



ESRC

ESRC Seminar Series

Mapping the public policy landscape

The third sector – discussions around key public policy issues



Foreword

The third sector is made up of organisations which are constituted for social purpose, principally non-profit distributing and independent of Government. It consists of voluntary organisations, community groups and social enterprises alongside some mutuals and co-operatives.



The Scottish Government has identified what it describes as a real role for the third sector in delivering its purpose of creating a more successful country with opportunities for all of Scotland to flourish through sustainable economic growth. And to create the environment in which an enterprising third sector can thrive, it is providing funding of £93.6million over the three years to 2011.

Indeed, all administrations in the UK place a lot of faith in the ability of the third sector to innovate, particularly when it comes to delivering services to hard-to-reach groups. But how does all this work – and how effective is it in practice?

When such organisations are increasingly challenged to compete for contracts, is there any evidence that their innovative qualities are actually bearing fruit? And with the UK now being hit hard by the global recession, what are the implications for the third sector, and its role in this context?

With questions such as these in mind, the ESRC, in collaboration with the Scottish Council for Voluntary Organisations (SCVO) and with support from the Scottish Government, organised a series of three seminars in Edinburgh, which drew together a wide range of third sector practitioners and leading academics in the field. This booklet summarises insights from the key presentations and discussions which took place during this timely programme of events.

Several contributors lead the new Centre for Charitable Giving and Philanthropy (CGAP), which links researchers in five universities in England and Scotland with the National Council for Voluntary Organisations (NCVO), and has funding totalling £2.2million over five years from ESRC, the Scottish Government, the UK Government's Office of the Third Sector (OTS) and Carnegie UK Trust.

CGAP, whose Scottish launch was in February 2009, will work, among others, with the major new Third Sector Research Centre (TSRC). Hosted at the University of Birmingham, TSRC has £10.25million funding over five years from ESRC, the OTS and the Barrow Cadbury Trust, and an agenda and programme again rooted in close collaboration with key voluntary sector agencies.

Issues around the role of the third sector in the provision of public services is just one of the latest topics in the ESRC's Public Policy Seminar Series, in which we present independent research in key policy areas to potential users in Government, politics, the media and the private and voluntary sectors.

We see such activities as an opportunity to establish further dialogue with those who use our research, and we welcome any subsequent contact.

A handwritten signature in black ink, appearing to read 'Ian Diamond'.

Professor Ian Diamond AcSS
Chief Executive, Economic and Social Research Council



The researchers

DR SUSAN BAINES is Reader in Social Policy in the Research Institute for Health and Social Change at Manchester Metropolitan University (MMU). She has a longstanding interest in the intersection of paid and unpaid work in the contexts of household, community and business. More recent work has focused on the modernisation of public services and the role of the third sector. Her research with Professor Irene Hardill, of Nottingham Trent University and Rob Wilson, of the University of Newcastle, on volunteering and welfare service provision, has prompted a seminar series *Re-mixing the economy of welfare: what is emerging beyond the market and the state?* funded by ESRC (2009-10).

DR PHILOMENA DE LIMA is Director of the Centre for Remote and Rural Studies, University of the Highlands and Islands. She has been actively involved in researching rural issues related to social and public policy development in Scotland, focusing in particular on social exclusion, minorities and equalities, and has published widely on these topics. Her current portfolio includes appointments with Carnegie UK Trust Rural Action Research Programme; Carnegie UK Trust Enquiry into Civil Society, Scottish Agricultural College Rural Development Council, and Scottish Funding Council Public Policy Action Group.

PROFESSOR JENNY HARROW is Professor of Voluntary Sector Management at Cass Business School, City University London. With a strong emphasis on practice-based and collaborative research, she focuses on Government and third sector relations, regulation, trusteeship and grant-making. She is Co-Director of the Centre for Charitable Giving and Philanthropy (CGaP), funded by ESRC, the Office of the Third Sector, Carnegie UK Trust and the Scottish Government, and involving the NCVO and researchers at five universities in England and Scotland.

PROFESSOR STEPHEN P OSBORNE is Professor of International Public Management and Director of the Centre for Public Services Research at the University of Edinburgh Business School. He has researched voluntary action in the UK since 1990, including sustainability, co-production and innovation. Recent work includes a longitudinal study of voluntary organisations in innovation in public services, under the ESRC Public Services Programme. As Associate Director of CCGAP, he is responsible for its work in Scotland, and scientific dissemination of findings.

DR ELEANOR SHAW is Reader and Director of the Honours Marketing Programme at Strathclyde Business School, where she also leads the Entrepreneurial Philanthropy Research Group in the Hunter Centre for Entrepreneurship. Her research interests concentrate on entrepreneurial networks, social capital, gender, creative industries, small firms, social enterprises and entrepreneurial philanthropy. She was a key contributor to an ESRC-funded project exploring the relationship and dynamics between bank lending officers and small business owners. An investigator for CGaP, she is responsible for the Strathclyde programme of research into individual and corporate giving, principally entrepreneurial philanthropy.

DR STEPHEN SINCLAIR is Deputy Director of the Scottish Poverty Information Unit at Glasgow Caledonian University, leading work on the themes of 'public understanding of poverty' and 'tackling poverty: work and welfare'. Previously he was a principal research officer in the Scottish Executive, and a senior lecturer in social policy at Anglia Ruskin University. His research interests include social inclusion, deprivation and poverty; and public administration, governance and community planning.

GEOFF WHITTAM is Reader in entrepreneurship at the Enterprise Research Centre in the Business School of the University of the West of Scotland. His main research interests are small and medium enterprises (SMEs) and economic development – areas in which he has published widely. Geoff's current research focuses on the informal venture capital market and community buy-outs in the Highlands and Islands of Scotland.

Executive Summary

Introduction

Firstly in this booklet we focus on co-planning and co-production – economic terms for the mechanism by which users, neighbourhoods and communities are involved in the design and delivery of their own public services, often through voluntary sector organisations (VSOs).

These ideas have gained a higher profile since the 2007 Scottish election, as regards the role of Community Planning Partnerships (CPPs) in making decisions about the delivery of local priorities.

Key drivers for this include the shift towards outcome-based delivery – encapsulated in the Concordat of 2007-08 between the Scottish Government and the Convention of Scottish Local Authorities (CoSLA), to ensure inclusion of the third sector in Single Outcome Agreements produced by all 32 council areas of Scotland.

In addition, formal CPPs have been established since 2003, along with a renewed 'localism' or enhanced devolution of power to local authorities in Scottish politics.

At a strategic level, through its intermediary networks, the third sector has responded to all this in a number of ways – the most significant being a joint task group involving CoSLA, SCVO, The Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Scottish Government, designed to enhance the sector's meaningful role in co-planning and delivering local public services.

In the first of the seminars, each introduced by SCVO's Head of Policy and Research Department, Ruchir Shah, Professor Irene Hardill, Professor of Economic Geography at Nottingham Trent University, took the chair while fellow academics Dr Steven Sinclair, Geoff Whittam and Dr Susan Baines examined this new situation, and what influence the voluntary and private sectors now have in community planning.

That said, the UK is now, of course, being hit hard by the worldwide economic slow-down, with the consequent strain on household budgets, the uncertain futures of financial institutions and the housing sector, as well as growing pressures on jobs, and the ability of the country to compete in the global market place.

So next, for insights into the effects of recession on the third sector, including its role during this difficult time, we turn to Dr Philomena de Lima, Director of the Centre for Remote and Rural Studies at the University of the Highlands and Islands, and Jenny Harrow, Professor of Voluntary Sector Management at the Centre for Charity Effectiveness at Cass Business School, City University London, and Co-Director of the new £2.2million Research Centre on Charitable Giving and Philanthropy (CGAP), jointly funded by the ESRC, the Scottish Government, the Office of the Third Sector (OTS) and Carnegie UK Trust. This event was chaired by Pete Alcock, Director of the Third Sector Research Centre, based at the University of Birmingham.

Lastly, we examine the notion that third sector organisations can often be more responsive than the state to meeting local needs, as well as more innovative in the way they find solutions to difficult problems. Is this faith always justified? At a time when voluntary organisations are increasingly being challenged to compete in the market place for service delivery contracts, is there any evidence emerging in the UK that they are winning them on their ability to innovate better than other sectors? Or, are new funding arrangements in an increasingly tighter procurement and regulatory framework actually discouraging innovation?

This time, from an event chaired by Stephen Maxwell, Associate Director of SCVO, the thoughts and observations are those of Professor Stephen Osborne, of the University of Edinburgh Business School and Co-Director of CGAP, and Dr Eleanor Shaw, who is the research centre's principal investigator at Strathclyde Business School.

Key Insights and Implications

- **Dr Stephen Sinclair's** pilot study of community planning partnerships (CPPs) finds an apparent gap between public sector partners' stated willingness in principle to engage with voluntary and private participants, and practical conditions which limit the extent of the latter's influence.
 - The net effect is that while CPPs represented a more inclusive system of decision-making, it did not mark a significant shift in power among local stakeholders.
 - Voluntary and private sector representatives had more than mere presence, but were junior members of CPPs.
 - A condition of the third sector being regarded as a serious participant and exercising their voice effectively was that they accepted the terms of engagement of mainstream partners and become 'business-like'.
 - A potential paradox was that third sector groups were more likely to be taken seriously and exert influence, the more they became like the main public agencies.
- **Geoff Whittam** argues that there needs to be clarity of purpose for third sector organisations.
 - The limitation of market-based solutions needs to be acknowledged, and a full understanding of the governance structures of third sector organisations to be comprehended.
 - Sustainability should be comprehensively embraced rather than focussing on purely financial survival.
 - Social enterprises themselves need the ability to conduct full social accounting audits so that they are able to identify all the benefits that they produce, both tangible and intangible.
- **Dr Susan Baines** explains that 'co-production' involves the sharing of responsibilities and information between professionals and users, and sometimes with the user's family.
 - Co-production has two faces – continuing dependence of welfare states on unpaid services provided within the household, and expectation that services users will participate in service planning, co-ordination and evaluation.
 - Public sector agencies' expectations with regard to personal information held by VCS providers they fund can become a source of significant tension.
 - An expanded role for voluntary organisations in delivering public services demands more awareness of the diversity of the sector, and of its organisations' relationships with clients and their information.
- **Dr Philomena de Lima**, having analysed the limited data available, and talked to practitioners, tells us that whilst voluntary organisations play a vital role in rural communities, they face ongoing challenges which the economic downturn may exacerbate.
 - Particular difficulties could include responding to the needs of small numbers of individuals over a wide area, relying on limited staff resources and a small pool of volunteers, and the impact of centralisation of services.
 - There are growing concerns about providing services with diminishing funding from the public and private sectors, foundations and individual contributions, at a time when demand is likely to increase.
 - To meet the potential challenges the economic downturn may bring, a more systematic evidence base and understanding of voluntary organisations is essential so that appropriate interventions can be developed.



- **Professor Jenny Harrow** revisits *The Thistle and the Rose* – a paper she published in 2005 with Jeremy Vincent, which explored a theoretical model from Norwegian academics Kuhnle and Selle to compare perceptions of chief executives in Scottish and English VCOs of their relationships with Government.
 - She helps us to think through the policy implications of recession for various components of the Scottish third sector; using four inter-relationships defined in the Kuhnle and Selle theoretical framework – integrated and separate dependence, and integrated and separate autonomy.
 - Far less is known in research terms about the nature and extent of trusts' work in Scotland, and the special problems faced by, for example, family foundations and those with specific geographical remits, may also remain hidden; and only come to light, if at all, in a post-recession sectoral 'wash-up'.
- **Dr Eleanor Shaw** says there is much debate over what is meant by 'social innovation' – and what sort of organisation and individuals get involved in it for social gain.
 - While to be applauded, wider involvement in social innovation means that organisations face increased competition from within and outside the sector. In the current economic environment, this trend has intensified competition for resources.
 - Further challenges to innovation are posed by research suggesting that such activity has halved over the past decade, and by Government, foundation and other funding regimes which no longer regard it as a core requirement.
 - But while there are many significant challenges to innovation, these are more than matched by emerging and growing opportunities presented by radical changes in consumer, societal and technological arenas.
 - The real challenge is how to embrace new technologies and develop alternative ways of working which span boundaries and encourage charities, voluntary sector organisations and social enterprises to collaborate.
- **Professor Stephen P Osborne**, reporting on research in England, shows that innovative potential is a variable, dependent on Government policy. In 1994, it was hard to secure Government funding for any project that was *not* portrayed as innovative, whereas in 2006, it had become increasingly difficult to get support for anything that was.
 - The findings indicate that policymakers need to understand and take seriously the impact that their decisions have on the structure and activity of VCOs. At the same time, for those who manage VCOs, they are a warning that the emphasis given to innovative potential is liable to undermine other equally important capacities, such as specialist expertise.
 - 'Appropriate' innovation is essential for responsive and effective public services, but 'funding driven' innovation risks skewing the vital role that VCOs can play.
 - VCO managers need to be sensitive to the aspirations and requirements of public policy and assess what, if any, contribution they can make to public services. They must also be clear, however, about their distinctive contribution, if they have one, and whether this is innovative, developmental or specialist.

The third sector and the Scottish Government

Geoff Pope, Head of Opportunities for Growth Team in the Scottish Government Third Sector Division, outlines the wide support being provided for Scotland's voluntary organisations.

The Scottish Government has identified a real role for the third sector in delivering its purpose of creating a more successful country with opportunities for all of Scotland to flourish through sustainable economic growth. In order to create the environment in which an enterprising third sector can thrive, it is providing funding of £93.6million over the three years to 2011.

This support is aimed at both creating a supportive operating environment and at providing direct funding for those organisations that are able to deliver excellent services and develop as sustainable organisations. Much of the support for the sector was outlined in the Enterprising Third Sector Action Plan (June 2008). This provides a wide range of support to enterprising third sector organisations and can be accessed via the Enterprising Third Sector Organisations' Zone on the Scottish Government website: www.scotland.gov.uk/Topics/People/15300/enterprising-organisation

It includes the following actions aimed at helping third sector organisations develop as effective trading organisations:

- Funding **First Port**, www.firstport.org.uk to be the first port of call for emerging social entrepreneurs in Scotland, providing web resources, individually tailored advice, and an 'Exchange' service enabling social entrepreneurs to work with experienced practitioners and professionals to develop their business idea.
- A **Mentoring** programme, delivered by a consortium led by Edinburgh Chambers of Commerce and SCVO, to help third sector professionals make their organisations more enterprising and successful: www.realisementoring.org.uk/mnt/content/
- A **Capacity Building Programme**, delivered by the Council of Ethnic Minority Voluntary Sector Organisations www.cemvo.org.uk/scotland/index.asp which aims at strengthening Scotland's ethnic minority voluntary organisations and community groups, helping to modernise their systems, structures and processes and fostering their long-term sustainability.

