to have had more business-like practices in place prior to the introduction of the Supporting People programme and were therefore able to achieve the specified standards and implement processes for monitoring outcomes relatively easily in response to government requirements. Of all the types, the Comfortable Contractors experienced the least friction or difficulty in participating in competitive tendering and complying with contractual obligations.

**Type 2: Compliant Contractors**

The Compliant Contractors had typically originated as local homelessness charities. Most had significantly expanded since their origin and provided a variety of services to homeless (and sometimes other) clients. They were mainly regional level providers, and all were heavily dependent on government contracts for their income. All relied almost entirely on paid staff and had become increasingly professionalised in response to the higher standards being required by government contracts. In order to compete for and comply with government contracts these organisations had moved towards the more business-like quality measurement practices and market-oriented values that characterized the Comfortable Contractors. They had embraced the emphasis on ‘move-on’ and independence promoted by New Labour governments, perceiving it to be more progressive than simply supporting homeless people’s survival. Some managers of these Compliant Contractor organisations identified tensions between their organisation’s values and goals, and the requirements of the contracting process, but because of financial dependency, felt they had little choice but to comply with government demands.

**Type 3: Cautious Contractors**

The ‘Cautious Contractors’ were involved in state funding contracts but also received a significant proportion of their income from voluntary donations. All involved volunteers in some way, although they relied mainly on paid staff for the direct provision of services. Some were quite professionalised in their operation, but for others – particularly the smaller, localised providers – meeting the standards required by government funders had been much more difficult. These organisations tended to attach greater importance to maintaining and enacting their ethos or values, which in most cases were based on the Christian faith. Managers suggested that to some extent their organisations’ values could be expressed within the conditions set out in government contracts, but there were occasions when their values brought them into conflict with commissioners. In contrast to the Compliant Contractors, the values-based tensions that arose in these organisations were more likely to prompt efforts to uphold the organisations’ ethos and the ability of these organisations to secure voluntary resources, particularly through faith communities, played a key part in enabling them to retain some autonomy and continue to pursue their own values. Cautious Contractor organisations seemed to experience the greatest tensions of all the types because they had to satisfy the standards and practices required by government funders, whilst trying to remain faithful to their often faith-based organisational values and maintain the support of volunteers and donors (see also: Ebaugh et al., 2005; Cloke et al., 2007).
Type 4: Community-based Non-contractors

These organisations differed significantly from the other types in that they were not involved in government contracts at all. With one exception, the types of services they offered would not in any case have been eligible for contractual funding: they included providing cooked meals in a church hall on a weekly basis, and redistributing donated food and clothing, for example. These organisations were resourced entirely by voluntary donations and were staffed mainly by volunteers (some employed a very small number of paid staff). All but one of these Community-based Non-contractors were faith-based and had strong links with local churches. The providers placed a strong emphasis on offering acceptance to service users and building relationships with them, in addition to providing a practical service. The more informal nature of these services and the involvement of volunteers seemed to contribute to the construction of a social environment that was valued and appreciated by service users. However, these services generally operated for very limited time periods each week: some volunteers met up with service users outside of the project hours, but providers acknowledged that there were limits to what could be achieved with the available resources and expertise. As such, although these organisations were not restricted by contractual obligations and were arguably the most embedded within local communities, time and resource constraints meant that they were not able to provide as much help to as many people as they would have liked to (see also Smith and Sosin, 2001).

Conclusion

This paper has highlighted the differential impact that New Labour’s reworking of the funding and policy environment had on homelessness TSOs. The ways in which the policies of the Coalition government will influence this environment – and the implications this will have for the organisations operating within it – remain to be seen. The Big Society agenda certainly suggests that the involvement of TSOs and other civil society actors in public service provision will continue to increase, and the typology presented here draws attention to the need for the specific strengths and limitations of different segments of this diverse sector to be taken into account when developing policy interventions, directing resources, and assigning responsibilities to the organisations within it.

TSOs capacities will to some extent depend on the resources and support made available to them, of course. The strong dependence on government funding of homelessness TSOs providing accommodation-related services suggests that these organisations – and consequently the individuals they serve – will be very vulnerable to cuts in public expenditure.

Early indications suggest that there will be a transition towards a system of payment-by-results for some public services. Politicians have suggested that this might remove some of the bureaucracy involved in government contracts, but while this was certainly problematic for the smaller Cautious Contractors, it is difficult to see how these organisations would acquire the resources to provide services if payment were to be made in arrears. Compliant Contractors would likely encounter similar problems because government contracts are their main source of income and as charities they have limited reserves.

The Coalition government has high aspirations for what the ‘Big Society’ could achieve, but as yet there has been little political acknowledgement of the varying capabilities, limitations and niche roles of the different types of organisations that might contribute to it. If these aspirations are to be realised, it will be vitally important that the capacities of these different actors to meet the expectations being made of them are carefully considered by policy makers in the allocation of responsibilities and resources within the Big Society.