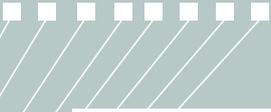


- **Aspire to Enterprise:** www.aspiretoenterprise.org.uk provides a range of business support services to social enterprises in Lowland Scotland, delivered by a consortium led by CEiS and Forth Sector. To be eligible for an average of eight days tailored support, organisations must have a turnover of £60k-£800k, with the drive and potential to increase their trading and become more sustainable social enterprises. Aspire also provides a range of free seminars, available to all, which are designed to stimulate entrepreneurial activity for future development.
- **Highlands and Islands Social Enterprise Zone:** www.hisez.co.uk. HISEZ has been contracted by Highlands and Islands Enterprise, with input from the European Regional Development Fund and the Scottish Government, to provide support for social enterprises in the Highlands and Islands. HISEZ has a team of dedicated advisers who work with organisations to identify their primary support needs, producing a plan of action and referring organisations to the most appropriate support providers. HISEZ also offers a range of training events and courses for social enterprises, on key subjects such as procurement.
- **Tender Writing Training:** The Scottish Government has funded a series of tender writing training workshops to give third sector people an understanding of the public sector commissioning process and help them write better tenders. The first two phases of this training were delivered by the Social Enterprise Academy. Phase Two consisted of six training events which were held January – June 2009. Phase three of tender writing training will be delivered from autumn 2009 to March 2011. The Scottish Government has also funded *Tendering for Public Service Contracts*. This is a step by step guide to best practice in bidding for, winning and maintaining public sector contracts.
- **Public Social Partnerships:** www.pspscotland.co.uk. The Scottish Government is funding a programme to develop ten public-social-partnerships in Scotland between 2009 and 2011 to pilot co-planning of service design and delivery involving public and third sector bodies.
- **Social Return on Investment:** www.sroiproject.org.uk. The Scottish Government has awarded a contract to a consortium led by social enterprise Forth Sector and the SROI-UK network to manage the SROI project. SROI is a way in which an organisation can look at what it does, measure the difference that activity makes to people's lives, and tell a robust story about that difference or impact. It uses financial comparators or 'proxies' to report on the impact made. The aim of the project is to develop widespread awareness and use of SROI among third sector organisations, funders, commissioners and accounting bodies.

This, and other support outlined in the Action Plan, aims to create the right environment in Scotland in which enterprising third sector organisations can thrive. It therefore helps create the conditions in which the Scottish Government's direct investment in enterprising third sector organisations can have the greatest impact. The funds are outlined below:

- The £30million **Scottish Investment Fund**, which opened for applications in September 2008, will help established Third Sector organisations secure a transformational step change in their capacity, capability and financial sustainability.
- The £12million **Third Sector Enterprise Fund** aims to help third sector organisations to become more sustainable and increase their capacity and capability. The Fund offers awards of between £25,000 to £100,000 to third sector organisations who can demonstrate how they intend to make transformational step changes to their capacity, capability and sustainability.
- £250,000 of this funding stream has been set aside for the **Credit Union Fund**, offering small grants to help credit unions work more efficiently and maximise their potential for growth – for example by developing new services and products.
- The £1million **Social Entrepreneurs Fund** has a focus on helping new businesses deliver effective, evidence-based and innovative services.





Presence or Partnership? Voluntary and Private Sector Influence in Community Planning in Scotland

Dr Stephen Sinclair, of the Scottish Poverty Information Unit, Glasgow Caledonian University, on findings from a pilot study in which he and colleagues explored the influence and experiences of voluntary and private sector representatives in a Community Planning Partnership (CPP) in Scotland.

CPPs are partnerships of public, private and third sector agencies responsible for co-ordinating local policymaking and delivery, broadly similar to Local Strategic Partnerships in England. Our project aimed to examine whether voluntary and private sector participants in CPPs were engaged in genuine partnership, or merely symbolic participation.

Using available information about the case study CPP, we built a profile of its structure and operation, an indication of its performance, and some idea of local issues. We then conducted seven interviews with a cross-section of senior figures from the public, voluntary and private sector partners, and gathered views from two representatives from the local business community and a local VSO who were not formally involved.

What the study found

It is not possible here to cover all the issues examined in the project report, but some key findings were:

Organisational ‘centrality’

All partners were regarded as *formally* equal, but in reality they were not – and it is no surprise that the local authority was seen as the central member and driving force. This was accepted as inevitable and legitimate by the others – after all, the community leadership role of the local authority is enshrined in CP legislation and guidance.

Furthermore, the local authority has a strategic centrality: it is both better able and required to devote more time and resources than other partners.

Practical requirements of daily business meant that organisations with a lead responsibility in a particular policy area focused on those partners upon whom they depend to function effectively.

Whilst public sector partners may be keen to involve voluntary and/or private sector organisations, in the end they could often operate without them, whereas they could not do so without each other.

In short, equality of formal participation between organisations in CPPs did not overcome the reality of unequal positional power or resources.

However, some partners believed that their influence in the partnership had altered over time, partly reflecting changes in their capacity to participate. One particular example was the growing involvement of third sector organisations.

Third sector partners

Representatives of voluntary organisations were perceived by those in the public sector as contributing a distinctive perspective and voice.

"I guess they bring in some ways a perspective that might be a little bit closer to some of the ultimate customers ... because in many ways they are quite close to the customers. They inevitably bring an insight into some of the delivery mechanisms."

This seems to portray the third sector as a source of consultation and feedback rather than an equal partner in policymaking.

However, third sector representatives emphasised the legitimacy and local accountability which they provided. They felt that they possessed genuine power within the CPP, and were not simply a sounding board for the ideas of others. For example, they could raise items for discussion by the executive board, and had the right to have their dissent from decisions officially recorded.

These are not negligible rights. Input to the agenda is a crucial means of influencing policy, and the right to record disagreement is a potentially significant source of leverage, as CPPs are likely to prefer consensus decision-making and be reluctant to publicise divisions.

There was no evidence that third sector input was restricted to a limited range of issues.

Nevertheless, there were important conditions attached.

A majority of interviewees commented that a requirement for non-public sector partners to be taken seriously and exercise influence was the need to be 'professional' rather than adversarial.

It was said repeatedly that VSOs had to be 'business-like' to make what were regarded as effective contributions – a view expressed also by third sector respondents themselves:

"You don't get anywhere by shouting your mouth off... if you don't work alongside them [CP partners], they don't want to listen... and I think you have got to work alongside them and be one of them, and you have got to be very professional about it."

Some from the public sector contrasted the relative professionalism of third sector representatives with local community groups and activists, some of which were regarded as confrontational, unrealistic in their expectations, and not genuinely representative of local opinion – even potential problems to be handled, rather than partners.

This requirement to be professional takes adjustment for some third sector organisations, and raises interesting issues about whether and how the distinctive identity and independence of the voluntary sector may be preserved within these partnerships.

The CPP, mainly through the local authority, had devoted considerable resources to the development of the third sector. Indeed, the level of assistance was such that the local VSO representative organisation was virtually a creation of the local authority and public sector partners.

Although this demonstrates the local authority's readiness to engage with the voluntary sector, it again raises the question of how far VSOs in this case study were genuinely independent.

Private sector partners

Local private sector organisations were less intensively involved in CPP than third sector ones, pointing out that there were few personal or business benefits to them from participating in local governance, and that the procedures involved were, in the words of one, 'bureaucratic and time consuming'.

The business sector was *involved with* CPP rather than being an *integral member*.

Setting the Agenda

Much development of policy and preparation preceding decisions took place within what were known as officers groups and thematic groups, and it was important to be represented on these.

However, third sector representatives felt they had, until recently, been denied access, and therefore had less opportunity to influence decisions.

VSO people reiterated a desire for early access to information and input to relevant papers circulated to the main board, and argued that they needed more time to digest and respond to policy issues as they did not have the management resources and support staff available to public sector representatives.

Some VSO representatives expressed concern that discussions and decisions had taken place through informal relationships between key partners, restricting their potential influence.

Mandate and legitimacy

Local partnerships challenge previous lines of accountability, and raise potential conflicts.

In our case study, we found no indication that third sector representatives challenged the leadership role of the council, nor had alternative ideas about direct democracy.

Similarly, there was no evidence of friction in relation to the right of VSOs to participate.

Nevertheless, public agencies were adamant that CPP was a means to improve policymaking, and that participation of organisations from the voluntary or private sectors should not compromise their legal responsibilities or efficiency.

Reflections and conclusions

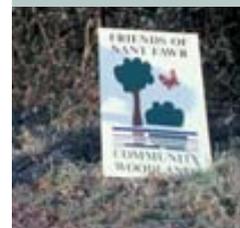
There is an apparent gap between public sector partners 'stated willingness in principle to engage with voluntary and private sector participants, and the practical conditions which limit the influence of such groups'.

The net effect is that while CPP represented a more inclusive system of decision-making, it did not mark a significant shift in power among local stakeholders.

Voluntary and private sector representatives had more than a mere presence in the CPP, but were junior members of it.

It is also interesting that a condition of third sector groups being regarded as serious and effective participants was for their representatives to be 'business-like'.

It is clear that they face a difficult juggling act – they must behave like public sector partners, while remaining responsive and accountable to a voluntary sector which may retain an outsider's orientation towards public policy.

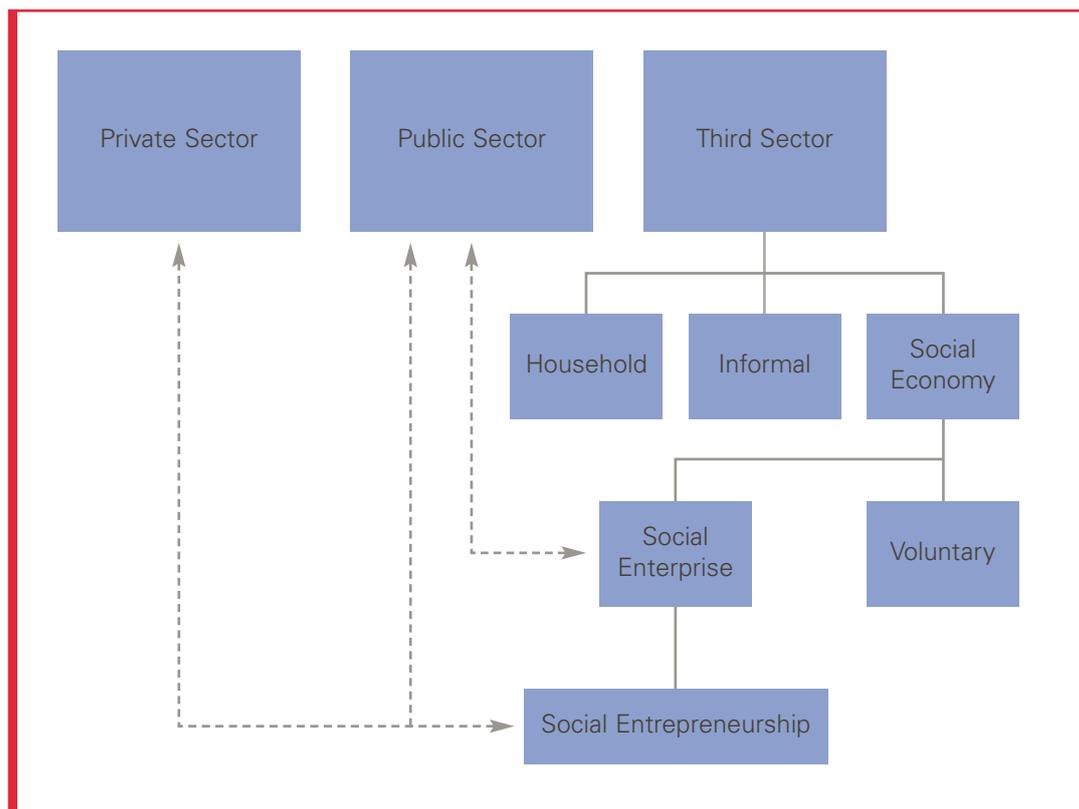


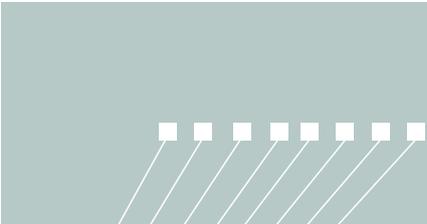
The third sector and the 'contracting out' of goods and services by local authorities – some reflective thoughts

Geoff Whittam, Reader in Entrepreneurship at the University of the West of Scotland Business School, with a critical examination based on his work with Dr Kean Birch, formerly Research Fellow at the Centre for Public Policy for Regions, University of Glasgow, and now lecturer in Human Geography at the University of Strathclyde.

There is a lack of clarity, both in the academic literature and delivery of policy, as to what exactly the 'third sector' consists of. The terms 'third sector', 'social enterprises', 'social economy', 'voluntary sector' and 'social entrepreneurs' and so on are used inter-changeably, with little thought given to the differences and meanings of these differing terms and concepts. Figure 1 (below) illustrates how these various concepts can be viewed in the wider economy:

Figure 1: The Social Economy, Social Entrepreneurship and Social Enterprises





But why, we might ask, has the concept of social enterprises become more important over the past decade?

Well, to understand this we need to examine the potential theoretical underpinnings for the promotion of 'third sector organisations'.

It could be argued that this should be seen against the back-drop of the liberalisation of markets, coinciding with the 'rolling back of the state' which has been an objective of policymakers in the UK for the past three decades, and resulted in an ever-greater array of goods and services being regarded as commodities.

Additionally, social enterprises have been encouraged to play a greater role in regeneration projects alongside the social inclusion agenda. The argument here is that, at the local level, with a 'triple bottom line' (people, planet, profit) and a democratic and accountable governance structure, social enterprises can play a part in creating much needed 'social capital' in neighbourhoods where it was deemed that regeneration was a priority. In the words of the then Department of Trade and Industry, this is about "empowering individuals and communities, encouraging the development of work habits, and increasing employment diversity." (DTI 2002).

A further rationale is the correcting of market failures. For example, "social enterprises create new goods and services and develop opportunities for markets where mainstream business cannot or will not go." (DTI 2002). In other words, mainstream businesses rely on the profit motive to provide the incentive to produce goods and services, and where this is absent they will not do so. Traditionally, this has been the rationale for state provision of certain goods and services.

The political and economic philosophy of 'liberalisation', with the re-emergence of third sector organisations, led to a 'third way' – that is, a more market-orientated approach to resolve 'market failures' that has led...

"Paradoxically, then, we are looking at the system of regulated capitalism to solve a problem that it has generated" (Blackburn and Ram 2006).

Things to think about

One of the ways attempted to promote third sector organisations in the delivery of goods and services in a more competitive market system is through a bidding process for the 'right' to do so. That is, a contestable market approach, bidding *for* the market rather than the promotion of competition *in* the market.

Whilst this approach can provide the incentive required for individual organisations to bid for contracts, there is the danger that it can lead to 'uncompetitive markets'.

The winner of the contract can achieve a 'cost' advantage over potential competitors, through being able to achieve economies of scale denied to the organisations, which have been unsuccessful. This can lead to oligopoly and/or monopoly providers of certain goods and services.

It could also be argued that promoting the model of the 'social enterprise', with a 'social entrepreneur' as the 'leader' of the organisation, can create a conflict with other social aims and objectives. The entrepreneur is 'the gate keeper' and in this role it is s/he who sets the agenda, decides the priorities, and controls the resources etc which could be in conflict with, for example, a democratic and accountable governance structure. One of the motivations of 'the entrepreneur' is to "be one's own boss" (Hisrich 1986, Caird 1991). Furthermore, this approach to promoting social enterprises can lead to:

- The breaking down of existing social capital
- The provision of opportunity for some, meaning opportunities withheld from others
- A danger that sustainability may become only financial
- Competition on cost alone, resulting in inadequate resources being secured
- Size becoming important.

Taking each of these in turn

There becomes increasing pressure on social enterprises to bid for contracts in areas where they do not have the necessary experience or expertise. For example, a mental health charity could bid for a contract to provide shelter for the homeless.

Previously, the mental health charity and the homelessness charity had a good working relationship. However, this will be put under strain if the mental health charity wins the contract. It could lead to a breakdown in the previous relationship – a loss of social capital.

With limited resources, which exist at any moment in time within any economy, the winning of a contract by one organisation means that another loses out.

The unintended consequence could be to promote inequality, particularly if there is a spatial element to the delivery of the services. With an increasing emphasis being placed on market-based activities, it could be that other items of 'the bottom line' may be ignored so that the main concern becomes financial survival.

If contracts become secured on cost alone, this could lead to inadequate resources being secured, which may mean the social enterprise having to reduce its existing costs, such as wages and salaries, in order to survive.

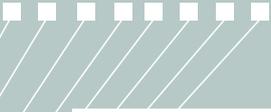
I highlighted earlier that once a contract has been won, the winner secures a cost advantage over its rivals, which can lead to a growth in the size of the winning organisation. This growth can lead to the securing of additional assets such as staff to write tender documents – resources which smaller social enterprises do not possess. It therefore becomes even more difficult for small social enterprises to compete with larger ones.

In conclusion

There needs to be clarity of purpose for third sector organisations, the limitations of market-based solutions needs to be acknowledged, and a full understanding of the governance structures of third sector organisations needs to be comprehended. Sustainability needs to be embraced comprehensively, rather than focussing on purely financial survival. And social enterprises themselves need the ability to conduct full social accounting audits, so that they are able to identify all the benefits that they produce – both tangible and intangible.

The above is based on a summary of previous research, notably Birch and Whittam (2008) The Third Sector and the Regional Development of Social Capital (Regional Studies Vol. 42.3).





Co-production and the modernisation of public service: what has it to do with the VCS?

Dr Susan Baines, Reader in Social Policy, Manchester Metropolitan University, with observations based on her long-standing interest in aspects of paid and unpaid work, as well as a series of recent research projects on the modernisation of public services and the role of the voluntary sector:

The policy context we have, certainly very much in England, is one of the modernisation and 'joining up' of our public services, against a perception that they have been fragmented, with people working in 'silos', and that this has resulted in lack of co-operation and poor quality provision.

'Co-production' involves the sharing of responsibilities and information, in both design and delivery, between professionals in the various organisations and sectors involved, the users, or consumers – and, sometimes, the families of those using the services.

Models of producer/consumer relations in public service

Command and control – In the main, services are provided by State agencies, and the users are the subjects of hierarchies and professional knowledge. Co-production may exist, but is often associated with compliance. For instance, your rubbish may be collected by the council, but you have to put your bin out to make sure that happens. If you are a student, you have to do your homework to complete the learning process. In this model, care is often undertaken within the household as part of family obligations.

Market – This model brings in notions such as 'informed choice' and excellent customer experience. Voluntary organisations can be involved in this, as part of a plurality of suppliers including the private sector, with an agenda to drive quality *up* and costs *down*. Service users in this scenario are not so much co-producers as 'customers'. In this context, there is some quite old American literature which talks of 'consumer production opportunities' leading to cost savings in areas such as community safety and planning, where local groups take on some roles from the State.

Partnership – This is what we have heard most about – 'joining up', with the formation of multi-agency teams across different parts of the public services, and increasingly including, or trying to, some voluntary sector input. In this model, who the producers are (public sector, private or voluntary) is more of a technical than ideological matter. Here, co-production is about service users working alongside professionals as active participants.

Service delivery

Delivery is provided broadly by states, markets and households. The combinations of sectors vary across time and place.

For example, the introduction of marketisation in the provision of health services meant that more expectations were transferred to the family. Developments such as the success of hospitals in the 1980s and 1990s in getting a quicker throughput of patients would tend to require more work on the part of families in looking after people who had been discharged. Whereas in the past, children with a disability or long-term illness might have stayed in hospital for lengthy periods, today nearly all, whatever their disability, spend most of their time with their family.

And in smaller and rural communities with dispersed professional services, people are more reliant on self-help and mutual support than in urban areas.

Two faces of co-production

It appears, then, that we have two faces of co-production: the continuing dependence of welfare states on unpaid services provided within the household, and the expectation that users will participate in planning, co-ordination and evaluation.

There are many variations in emphasis, but all this highlights the shared character of the production process.

So what happens when the VCS is drawn into public service delivery?

Well, joining up across statutory agencies is very much a requirement of central Government, but one which is fraught with difficulties, even within the public sector. When the VCS becomes involved, there is even more diversity – in agenda, values, expectations, funding mechanisms, capacity to participate and so on. So we find a lot of tension, with high promises, and quite a bit of misunderstanding, across and between the sectors.

As we have read earlier in this booklet, the voluntary and public sectors are said to be becoming more alike. Voluntary agencies have to be good partners, or become seen as troublesome and difficult to work with. Social enterprises and the trading arms of charities are also, it is sometimes claimed, becoming more like private sector enterprises. As a result, the categories of state, market or third sector have become blurred, and perhaps less meaningful than we might have thought.

Underlying all this is a need for collective dialogue, deliberation and information-sharing in making co-production work effectively.

Multi agency partnerships

Having given that broad background, I will move on to look at some of the work I have been involved in with local authority voluntary sector and Higher Education partners, and some of the hard issues which that has revealed.

One example is work with a project called 'Framework for Multi-agency Environments' (FAME) in England – funded from 2003 to 2006 – by the former Office of the Deputy Prime Minister, which has become the Department for Communities and Local Government.

FAME was part of the national e-government programme for local government in England. E-enabling local services in this programme was intended to make them accessible, cost effective, convenient, responsive and joined up. FAME was about partnership work and information-sharing facilitated by IT systems, and meant working closely with local authorities and service providers, including VCS organisations. I participated as part of a team from the University of Newcastle, who were academic partners in the project.

FAME involved several sites, of which I will mention just one here. It was led by Newcastle upon Tyne City Council and it aimed to improve services for children with disabilities. The project team in Newcastle made, I think, a very serious and honest attempt to include parents in designing and helping to shape a new assessment system for their disabled children.

The intention was to improve services by co-ordinating often fragmented information into a shared assessment, available to all the numerous services with which disabled children and their carers interact.

Whilst the project team worked hard to involve parents through reference groups, the responses were mixed.

Some parents were very keen:

"I want to be involved at every stage – high up not just as a tokenistic parent on a board where decisions are rubber stamped"

Others found that idea very hard – their lives were very difficult anyway, on low incomes and the high demands connected with their children:

"I don't want to get involved – I just want better services"

Some belonged to a community pressure group, of which the local authority had become suspicious, seeing them as the 'usual suspects' always saying the same things and not meeting real needs.

Other findings from 'FAME' relevant to co-production and the VCS

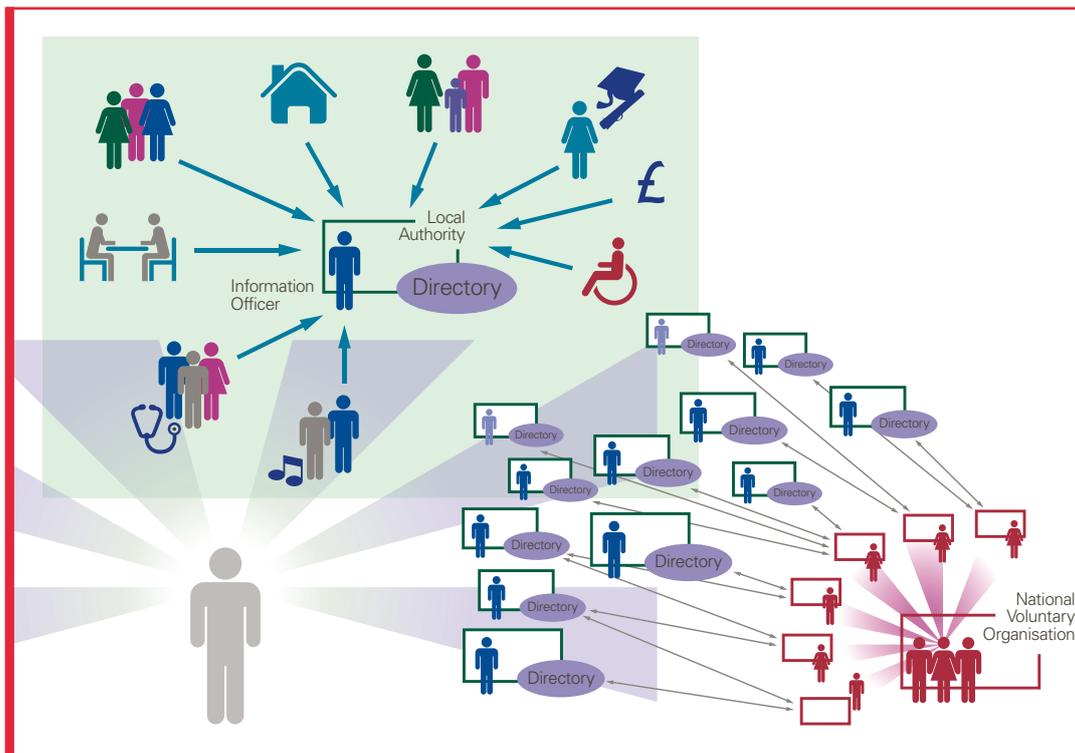
- Public sector agencies' expectations with regard to personal information held by the VCS providers they fund can become a source of significant tension. For VCS groups, the relationship with the client was a very personal one. They were likely to be trusted because they were *not* in the public sector, so the idea that information should be handed over to a local authority was deeply disturbing.
- ICT solutions were sometimes perceived as lacking the flexibility to accommodate practitioners' various and distinctive contributions to care; and
- Local agreements sometimes failed to include voluntary sector partners.

Children's service directories

The University of Newcastle team has also done some work looking at children's services directories. The Children's Services Directory Project was funded by the North East Centre of Excellence as part of its Health and Social Care workstream. It was a scoping study for developing a regional approach to providing directories of information about the services available to children, young people and their families. The aim was to identify new and different possibilities of directories in order to improve partnership working and service efficiency. In common with FAME, this project was not primarily about the voluntary sector; yet the findings highlighted once again difficult confrontations between the views of statutory agencies, voluntary agencies and service users.

Figure 2, below, shows how VCS practitioners saw them.

Figure 2: VCS perceptions of directories



Source: Walsh, S., Wilson, R., Martin, M. and Baines, S. (2008) The Chocolate Box of 'Choice' in Services for Children and Young People, presented at the NCVO/VSSN Researching the Voluntary Sector Conference, University of Warwick

The project showed clear tensions between the statutory and VCS sectors around how information about VCS services was controlled, edited and accessed.

Talking to VCS practitioners, we heard repeated complaints about numerous, time-consuming and repetitive requests from local authorities for information. They resented inaccurate portrayal of their services, which sometimes appeared in directories re-branded as local authority ones. Workers in voluntary sector organisations objected to losing 'control' of their information, which could mean loss of their identity.

The project showed clear tensions between the statutory and VCS sectors about how information about VCS services was controlled, edited and accessed, and how services and organisations were represented and branded.

Conclusions

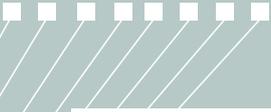
Almost all services rely on the informal co-operation of producers and consumers at the point of delivery. More recently, however, there has been growing interest in formal notions of the co-production of public services – the involvement of citizens and community or voluntary groups in producing as well as consuming public services. Expectations to incorporate service users, individually and collectively, into multi-agency teams have come in addition to, and on top of, those associated with joining up public service professionals. This brings into play questions about how services and organisations are represented, whether 'users' of public services are also users of multi-agency information systems, and indeed of whose information it is.

Policy response

Kirsten Gooday, Policy and Development Manager at Community Care Providers Scotland, spoke of a tendency to seek 'voluntary sector representation' on local groups, rather than ensuring that the right organisation was present at the right table in terms of expertise around a particular service area and the role it was hoped they would serve (advocacy, service delivery or development of social capital).

Since devolution, national voluntary organisations had tended to focus lobbying and planning at a national level, but the introduction of Single Outcome Agreements meant engaging locally. This presents challenges for national organisations as they tend to have just one or two policy staff, and are now faced with a number of local areas with which to engage.





Representation at a local level may therefore be carried out by service managers, who are not funded to do this, and who would otherwise be delivering frontline services.

Organisations which are service providers, competing for contracts and providing services in a market environment, may experience additional challenges in a partnership role as:

- In a purchaser/provider relationship, power lies clearly with the local authority, whereas in a partnership, it should be more evenly spread
- Local authorities which are used to engaging with particular voluntary organisations generally involve them late on – at the implementation rather than policy development phase. They may take time to recognise voluntary organisations as partners rather than simply providers
- The partnership relationship model looks to voluntary organisations to work together to present a united front, while the market one pits them against each other
- Partnership models also suggest a role for users at the service design stage, yet their involvement tends to be lacking in competitive tendering processes (see www.ccpScotland.org/publications/documents/retenderingsurveyfinal.pdf).

Helen Tyrrell, Director of Voluntary Health Scotland (VHS), pointed to some essential differences between community planning and community health partnerships (CHPs) in terms of third sector engagement. While the third sector is involved in the latter by statute and is part of CHP governance, on the whole, much greater progress had been made with community planning.

She explained how VHS has advised and supported the NHS over a number of years in involving the third sector locally.

Whereas much of what the local council supports is seen as a health improvement asset, the NHS, which largely responds to ill-health, takes a therapeutic or curative approach, which is at first sight less suited to involving the third sector.

Whilst the local authority is responsible for many different services, it does not consider itself to have a monopoly of understanding when it comes to people's needs and how to meet them. The NHS, however, believes that clinical health is still best delivered by the NHS, she said.

With its strong focus on outcomes, the process of planning also appeared to be less of a priority, and less inclusive, for the NHS than it was for local councils, in her view.

For a long time, the NHS had appeared relatively uninterested in the building of social capital or taking developmental approaches to health, since the evidence for the effectiveness of these approaches presented by the third sector was not compatible with that used by the NHS. However, Helen Tyrrell felt that the message had now been taken on board at national level, although similar progress was yet to be achieved locally.

Findings from Stephen Sinclair's research closely reflected the experiences of VHS, and it would be very interesting if a similar study could be conducted within CHPs.

Liz Walthew, VS Liaison Officer at The Bridge – a Council of Voluntary Service (CVS) in the Scottish Borders – said that groups such as hers work to a Scottish Government agenda of 'Thrive and Connect', though this was not mutually exclusive. The CVS was seen as having a pivotal role in linking organisations both within and outside the sector, but a 'thriving' sector was needed in order for it to do so.

With little capacity in the sector to make representations to various bodies, she had set up forums and reference groups.

When it came to involvement in community planning, she said, the sector was seen as 'different', but that did not mean they could not be equal. Unfortunately, this was not the case in practice, despite assurances and compacts.

There were issues about national organisations tendering for local contracts, often with specialist tendering departments who were able to put together slick presentations, and about voluntary organisations having to contract to deliver services whilst statutory bodies did not.

Recently, there had been a move towards collaboration between voluntary organisations, in a bid to beat private businesses and others competing for work.

There was a difference between representation and partnership, and Liz Walthew felt that genuine partnerships were sparse on the ground.

The voluntary sector had been accused of eroding the democratic process, but there was room for both elected and non-elected representation in community planning.

Voluntary sector representation was important, because it raised issues not generally brought up by the statutory partners, even if they were not always acted upon.

Despite the risk of becoming over-close to the public sector, good relations and communications with elected members and council officers, were crucial, she said.

Discussion

Important features of the seminars were opportunities for participation by all attending. A selection of comments and questions from these lively sessions are shown in italics, along with observations and answers.

The starting point of the 2003 Act did not require bureaucratic, complex systems, and what is in place is not quite recognisable as 'community'-driven. Structures matter when you realise the cost and inefficiency, and do not see the community's aspirations reflected.

Stephen Sinclair said that bureaucracy was there at the start, because councils began with what they had.

Community planning has changed the agenda by requiring partnership with other organisations, and concerns are often dictated by who the partners are, and their interests. Community safety features a lot because health agencies and the police have something to say about it. Partners will always focus on this overlap because their job is to improve services in their remit, and CPP is a means to this end.

He said that councils saw CPP as making areas such as health democratically accountable in a way which they were not before.

The third sector had to show its distinctive contribution to the public sector; since it needed public investment. This was potentially a vicious or a virtuous circle, depending on the individuals involved.

He concluded that most partners were still in favour of CPPs, despite all the problems.

How could the commissioning process get clever at picking out the benefits?

Geoff Whittam thought that the whole third sector could be more involved in public sector procurement. It needed more engagement on an ongoing basis, and there was a need to play up added value, and have it illustrated.

In England, Children's Trusts have been created, which bring together all services for children and young people in an area, but there is no parallel in Scotland. Has their existence affected processes in England?

Susan Baines had found that whilst child trust status had gained publicity and been some help, it did not solve every problem. All the same tensions continued as before.

The collective memory is awful: we have forgotten that the 1960s saw the rollout of meals on wheels and child protection registers from the voluntary sector. In the 1970s, Bailey wrote that there was not co-production, but that production happened almost entirely in the family, with occasional input from other bodies.

On the division of labour, it is often very helpful to have someone responsible who gets on and does things: you do not want discussions about bin collections, just the rubbish picked up. There is a trend towards micromanagement and ignoring expertise.

If you are not involving service users, you'll get services wrong even at basic levels – eg when councils impose fortnightly rubbish collection. This shows the importance of designing the tendering process for contracts.

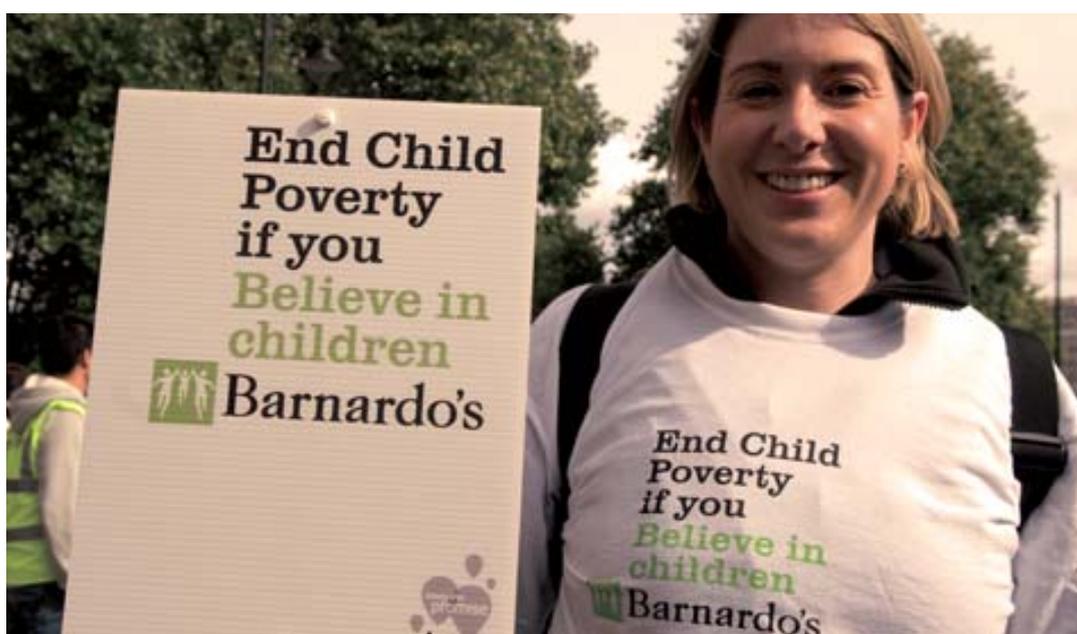
Susan Baines remarked that design was often seen as another unwanted burden.

There is a rhetorical game around co-production. The basic issue is that the state cannot afford to meet all we want without politically impossible taxation.

To engage with the CPP, organisations must set up bodies mirroring statutory ones. Shouldn't the VS be unique, free floating and nimble?

Liz Walthew said that such groups met infrequently, but were necessary to agree what was to be said, and give more clout to those representing an organisation. It did, however, put an extra burden on hard-worked people.

On national organisations' reaction to the localism agenda, Kirsten Gooday says that there isn't capacity locally to do policy or strategic thinking. Any thoughts about how local taxes could help the voluntary sector?



Kirsten Gooday said that she did not mean that things could not be done locally, but it was hard to expect someone to be able to go on all boards. National organisations were now trying to help their members do better:

Stephen Sinclair remarked that hypothecated taxation was a controversial issue. Receiving any tax money would change the sector's relationship with the state, and mean different auditing and accountability to voters, etc.

There is a parallel with devolution from the UK to Scotland, except that there's less public demand. Independent Scottish organisations and Scottish arms of UK-wide bodies felt crowded out on the UK scene. National organisations have not learnt from UK-wide organisations that devolved very few resources to Scotland, then had to spread them very thinly.

Kirsten Gooday said that during devolution, there was still the UK Government to influence. The Scottish Government was now increasingly telling organisations to work only at the local level, but they could not afford to do so.

Helen Tyrrell saw this as a challenge for national organisations.

Structure replication is frustrating, time-consuming and expensive, but it always happens with relationships between different types of organisations: the money holder always wants its structures mirrored. Given that it's going to happen, we should focus on how to use it to our benefit.

Liz Walthew said that the groups which she had set up had led to several spin-offs which were nothing to do with the CPP. People networked, and found opportunities and things they could cover:

Some issues can only be represented nationally, because they affect small numbers of people. The localism agenda could see these marginalised. How do we prevent this?

Liz Walthew replied that many of these groups were represented locally, and the new structures could make it easier. Helen Tyrrell agreed, and felt that it was more of an issue to hear marginalised voices at a national level.

There's a need to think about community groups on the ground, not just organisations. The big thing missing from everything is community engagement: people on the ground have no access to/idea of CPPs. The big issue is funding for projects.

Many potential participants want CPP to give a better awareness of their needs and to feel valued and equal.

What sort of system does the Scottish Government want to create? It's the stronger party, so it shouldn't just replicate itself because that won't give best value. There is a huge value in having activity outside state aims or self-interest.

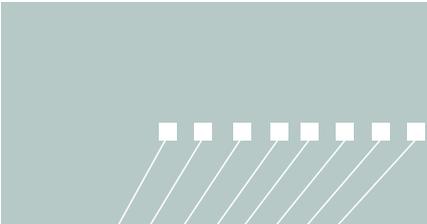
Helen Tyrrell said that this echoed the voluntary sector's powerful role in advocacy for individuals.

Geoff Whittam wondered whether CPP was just about getting a more compliant sector: Getting extra resources from the council could undermine grassroots work as an unintended consequence.

Geoff Pope, who heads the Scottish Government's Opportunities for Growth team in the Third Sector Division, said that it was about to commission work on voluntary sector involvement in CPPs to spread best practice. The voluntary sector was very heterogeneous, and the Scottish Government wanted to develop a single interface in each local authority to make it easier to hear voices.

He added that there was no organisational complacency, and that the aim was to make sure that services got to people who needed them.





Reflections

- Co-production is one of the fundamental definitions of services: they are produced and consumed at the same time. We have, by and large, forgotten the users' role in services. The third sector could be beacons of best practice for others, and develop new models.
- The Scottish Government supports the third sector, because its economic strategy and the concordat aim to make Scotland wealthier through sustainable development. The third sector is seen as having a key role because it can include more people, open up markets where others will not go, and put sustainability at the heart of services.
- The Concordat is based on the assumption that local people know their own needs better than central Government. It gives councils spending decisions, and there is also a role for the third sector.
- The key to everything is getting better services, and that means putting users at the heart of design.
- We might need to see more collaboration with the public sector – watch this space for more partnerships.
- Partnerships vary in effectiveness, but it is important to remember types of partnership besides CPPs.
- Partnerships offer opportunities to learn from best practice, and all around the table need to understand the others' motivations.
- CPPs pre-suppose a model of public sector delivery: it is stuck in the past, and prejudices certain outcomes.
- Person-centred services are what we need, and that is why all the different sectors should be involved: people are not divided into kinds.
- Conflict of interest should not be an issue. We should start with the community's interests, not those of organisations.
- Some service providers are as large as state bodies, and doing a similar job. This can give councils a get-out clause from some accountability issues.
- There is a tendency to see an inexorable move to quasi-state role, but we look at things in the historical context. The sector and its processes will continue to change. The question is who is driving it?
- Remember the distinction between professionalism and resources.

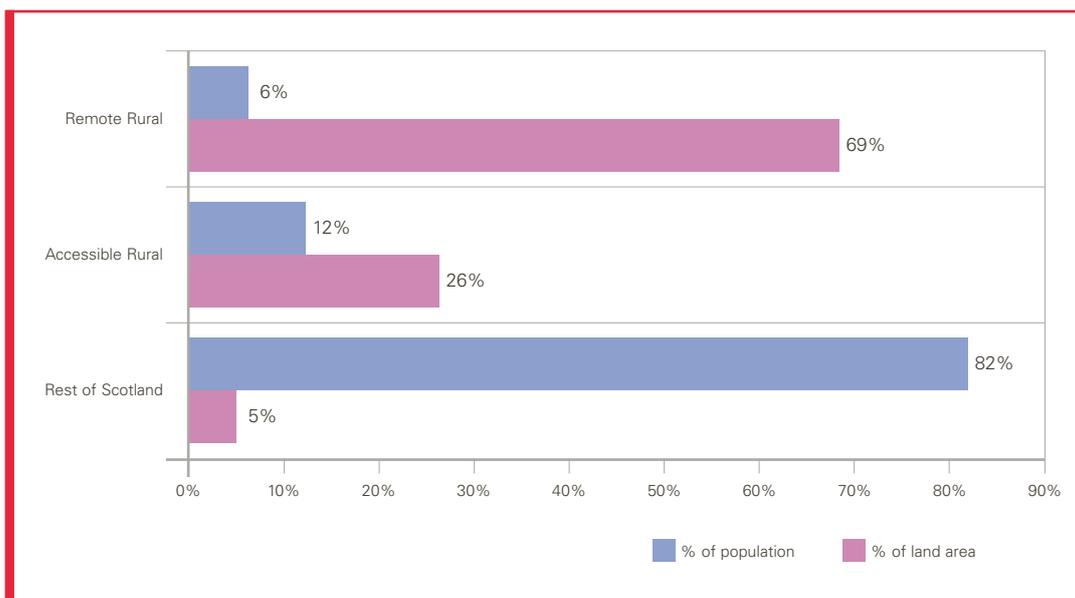
Recession and the third sector

Impact of the economic downturn on the 'rural voluntary sector' in Scotland

Dr Philomena de Lima, Director of the UHI Centre for Remote and Rural Studies, with some preliminary thoughts based on a review of available data and talking to people at the sharp end in the Highlands of Scotland for their view of current trends.

Rural Scotland accounts for 95 per cent of Scotland's landmass and 18 per cent of the total Scottish population (Figure 3, below). However, it is diverse and includes remote rural and island areas as well as places closer to larger urban settlements and towns. 'Accessible' rural areas have a growing population which remains relatively young; by contrast, remote areas have a declining and ageing population, where social and economic problems caused by lack of economic opportunity, high cost of living and poor transport tend to be relatively severe.

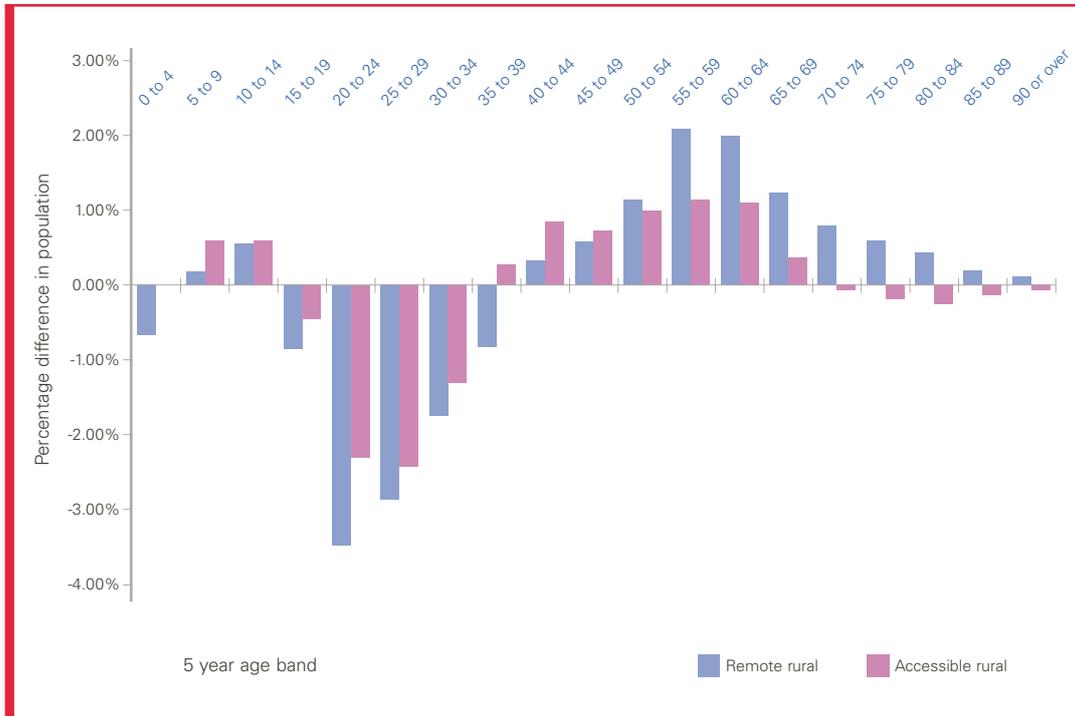
Figure 3: Percentage of population and land by geographic area, 2006



Source: General Register Office for Scotland, 2007 (2006 mid-year estimates based on data zones)
Based on Scottish Executive Urban Rural Classification, 2005-2006

Rural areas have a lower percentage of people in the age bands 15-34 than the rest of Scotland, but more aged 40-69 (Figure 4). People in rural areas were more likely to give up their time to be volunteers or organisers: 45 per cent in remote rural areas and 39 per cent in accessible rural areas in 2006, compared with 28 per cent elsewhere.

Figure 4: Differences in Age Distribution of Population of Rural Areas, Relative to the Rest of Scotland, 2006



Source: General Register Office for Scotland, 2007 (2006 mid-year estimates on data zones)
(Based on Scottish Executive Urban Rural Classification, 2005-2006)

Services

In rural areas, fewer people are within a 15 minute drive of key services using public transport, with those in remote rural areas faring worst. They are also more likely than those elsewhere to spend more than £100 per month on car fuel. Rural households are more likely to have home internet access, though it is less likely to be via broadband.

Economy

While rural economies are diverse, reviews of labour markets suggest that they have specific characteristics which include: limited job opportunities (both quality and quantity); higher numbers of self-employed and in small businesses; seasonal short-term work; and relatively low wage levels.

Evidence

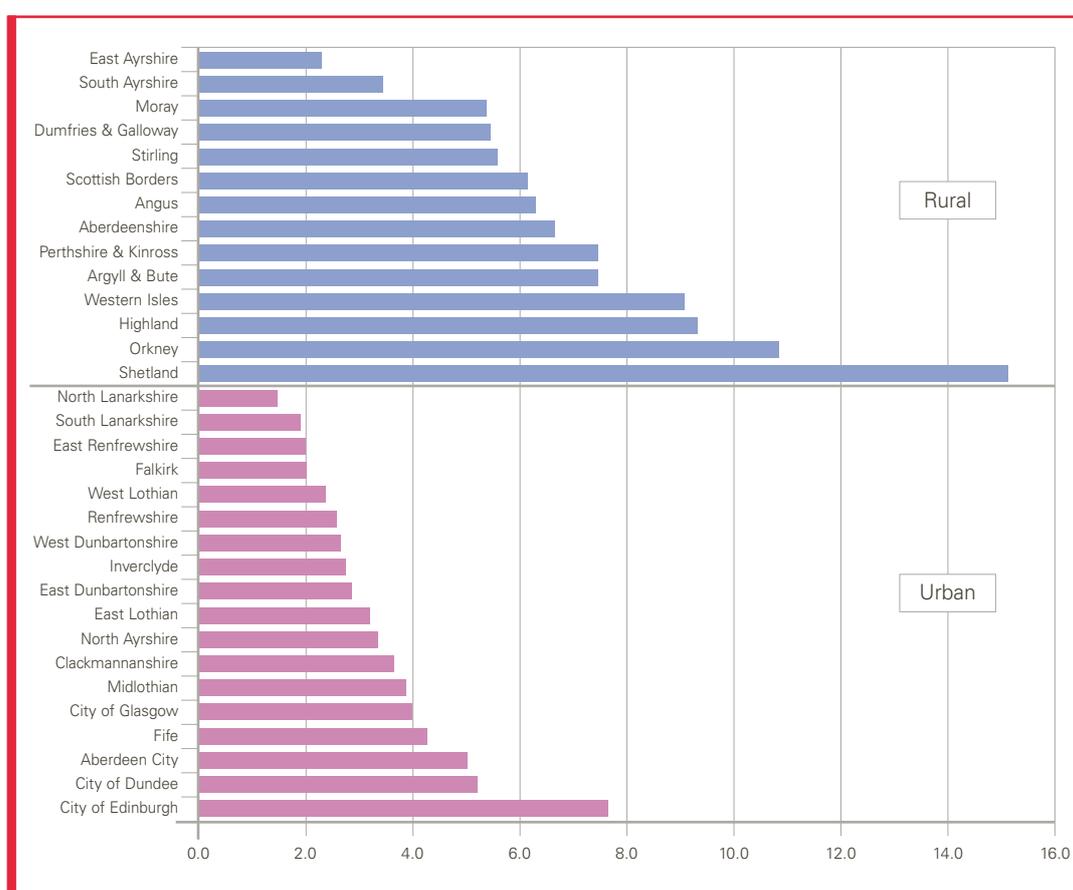
Blurring of boundaries between voluntary, public, and private has brought changing expectations of what the voluntary sector can provide. While researchers have looked at what these changes might mean for third sector groups in general, little has been done in the UK about the impacts of specific spatial locations- eg remote and rural areas.

In Canada, research by the Foundation for Rural Living, in partnership with the Canadian Centre for Philanthropy, found that rural organisations were small compared with their urban counterparts, had fewer staff and had difficulties raising funds effectively.

Most top donors lived in urban areas. But rural donors were more likely to give to a cause or volunteer for it because of personal connections and experiences and a sense of obligation to help based on religious and community commitments. Available evidence in the UK confirms these trends and issues.

In 2003, a SCVO report identified Edinburgh, Glasgow, Dundee and Aberdeen as having the highest proportion of regulated voluntary organisations. However, the rural voluntary sector accounted for more than 40 per cent, with the largest proportion (nine per cent) in the Highlands. In addition, a study by Highlands and Islands Enterprise (HIE) in 2001-02 highlighted that there were more than 8,000 organisations representing the wider unregulated voluntary sector located in its area, compared with just over 4,000 regulated voluntary ones. Overall, a higher presence of voluntary organisations per head of population in rural areas (Figure 5) may be a reflection of the greater distances involved giving rise to a need for more organisations to provide reasonable coverage.

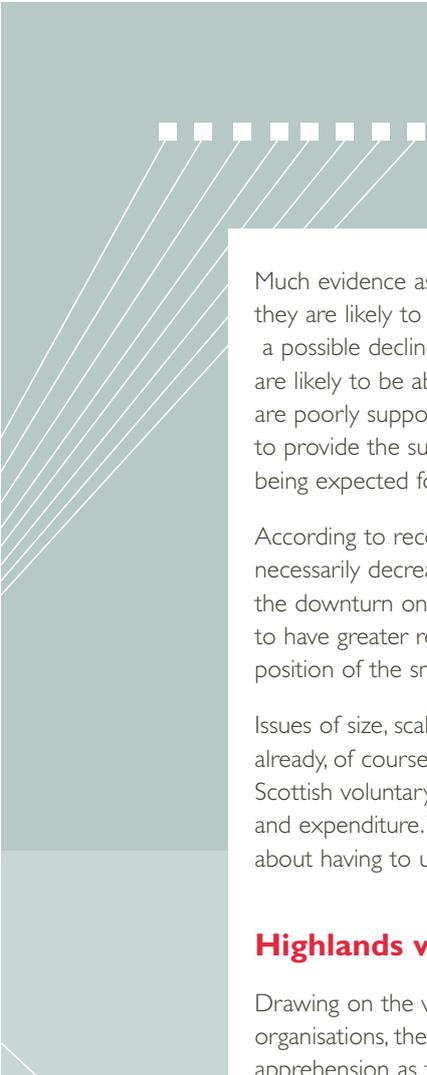
Figure 5: Number of regulated voluntary organisations per 1,000 people



Source: SCVO 2003: Figure 3: Source: Scottish voluntary sector database 2003 and Scottish Executive Population statistics 2001

Evidence from the UK and Canada also confirms that rural residents volunteered at a higher rate than urban ones, and put in longer hours. However, ageing volunteers and reliance on a small pool of people led to burnout and challenges in recruiting sufficient workers and members.

According to SCVO, the economic downturn was beginning to impact on charitable giving, and a number of fundraising events in Scotland have been cancelled. The impact of these trends is yet to be played out, and is a source of deep insecurity. Furthermore, recent discussions refer to the 'regulated' sector, and little is known of what the impact is on 'unregulated' activity. Gaining insights into this sector will be a greater challenge.



Much evidence as to the impact of the economic crisis on rural voluntary groups is anecdotal, though they are likely to face challenges similar to those of the sector in general. Predictions of impacts include: a possible decline in corporate giving; that volunteering schemes involving small businesses in particular are likely to be abandoned; that there will be increased pressures on advice and support agencies which are poorly supported and funded at local level; and that while the voluntary sector may be best placed to provide the support required, issues related to commissioning and procurement may result in more being expected for less.

According to recent NCVO research, past experiences point to overall voluntary sector income not necessarily decreasing during economic downturns, charitable giving being sustained, and the impact of the downturn on staffing in the voluntary sector as being mixed. However, larger organisations are likely to have greater resilience, which may result in reinforcing their position even further and weakening the position of the smaller groups which are more prevalent in rural areas.

Issues of size, scale, lack of funding diversity, and poor access to cash support in rural areas were there already, of course. A recent SCVO briefing suggests that despite the growth in annual income in the Scottish voluntary sector up to 2007, expenditure had grown faster, narrowing the gap between income and expenditure. This trend was confirmed by practitioners in the Highlands, who expressed concerns about having to use reserves as public funders appeared to expect more work for less money.

Highlands views

Drawing on the views and experiences of a few Highlands practitioners, from large to very small organisations, the term 'uncertainty' cropped up repeatedly, accompanied by heightened anxieties and apprehension as to the unpredictability of the impact on future funding.

Two organisations dependent on local authority funding reported no immediate adverse impacts, with support secured for the next two years. But there were concerns that the funding in general is likely to reduce, with a detrimental impact on small voluntary organisations and their vital role in providing services in rural areas, particularly when most needed.

Individual charitable giving did not appear to be affected, but there were anxieties about the extent to which it would be sustained in the light of competing requests from charities, a downturn in local businesses, and job insecurity.

The impact on individuals in rural communities as businesses slow down or close is another concern and was perceived as leading to an increase in social problems such as domestic abuse associated with higher alcohol intake and mental health problems and stress. In addition, the high costs of food, fuel and transport were cited as potentially leading to an exodus to cities, making rural areas vulnerable to de-population, and raising questions of sustainability.

Despite high levels of volunteering, an ongoing concern is the small pool of staff and volunteers to draw from. While not denying the need for regulation, there is a feeling that the present regime is not conducive to recruiting volunteers in particular, as the requirements are seen to be too onerous for small organisations. Lower rates of training compared with urban areas, and lack of a training culture have been identified as issues in a review of overseas studies, though the picture is less clear in rural Scotland.

Views on the impact of the Concordat between the Scottish Government and local authorities and the Single Outcome Agreements (SOAs) on the rural voluntary sector in the Highlands varied.



On the one hand, the Concordat and SOAs are seen as an opportunity to make local democracy work by removing ring-fencing and giving local authorities the power to make funding decisions based on local need. On the other hand, there appear to be concerns that this is creating uncertainty, as voluntary organisations must compete for their particular issue or group to be prioritised. The latter, combined with the economic downturn, has the potential for making insecure the future of small voluntary organisations and/or causes that are not 'popular' or do not 'tick the box'. This precariousness is reinforced by the fragmented and dispersed nature of the rural voluntary sector; lack of opportunities to network and share practice and the lack of a voice.

Highland practitioners also highlighted potential opportunities arising, such as an increase in demand for some services, and the availability of a greater pool of volunteers.

Evidence of positive policy interventions at the Scottish Government level which would benefit rural areas were also cited; for example, the commitment to increase match funding for community facilities; recognising their role not only as meeting places, but also as potentially important in supporting economic activity and growth as well as providing venues for delivery of public services in rural communities.

What's to be done?

There are potentially four areas to address:

- Adoption of clear definitions of the 'rural voluntary sector', especially in a context where both 'rural' and 'voluntary sector' are contested concepts, encompass different meanings and are diverse.
- Though complex, it is important to map the scope of the voluntary sector; recognising the diversity of rural areas and level of resources from various agencies which support the sector; and to explore possible reasons for disparity of funding. Developing an evidence base is important for identifying specific trends that are characteristic of the voluntary sector in rural areas and for developing strategies for their future sustainability. A mapping exercise would provide a basis for developing a better understanding of the capacity of rural organisations to raise funds and the impact of regulation, for identifying areas of support and intervention that would be helpful in diversifying their funding base, and developing strategies for pooling expertise and sharing resources.
- Whether the economic downturn may result in potentially more volunteers is difficult to say. However, if issues such as training and capacity building are not addressed, the use of volunteers may not be effective in developing sustainability. Collaborative training and use of new technologies may be important options to explore.
- The downturn could provide an opportunity for organisations to explore different ways in which they might effectively network to overcome some of their shared difficulties and to plan their futures more strategically.

Thistles, roses and thorns

Professor Jenny Harrow, of the Centre for Charitable Giving and Philanthropy, at the Cass Business School, shares reflections on third sector/Government relations and policy expectations in an economic downturn.

In 2005, Jeremy Vincent and I published a paper comparing perceptions of chief executives in Scottish and English VCOs of their relationships with their Government major funders.*

Expecting significant differences, we called it 'The Thistle and the Rose', after Whitelaw's view of the sector as "... a wild garden, a rampant display of plants of all shapes and sizes." The metaphor provided images of growth, of change and decay, surprise as new plants emerge or hardy ones persist; transformation of some species to domesticity; and of order gained, by luck or landscaping.

We explored a theoretical model from Norwegian academics Kuhnle and Selle, which classified Government/third sector relationships in terms of relative 'nearness or distance' and 'financial dependence or independence'.

In a trans-national study, they had had the temerity to designate one of those nations, in very broad brush terms, as 'Britain'. Jeremy, therefore, set out to test for divergence rather than convergence between Scottish and English experiences.

He also identified degrees of difference *among* Scottish and English organisations nationally which were greater than those *between* the nations.

Since both roses and thistles have thorns, now seems a good time to revisit that loose metaphor and the theoretical framework upon which it drew, and to think about 'thorns' appearing as the uncertainties of economic downturn become more apparent.

Kuhnle and Selle's typology, which derived from an investigation of mainly case study and historical research in Government and service-providing voluntary organisation relationships across nine European countries is set out in Figure 6.

Figure 6: Relations between Government and voluntary organisations

	Nearness*	Distance*
Dependence**	1 Integrated	2 Separate
	Dependence	Dependence
Independence**	3 Integrated Autonomy	4 Separate Autonomy

* in terms of 'communication and contact'

** in terms of 'finance and control'

Kuhnle and Selle (eds) (1992)

These four characterisations could be summarised in turn, as in figure 7

Figure 7: Descriptive models of relationships between central Government and voluntary organisations, using Kuhnle and Selle's typological terms

Integrated dependence	Organisation is largely dependent on central Government financing; and maintains close links with Government officials
Separate dependence	Organisation is largely dependent on central Government financing; and does not have close links with Government officials
Integrated autonomy	Organisation is not dependent on central Government financing; and maintains close links with Government officials
Separate autonomy	Organisation is not dependent on central Government financing; and does not maintain close links with Government officials

The conglomerate 'Britain' was identified as a 'separate dependence'; financially constrained and much supported by Government, but with little in the way of communications links and channels with Government in place.

Even if the 'British' aspect is accepted, the contrast between 1992 and 2009 is so immense as to be barely contrastable. So does this framework help us think through the policy implications of recession for the Scottish third sector?

I suggest that it does, if we use it to reflect that all four of these inter-relationships currently co-exist. Thus we will be able to cite examples from each quadrant, where recessions variously transform but also exacerbate the situation.

A clear example from the 'separate dependence' quadrant might be organisations working with and for people with dementia in rural areas. As Innes and others noted in 2006, "The provision of health and social care services to people with dementia and their carers living in remote and rural areas has been neglected globally." Their study of the views of Scottish service providers (voluntary, statutory and private) in remote and rural areas evidences the policy challenges that need to be addressed if 'separateness' is not to continue, let alone equity.

Those in the 'autonomy' quadrants are most evidently the trusts and foundations with their own endowments, which may or may not communicate closely with Government. The informal Scottish Grant Making Trusts Group, with a core membership of around 30 organisations, draws in the leading foundations whose links with Government are likely to be close and continuing, through shared initiatives to formal giving of evidence to Parliamentary committees and Government bodies.

However, since, as SCVO noted in 2009, this element of the third sector is under-researched, having identified some 4,000 such trusts in Scotland overall, it may be assumed that the majority are firmly in – and indeed wish to remain in – that category of 'separate autonomy'.

My colleague, Professor Cathy Pharoah, and I have noted elsewhere that "feeling sorry for foundations" is not usually a feature of third sector intra-sectoral relations, but falling investment returns, combined with awareness of the extra needs which many organisations will look to them to support in recession, will be making for hard, and not necessarily predictable, decisions.

Many such pressures will be shared with English and UK-wide counterparts – for example, to reduce grant-making in coverage and size, to 'spend out', to refocus work on marked recession-type provision, and to reflect on and direct strategies towards the post-recession period.

For some foundations, willingness to adopt 'stretch goals (new and more demanding aims in the light of growing need) will be taken up enthusiastically, while for others, the imperative will be to conserve and consolidate, and minimise their own organisational stretch for the time being.

Yet with far less known in research terms about the nature and extent of trusts' work in Scotland, the special problems faced by, for example, family foundations and those with specific geographical remits, may also remain hidden; and only come to light, if at all, in a post-recession sectoral 'wash-up'. Here, the news that the Hunter Foundation's income has been adversely affected by the fall in markets is important for its candid approach.

Does the sector want to hang together?

Public policymakers can certainly be seen in a near-impossible situation. The cloak or blanket approach to the resources needs of the sector as a whole can be argued as integrated, comprehensive and, critically, a logical and appropriate extension of those more optimistic policies when times were – or seemed – better. Yet the extent and nature of differentiation within the sector and among its members, as illustrated above, suggests a policy development which is to a degree tailor-made or bespoke.

Prioritising *within* funding streams, for example to organisations providing services for evidently recession-type needs such as debt counselling, job search, mental health support and home relocation, would be one approach; though what counts as recession-oriented provision will become increasingly arguable. Moreover, such a policy approach could seem far too interventionist for a sector whose own sense of its civil society and non-governmental purposes is its defining feature; and for whom public trust and legitimacy are critical.

Seeking to review and address the relative positions and needs of organisations in the 'separate but dependent' category would be another approach, perhaps in relation to experiences and needs in remote and rural areas. Engaging with the private funders in that somewhat hidden group of 'independent autonomous' organisations would be challenging, rather than waiting for these trusts to devise their own approaches to weathering the economic storms. Though again seen as interventionist, it might at least offer some realistic mapping of what kinds of private foundation support is likely to be available over the next few years.



Recession as a binding agent?

In London in February 2009, a multi-sponsored and cross-sector conference took place entitled “*The recession: we’re all in it together. Can we develop shared strategies and practices for these tough economic times?*”

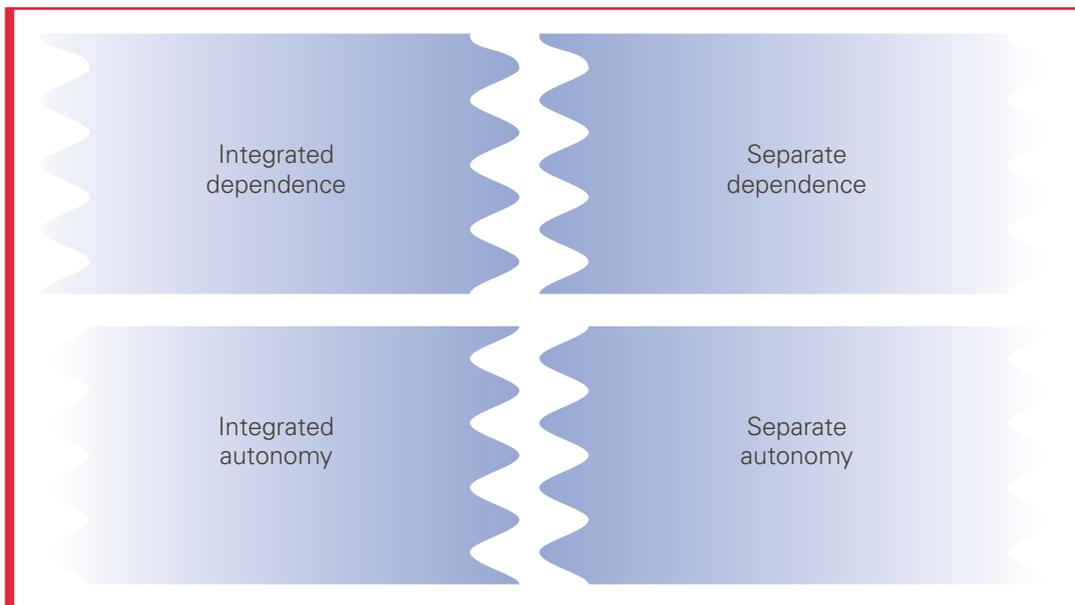
The title articulates both the sense of shared pain – and indeed shared danger – but also begs the question of the feasibility of shared responses.

So how would this title play in Edinburgh, in Glasgow, or in rural Scotland? My feeling is that it would play well; but that this in part would be a function of localised community rather than nation. This feeling also leads me to speculate that in the face of over-generalised policy initiatives and continuing reliance on known funding sources (public services contracts) in Scotland, the sector will become even more differentiated and separated within itself, with organisations competing for grants and contracts, chasing the same staff if not the same donors and private funders, ‘going up’ or ‘going down’ according to reserves levels.

In a worst case scenario, the third sector in Scotland might come to represent a different form of the Kuhnle and Selle framework, in which the gaps between the four different forms of governmental relations become all too evident.

Figure 8, below, represents this in a highly speculative form, and is also a poor attempt to suggest four relationships as a kind of broken Saltire:

Figure 8: Increased fragmentation in the Scottish third sector during recession?



This figure may be seen as diagrammatic indulgence and an alarmist scenario, and does not, of course, mirror exactly the diagonal cross of the Saltire. However, it seems to me to make some important points.

Differentiation within any national third sector is a familiar and, for civil society roundedness, often vital characteristic. Governmental policies which over-emphasise intra-sectoral distinctiveness may certainly be bespoke creations, but may also smack of favouritism, especially when policy is in development. Yet the very uncertainties which recession brings (with its ‘good’ side, such as increased workforce availability and choice) may well force these differences to become far more marked than they already are.

Organisations are unlikely to 'choose' to be in any quadrant; they will most likely already be there. Pressures from Government (for example over levels of foundation spending – a continuing interest of any Government with charity regulation powers) may exacerbate these divisions; but organisations may find that they are able to move from one quadrant to another – though at a price, most evidently in the 'dependence' quadrants. The possibility of the formation of cartels becomes more prominent (in the two independence quadrants), at worst, supplanting partnerships.

All of which leaves us with several 'thorny' questions, including:

For the third sector

- Should a sector-wide stance on policy towards the sector continue to be maintained; or should a more differentiated policy stance be sought, to avoid the effects of a policy 'scatter gun'?
- How and to what extent (if at all) should users' and beneficiaries' accounts, experiences and expectations of recession as it affects third sector organisations be highlighted by the sector and contribute towards public policymaking?

For Government

- What are the risks of over-expecting (even over-romanticising) the third sector's ability to be ever more enterprising? What happens when it is acknowledged also as the 'tired' sector?
- How will support policies for third sector organisations be differentiated from (or muddled up with) those for small businesses, especially in rural and remote areas?

* Vincent, J. and Harrow, J. (2005) *Comparing Thistles and Roses: The Application of Governmental-Voluntary Sector Relations Theory to Scotland and England*, *Voluntas: International Journal of Voluntary and Nonprofit Organizations*.



Policy response

John Brady, Chair of Public Affairs at the Institute of Fundraising in Scotland, drew on his experience of rural and remote services as Head of Fundraising for Sense Scotland, which works with children and adults with communication support needs.

He said that while we could not know precisely how the recession would hit rural third sector activities, it might offer opportunities for people looking for jobs, though with a challenge for organisations in matching skills to vacancies.

Philomena de Lima had made an interesting point about the dearth of evidence in relation to economic impact in rural Scotland, but he felt that, in many ways, the same applied to the whole of Scotland.

While recession might bring opportunities to recruit, another challenge would be the loss of existing corporate volunteers – something he thought would be sectoral.

Picking up on reference to existing trends and tensions within rural areas, John Brady said: "Like a gear wheel, the recession makes these trends bigger."

The Institute of Fundraising Income Tracker had arisen from sharing anecdotal evidence, some of which did not chime with the messages of doom in the Press in September 2008. There had been a real mixture of anecdotal evidence – a genuine worry about Trusts, based on investment income, and a 'vox pop' on BBC Reporting Scotland with some people saying that they would still like to donate when others were less well off than them.

The Institute wanted to promote the Tracker as a members' benefit, and would encourage fundraising charities to join. "Just as a dog is for life, not just for Christmas, good ethical fundraising practice is relevant in the bad times as well as good," he said. "The robustness of the data will depend on the responses."

A recent article in *Professional Fundraising* magazine had reported on a database search finding 372 academic articles on the topic of fundraising published in the last ten years.

"As a practitioner, though, how do I find out?" he asked. "It's another paradox. Yes, we should keep ourselves informed and see what academic papers and models offer; however, in hard times there is more pressure on time."

As regards competition and diversity, he believed that recession was a magnifier: "Competition is always there, with losers, but also winners," he said.

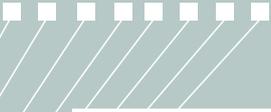
In the commercial sector, for example, Sky had created 1,000 new jobs to cope with demand. And two separate reports by American researchers had indicated higher sales of lottery tickets in bad times.

Pointing to the large numbers and diversity of charities in Scotland – ranging from care organisations and Scout groups to Citizens Advice Bureaux and campaigning organisations, and from small community groups to the Church of Scotland – John Brady said that there were an 'alphabet soup' range of representative bodies including the SCVO, CCPS, GCVS, IoF, CFDG and ACOSVO. "Therefore, is there one sector voice – and who decides the message?"

Jenny Harrow had asked a good question about how trusts' and foundations' dialogues and 'fit' with Government policy would develop.

But he added: "I'd ask the question relevant at all times, but again perhaps magnified by recession: *should* Scottish trusts and foundations *fit* Government policy? Could there be a danger of too much grant-making between the Scottish Government, the Lottery and trusts fitting the same objectives?"





Discussion

People with disabilities find it even harder to access services in rural areas than urban ones. One group in Aberdeenshire had to slow their rate of growth: commercial sponsorship is drying up as oil prices fall. The Scottish Government should do more to encourage uptake of the potential benefits of SRDP and LEADER programmes.

How will rural-urban migration patterns change? Since this movement is usually driven by opportunities in cities, is it now worth investing more in rural communities?

Philomena de Lima said that migration usually happens for education. The recession could exacerbate the problem of rural areas not being able to absorb people returning with high paid jobs. The University of the Highlands and Islands is looking at this issue.

To what extent is the Third Sector already taking efforts to be sustainable, given that there is a time lag between recession starting and effects being felt? How far is IT used in rural areas? The isolation of voluntary organisations reflects that of their communities.

Philomena de Lima had worked with community care groups who had done interesting work with technology to empower users; SCVO's Rural Gateway and Rural Network also offered opportunities. Though internet coverage was wider in rural areas, not everyone had access to high bandwidth. UHI has a set of video conferencing services which work well, though needs to look at how to make this more accessible.

The early 1980s recession showed that people would rather be unemployed at home than unemployed in cities. It also saw the growth of social and community enterprises as a response. These are now encouraged by the Scottish Government, and there are some opportunities open to them not open to small businesses. HIE is interested in funding some research with UHI and SCVO about the impact on the rural third sector.

Is there academic agreement on what resilient organisations are like?

Professor Peter Alcock, Director of the Third Sector Research Centre, replied that resilience was on its research agenda.

If there is a move to funding social enterprises, away from funding need-based services, the people who need services most will lose out. After-school clubs in England succeeded in affluent areas where people could afford to pay, but not in others. The advice sector is least able to transfer to a social enterprise model, and there is a lack of understanding of how services need to be supported.

Jenny Harrow said that money advice was particularly important in Scotland, with some research showing a greater need. The social enterprise model is geared up for merging into wider entrepreneurial organisations, but voluntary organisations often like to share, not merge.

Community groups going through procurement processes are finding it hard to get councils to understand that users' needs must be central. Some progress has been made in Birmingham, but not in Scotland. Also, urgent research is needed on the size of the endowed base in Scotland, and its effect. It is disproportionately small compared with England, and there are opportunities to lobby for an endowment from natural resources. The only current oil-based endowment is the Shetland Charitable Trust.

Jenny Harrow said the extent of smaller trusts will be very important. Users' perspectives are important and of interest to small and medium-sized businesses competing for the same area, which could overtake the sector's role. Beware that presenting users' voices during a recession could be exploitative by increasing anxieties.

The role of benevolent societies grows during recession and we organised a seminar about this in Aberdeenshire. Could there be a role for SCVO and others?

Ruchir Shah, SCVO's Head of Policy and Research Department, replied that a seminar at its AGM asked what services it could offer, and it had launched a financial sustainability package. It was still being put together, but included peer support, online information and expanding helpline services.

I'm involved in a group that has been fairly badly hit by the Fairer Scotland Fund, and we could not have managed without SCVO being able to help with free legal advice. I'm here today because I wanted answers, but all we've heard is questions. We're in the middle of it now and some groups have had half their funding cut; we're surviving because our project has a service level agreement. I've seen voluntary organisations fighting together – can anyone give advice? We're not just losing money, but trustees too.

Stephen Osborne said that there had been a long tradition of councils seeing the third sector as their venture capital and that it was 'OK' if things failed. We need to look at the balance between sustainability and ongoing provision.

Should we be talking about the third sector having a leadership role in shaping a new society and ensuring that equality is embedded in markets?

Peter Alcock said that we should. We must not forget value questions in all the economics – the values are why we are third sector people.

Lots of private sector people now see a role for work with the sector, and we have been working for years to make it seem a good option for graduates and skilled workers. Some voluntary and third sector organisations will have to professionalise to recruit from the private sector. Our experience is an inconsistent approach to offers of help.

Do voluntary organisations have the skill set and capacity to develop strategy? Do they engage in relationships with funders about aims? Can they make cuts appropriately? Are small organisations more resilient?

We want to see recognition that the sector is always innovative and creative, and often comes up with good solutions to problems. The Government must recognise this with resources. Also, remember that the third sector is not just about social enterprise – there is no one-size-fits-all.

Social enterprise is not the same as being entrepreneurial: we could all do things more entrepreneurially and tap new resources if we are able. How is the sector going to get the resources and support to change the way it works? We are facing a future with less finance, and will have to change how we do things.

We need to focus on the future, and not just dwell on the past. The organisations which emerge from recession should have a vision of where they will be coming out and where they are going.

Finance is not the only factor which will affect organisations – innovation also matters. The third sector could look at knowledge transfer, not just within itself, but also with small businesses and other communities.

Reflections

Professor Stephen Osborne: The key point is that we need to understand sustainability in more holistic terms, such as income streams and the balance between individual giving and other sources. We also need to consider organisation ecology: who will survive and what will happen to those that do not? Organisational impacts are also important, since we are still looking at inputs and outputs more than actual outcomes for users.

Lorraine McMillan, East Renfrewshire Council: Funding is a big issue, but demand for services will also increase for many groups. Good governance and a clear mission are the best ways to be successful and sustainable. Joint working is useful to get economies of scale, though not forced mergers.

It is too easy to get into fights over funding: remember that councils and the third sector have a shared agenda in wanting improved life chances for residents. We have changed our planning processes to concentrate on outcomes, but they are harder to measure than activities. There are some discretionary sources of funding to measure outcome impact. Local government will be as badly hit by the recession as everyone else – let's work together.

Helen Tyrrell, Voluntary Health Scotland: There is growing evidence that academic research is getting closer to the sector's needs, and the sector could do more in defining questions for good primary research. We need to focus more on the resilience and sustainability of the sector's asset base.

We need to campaign to Government using our own evidence so that we can respond best to problems materialising in specific areas. We need to make clear that social enterprise is not the only way to respond, and to call for assets and grants to be protected, and a boost in the uptake of Gift Aid.

Professor Cathy Pharoah, Co-director, CGAP: There is a real danger that the sector will declare war on itself and that infighting will degrade service quality through undercutting. We will need leadership to stick together.

The sector did not make the problem, and it does not have to solve it: we can only do what we can. The Government does not know what to do, but will fund solutions, so there is potential to grow there.

We have a voluntary sector research network all around the UK, but remember that researchers like to define questions, too.



Innovation and the Third Sector

Dr Eleanor Shaw, investigator for CGAP at the Hunter Centre for Entrepreneurship, Strathclyde Business School, on what we mean by innovation, and its importance for the third sector today.

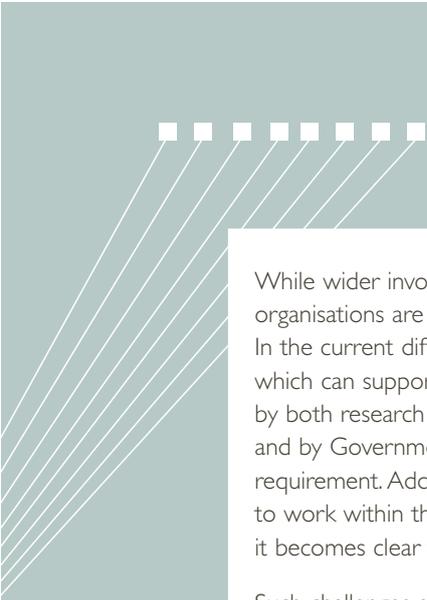
Innovation within the third sector is not new. There is, however, much debate over both what is meant by 'social innovation' and the types of organisation and individuals who get involved in innovation for social gain. Such debate can be traced to disputes and myths surrounding definitions of 'innovation' more generally. For example, Schumpeter's (1942) definition of innovation as a type of 'creative destruction' which can radically change the direction and dynamics of entire industries is often interpreted to suggest that innovation and invention go hand in hand. The reality of course is that while most inventions actually fail, innovation which ranges from small changes in product offerings to more radical product and process development, is often more successful. Supporting this, research by the National Endowment for Science and Technology (NESTA) has found that: only one in 100 inventions more than covers its costs; only one in 300 make a significant difference to a company and, only one in 1,400 is a 'world beater'.

Why then are successful inventions difficult to secure while innovation is more achievable? NESTA's research suggests that most inventions fail because of flaws in the idea or in product development. This can be illustrated with two examples from the car industry, one which can be described as 'inventive' and the other as 'innovative'. Take Sinclair's C5 electrical car. When it was introduced in 1985 it was hailed as an important invention within the car industry. Unfortunately, despite the technology underpinning the C5, its introduction to the market led to neither widespread adoption nor permanent change: two characteristics which have become recognised as critical to successful innovation. Contrast this with Ford's much earlier introduction of the Model T. While not an invention, Ford took an existing product (the car) and, through a process of innovating its production, was able to significantly lower the cost of the Model T, so making it available to the mass market. Importantly, the processes used to produce the Model T led to permanent changes in car production which continue to be reflected by more contemporary examples including Toyota's Prius, the first hybrid eco-car to be adopted by the mass market.

While a commonly held perception, innovation of course, is not restricted to the private sector or to goods and services. Quite the contrary. Innovation within the third sector has a strong tradition dating back to the work of Robert Owen, Carnegie and The Red Cross. More recent examples can be seen in the Grameen Bank's approach to microfinance, Al Gore's move from US presidential candidate to global campaigner for climate change and Google's commitment to 'use the power of information and technology to address the global challenges of our age' including climate change, poverty and the spread of disease – issues which are currently attracting significant global, social concern.

What these examples illustrate is that innovation for social, community and environmental purposes lies not just in the hands of traditional third sector organisations. Rather, contemporary social innovation is an activity evident within a variety of organisations including large global corporations, the public sector, smaller charities serving local social needs and social enterprises as well as individuals such as Mel Young and Lord Younger who are motivated to engage in social innovation for the purpose of making a difference. Even celebrities including Jamie Oliver are getting involved. Not only has Oliver developed a reputation for campaigning for healthy school dinners, with his chain of '15' restaurants, he has created social enterprises which provide education, training and employment opportunities for disadvantaged young people in London, Cornwall, Melbourne and Amsterdam.





While wider involvement in social innovation is to be applauded, this does mean that third sector organisations are facing increased competition in this regard both from within and outside the sector. In the current difficult economic environment, this trend has served to intensify competition for resources which can support social innovation. Further challenges are posed to innovation within the third sector by both research which suggests that such activity has declined by 50 per cent over the past decade, and by Government, foundation and other funding regimes which no longer regard innovation as a core requirement. Add to this, perceptions within the sector of a lack of autonomy and democracy, and a need to work within the restrictive conditions and various reporting mechanisms of a portfolio of funders, and it becomes clear that innovation within the third sector currently faces a variety of demanding challenges.

Such challenges are of course countered by emerging and growing opportunities for social innovation. First, a raft of significant changes in the needs, wants, demands and values of large groups of consumers are creating sustainable market opportunities which may best be addressed by social innovation harnessed by third sector organisations, including social enterprises.

Take for example the impact of 'eco-guilt'. Large and growing groups of consumers, increasingly worried about the impact of their consumerism on the environment have provided opportunities for third sector organisations to innovate to develop and offer products and services which meet the demands of such consumers, while addressing social concerns regarding sustainability and the environment. Examples include Repaint Scotland, which offers a sustainable approach to paint recycling, and EcoEvents, which offers to create and manage carbon neutral events.

A second growing consumer trend is the re-emergence of what has been coined 'tribal consumerism'. Recognising the benefits of social bonds, 'tribes' of consumers are emerging, motivated to re-establish community embeddedness – be this within local communities or communities of consumers interested in particular products and/or brands (eg motorbikes and Harley-Davidson) or issues (parenting and mums.net).

When locally situated, such tribes can provide opportunities for social innovation, including sustainable and growing markets for locally produced products and services, which help ensure local employment and the spread of local wealth within and across local communities. Added to these trends are changing social and societal values which many commentators believe have been enhanced or magnified by current changes in the world's global economic environment. It may be that the autonomy and greed which characterised social values throughout the 1980s and '90s is increasingly being replaced by a desire for collaboration, sustainability and value for money.

Finally, and perhaps most significantly, are the opportunities for social innovation which have been created by technological innovations, particularly Web 2.0. Such developments provide a package of secure on-line tools which can be used to capture and harness changing consumer and societal values. Such interactive technology has encouraged, supported and made it possible for all types of individuals and groups to connect, collaborate and campaign over a range of issues and activities.

While the third sector faces many significant challenges which may make innovation difficult to achieve, these are more than matched by the variety of emerging and growing opportunities presented by radical changes in consumer, societal and technological arenas. The real challenge for third sector organisations is how to embrace new technologies, including Web 2.0, and develop alternative models of working which span organisational and sector boundaries and encourage charities, voluntary sector organisations and social enterprises to collaborate to achieve meaningful social innovation.

Voluntary and community groups and innovation in public services

Professor Stephen P Osborne, Professor of International Public Management, University of Edinburgh Business School, draws on rare research findings to discuss just how much innovation there is in some voluntary organisations today, and whether it is on the decline.

The innovative potential of VCOs as public service providers, has long been a key assertion of the public policy debate in the UK. This has its basis in historical fact, as VCOs were the prime innovators of public services in the 19th century. Yet little research has taken place to evaluate this claim in contemporary society. That said, I am now going to share with you what came out of some longitudinal research which was carried out in England in 1994 and 2006¹, mapping the extent of the innovative activity of VCOs in the field of social care services, and the factors that might enable or constrain it.

Because the research took place over time, it also sought to discover if this capacity had varied, and if so, to what factors². The study included both a postal survey of three areas, and detailed case studies. It used a dedicated typology of innovation in public services in order to classify the projects reported by VCOs against the categories of:

- **the traditional activity of VCOs** in providing specialist services;
- **the developmental activity of VCOs** involved in the incremental change of their services;
- **the innovative activity of VCOs** that changed the fundamental basis of their services and/or their skills base (and also differentiated this activity across three types of innovation)³.

What the research discovered

The 1994 study found that innovation was a significant, but by no means all-embracing, activity for VCOs – 37.9 per cent of organisations were engaged in innovative activity. Almost 13.9 per cent of VCOs were also engaged in developmental activity (again, as defined above), whilst just over 48.2 per cent continued their traditional work, without modification.

The contrast in 2006 is stark. The innovative activity of VCOs has shrunk from 37.9 per cent to 19.1 per cent, whilst their developmental work has increased from 13.9 per cent to 35.7 per cent. The traditional activity has stayed almost constant at 45.2 per cent in 2006 compared with 48.2 per cent in 1994.

So, far from being a constant element of the organisational activity of VCOs, innovation is a variable one.

Both studies tested out four hypotheses that might explain the differences between the innovative, developmental and traditional VCOs – that they were the product of their structural characteristics, their organisational leadership and culture, their environment or their institutional framework. The research found little to support any differences between the three types of organisations in terms of their structure or culture. The innovative VCOs did work in significantly more complex environments than the other types of VCOs and had more dense networks of contacts to work with and through.

¹ The research was funded by the Joseph Rowntree Foundation (1994) and the Public Services Programme of the ESRC (2006).

² For a full report on the research see Osborne, S., McLaughlin, K. and Chew, C. (2008) 'The Once and Future Pioneers? The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach' in *Public Management Review* (special issue) (10, 1) pp.51-70.

³ For more information on this typology see Osborne, S. (1998) 'Naming the beast. Defining and classifying service innovations in social policy' in *Human Relations* (51, 9) pp.1133-1154.

However the most significant difference was the institutional and public policy environment that the organisations inhabited, and how this changed between 1994 and 2006.

At a basic level, the innovative organisations were not those whose prime source of income was voluntary giving and philanthropy. The suggestion has often been made in academic literature that this independence might make them more able to act innovatively. In fact, the evidence was that voluntary income was often a force for conservatism by VCOs – partly because of its uncertainty (and a consequent cautiousness by VCOs about engaging in innovative activity) and partly because of the apparent conservatism of philanthropic givers (they know what they want to fund and like 'their' organisations to stay close to this).

In fact it was *Government funding* and income that was most closely correlated with innovative activity by VCOs in this study.

The 1994 study uncovered a set of inter-locking factors that all served to make the innovative potential of VCOs a core expectation of their activity when they sought governmental funding:

- Government influenced by 'new right' free market approach to the provision of public services and the centrality of competition and of innovation to this (as popularised by the work of Dr Madsen Pirie at the Adam Smith Institute)
- Subsequently, Government public policy that required innovation as a pre-condition of governmental funding of VCOs ('how is your proposal innovative?' was often one of the first questions on any Government grant scheme form at this time)
- Practice at a local level which both reflected these national priorities and used innovation as a useful tool by which to allocate scarce public resources
- Both local and national VCOs actively encouraging the perception of themselves as innovative in order to attract governmental funding and to assert their hegemony over local government as the 'provider of first choice' for public services.

The 2006 study revealed three significant changes in the place of innovation in public policy and the role that VCOs can play in it. These are:

- A reformulation of innovation not as 'discontinuous change' but rather as 'continual improvement' (ie as 'incremental development') in the context of the production of 'world class public services'
- A re-evaluation of the role of the VCO sector in innovation in public services to emphasise the need for partnership with Government in order to release this potential
- A change in Government funding regimes at the local level, with new targets emphasising the importance of specialist work and incremental development, rather than innovation.



Implications for policy and practice

It should be emphasised here that no normative judgement is being made about innovation as somehow being better or worse than other forms of organisational activity. In reality, public service reform requires innovation and incremental development, as well as work that celebrates and retains specialist expertise and excellence. However, innovation is a unique process that requires a special set of managerial skills. It is one thing to inform a staff group in a VCO that you are going to improve (incrementally develop) their skills in providing a service, for example. It is something entirely different to say that you are going to make their roles and skills redundant by the adoption of a new (innovative) approach. Similar issues also pertain to communicating with service users about the improvement or replacement of the services that they are reliant upon. Neither is right or wrong, but they both require different approaches to management and communication.

Moving on to the specific lessons of this research, far from being a 'constant' in terms of the role of VCOs in delivering public services, innovative potential has been shown to be a variable – and one dependent upon Government policy for its significance. In 1994 this led VCOs both to focus more of their activity on innovative work, and to portray their other work as innovative in order to gain governmental funding. In 2006, this context has shifted to favour the provision of specialist services that enable local authorities to meet their own performance targets from central Government.

Whereas in 1994, it was hard to secure Government funding for any project that was not portrayed as innovative, in 2006, it had become increasingly hard to secure funding for anything that was seen as innovative.

At a service level, this has two implications. First, public policymakers and managers need to understand and take seriously the impact that their policy decisions have upon the structure and activity of VCOs. These organisations are not in a 'steady state', with inherent capabilities to bring to public services provision. Public policy makes as much difference to the activities of these organisations as it does to public sector ones – and particularly for the substantial element of the VCO sector that is dependent, to a greater or lesser extent, upon public funding for their financial security.

Second, for VCOs managers, it serves as a warning not to attach too great a significance to the sectoral rhetoric of innovative potential. Such rhetoric is both prone to obsolescence and liable to undermine other equally important capacities that VCOs may possess – such as specialist expertise⁴.

Appropriate innovation is an important activity for VCOs to undertake. It is essential for responsive and effective public services. *Funding driven innovation*, though, risks skewing the vital role that VCOs can play in the provision of public services in the UK – and undermines the, at least, equally important contributions that they can make both by providing specialist services and by the incremental improvement of such services. VCO managers thus have to achieve a difficult balance. On the one hand, they need to be sensitive to the aspirations and requirements of public policy and assess what, if any, contribution they can make to this (and its impact upon them if they are so dependent upon such funding for survival). On the other hand, they need to be clear about their distinctive contribution to public services, if they have one, and whether this involves innovative, developmental or specialist services.

⁴ And even now, there are early signs of a further swing in Government policy to privilege innovation once more – as evidenced by the recent NESTA innovation research programme.



Discussion

In Stephen Osborne's study, were the organisations in 2006 different from those sampled in 1994? What are the reasons behind the changes in level of Government funding?

Stephen Osborne said there would be a morbidity rate of about 40 per cent in organisations, so they would not all be the same, but similar ones working in the same areas were chosen. These changes might have had some impact, but the results did indicate a trend set by the Government approach. There has been something of a redefinition of innovation, and when people talk of innovation now, what they are often referring to is service development.

Was it really so very different in 1994? There was a pressure on to appear innovative – were the younger organisations more innovative, or perhaps more able to use the jargon etc, to present themselves as such?

The analysis was based on actual activity, but it was true that developmental organisations would portray their work as innovative in order to survive.

How does income from Government compare with overall income for these organisations?

The organisations received most of their income from Government sources, which included contracts and grants.

Historically, innovations have gone on to become the norm, – but are we still getting innovations into the mainstream? Are people buying into smaller individual projects, but missing the broader picture of what's needed?

Eleanor Shaw said that better funding and financing of innovation was needed, along with improved sharing of ideas. Funding needs to continue beyond the start-up stage. This is happening more now, but we are losing the balance of funding innovation.

Policy response

Frazer Scott, Chief Executive of Forward Scotland, which for more than 13 years has championed innovative approaches to sustainable development, reminded people that philanthropy was not just the preserve of the very wealthy, who tended still to seek something in return, but was equally about ordinary people giving of their time and skills.

To Forward Scotland, people are at the heart of sustainable development. “The planet will do just fine without us – it is people who are at risk of being wiped out.”

Forward Scotland has had plenty of experience with innovation, and was behind the pioneering of eco-schools, the sustainable, and ecological foot-printing.

The concepts of sustainable development and innovation shared a common problem of meaning different things to different people, but it was clear that the third sector used to be at the forefront of creative innovation, campaigning and research. Past successful innovations in areas such as waste management and renewable energy were born out of the energy of the third sector, and a measure of this success is the mainstreaming of these activities by private and public bodies. Today, the sector tended to be exercised by tendering, grant application and generating income from service delivery. The energy and vision that drove its creativity was swamped in legislation and the rigours of compliance which all businesses face.

He urged public bodies to look at how they procured services, and consider using other tools in their toolbox such as *The Power to Advance Wellbeing* to engage the third sector in more creative problem solving.

The third sector could at times be resistant to letting its innovations transfer to the mainstream, as this might run contrary to carefully crafted business plans that seek to perpetuate their existence. Today, social enterprises are encouraged to trade in many ways, just like private businesses – protecting their interests, ideas, innovations and profitability. He urged the sector to consider its historical successes – borne from the discontinuity from the mainstream it once presented – and to revisit that discontinuity with renewed vigour: “Where is the room to be innovative if we are tied up trying to be ‘oh so professional?’”

Professor Mike Danson, of the University of the West of Scotland, said innovation was very much a '90s thing' which had, perhaps, all been mainstreamed now. Innovation is risky, and funders are reluctant to take risks. There are parallels in other sectors, and lack of innovation now may reflect the credit crunch. Just as financial institutions are moving away from risk, funders of the third sector are also increasingly reluctant to fund risky ventures. It is harder to demonstrate success in innovation in social interventions – how can you measure the break-downs or mental health problems that people have not had?

Dr Alison Elliot, of SCVO's Management Board, observed that the sector is good at identifying need and then finding new ways to address it. But if you are tendering for a contract, the challenge has already been identified – a bit of a role swap, as the sector used to be the ones identifying the gaps. Now local governments are involved in procurement, and voluntary organisations deliver services. An innovator is someone who takes 'no' as a question. The sector needs to get better again at being persistent and challenging. There is lots of innovation in campaigning work.

Paul Tyrer, of the Scottish Government Third Sector Division, said that many voluntary organisations have a well-earned reputation for being innovative and providing groundbreaking services which will help them stand out in an increasingly challenging market. However, they could make a still stronger case if the evidence base on innovation were more fully developed and robust, setting out where the sector is really able to add value.

He welcomed the fact that the ESRC's Third Sector Research Centre, in Birmingham, which is leading on primary and secondary research on a range of issues relevant to this topic, is focussing in particular on the added value the sector brings to service delivery.

Scottish Government funding streams (detailed earlier in this booklet) all support innovative practice, as well as consolidating established success.

Details are available on the Scottish Government website: www.scotland.gov.uk/Topics/People/15300

The Scottish Government is also pleased to be supporting groundbreaking work to develop Social Return on Investment (SROI), which helps organisations look at what they do, measure the difference that their activity makes to people's lives, and tell a robust story about its impact in financial terms.

He hoped that once the development work is concluded, SROI will help TSOs market themselves still more effectively and, as part of that, sell their innovative character; services and work practices based on a solid evidence base. www.sroiproject.org.uk

Alan Morris, Social Economy Executive at Renfrewshire Council, said that to have impact, creativity was needed, which was hard to find in the public sector. It was necessary for the public sector to look beyond joint service delivery, procurement and tendering, and cultural change was needed in both sectors.

People trusted charities and other NGOs more than politicians, scientists and journalists, and this was a vital mandate when everything is falling apart, and none of the economic models is working anymore.

Rich social networks were more important than cash, and the underlying principles of the third sector, such as wellbeing, could be pushed to the fore now. Local Government had been granted the power to promote wellbeing, but no-one had used it as yet.

He asked: "How does the third sector link into community planning and single outcome agreements? Pilots are fine, but how do you measure or prove quality?"

The seminar had been useful for getting a grasp of what innovation actually is, but it was clear that more research needed to be done.

Further Information

This booklet is based on presentations made at a series of three seminars held in Edinburgh, entitled *The third sector – discussions around key public policy issues*.

The complete papers presented at these events, including full details of academic references, are available on the ESRC Society Today website at: www.esrcsocietytoday.ac.uk

Co-planning and co-production of public services with the third sector – December 5 2008

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Recession and the third sector – February 13 2009

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Innovation by the third sector – March 20 2009

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Centre for Charitable Giving and Philanthropy (CGAP)

An exciting initiative, jointly-funded by the ESRC, the Scottish Government, the Office of the Third Sector and the Carnegie UK Trust, to a total of £2.2million over five years, CGAP is the UK's first research centre of its kind, with a mission to build a better research understanding of charitable giving and philanthropy for donors, charities and policymakers. It aims to promote the strategic role of philanthropy in meeting today's social needs.

With a central Hub to promote co-ordination, knowledge-sharing, dissemination and engagement at Cass Business School, London, in partnership with NCVO and University of Edinburgh Business School (for Scotland), research is being carried out at the Universities of Strathclyde, Southampton and Kent, along with the research programmes also at Cass Business School and University of Edinburgh Business School.

The centre will provide crucial evidence which charities can use to develop giving in the UK, and which the Government can also use to ensure its policies are most effective in helping charities give all that they can to society.

Partners will lead on different areas of the programme:

- Individual and Corporate Giving – University of Strathclyde
- Charity and Social Redistribution – Universities of Kent and Southampton
- Institutions of Philanthropy and Giving Data – Cass Business School and University of Edinburgh
- Knowledge-sharing and dissemination – Cass Business School, University of Edinburgh and NCVO.

www.cass.city.ac.uk/philanthropy



Third Sector Research Centre

The Third Sector Research Centre (TSRC), opened in September 2008, is based at the University of Birmingham, and is working in partnership with the University of Southampton. TSRC is funded by the ESRC, the UK Government's Office of the Third Sector (OTS), and the Barrow Cadbury Trust. The project will run for five years initially, until 2013, and will be dedicated to world class research which will analyse, map, and develop further understanding of the sector. It will also act as a resource for the sector itself.

TSRC is directed by Professor Peter Alcock, of Birmingham, with Professor John Mohan, of Southampton, as Deputy Director. TSRC's agenda and programme are rooted in close collaboration with key agencies such as the National Council for Voluntary Organisations (NCVO), the Association of Chief Executives of Voluntary Organisations (ACEVO) and the Social Enterprise Commission (SEC), and will reflect priorities identified by them.

Activity at Birmingham will include contributions from a range of specialist researchers covering areas such as social and public policy, public service partnerships and social enterprise, and benefit from close association with ESRC's Centre for Research Methods and the ESRC's Centre for Population Change. The University of Southampton will handle most of the quantitative work, compiling data from a group of third sector organisations to see how they change over time.

Working with agencies and Government bodies to contribute to building capacity for further research across the third sector, the TSRC will also co-ordinate the work of three university-based 'capacity building clusters' providing studentships, knowledge transfer partnerships and collaborative research placements. TSRC will also work with CGAP.

www.tsrc.ac.uk



The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the voluntary sector in Scotland. There are 45,000 voluntary organisations in Scotland involving around 130,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.1 billion.

SCVO seeks to advance the values and shared interests of the voluntary sector:

Its strategic objectives are:

- Build voluntary sector capacity and strengthen governance
- Increase the effectiveness of the voluntary sector's infrastructure
- Promote citizen action and civic engagement
- Improve the voluntary sector's contribution to better Scottish public services
- Promote civil society interaction locally, nationally and globally.

In addition are three underlying strategic themes to influence its approach to all its work:

- Promote equality
- Be aware of the distinctive needs of rural communities
- Take a sustainable development approach.

Third Sector Evidence Library

- SCVO has launched a new resource, the Third Sector Evidence Library, which collates research on issues affecting the sector. It currently hosts around 800 research reports and is available at www.scvo.org.uk/evidencelibrary

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The devolved Government for Scotland is responsible for most of the issues of day-to-day concern to the people of Scotland, including health, education, justice, rural affairs, and transport. The Government was known as the Scottish Executive when it was established in 1999 following the first elections to the Scottish Parliament.

The current administration was formed after elections in May 2007.

www.scotland.gov.uk

Enterprising Third Sector Action Plan

The Scottish Government's Enterprising Third Sector Action Plan aims to create the right conditions in which an enterprising third sector – including social enterprises – can thrive, enabling the third sector to play a full role in the development, design and delivery of policy and services in Scotland.

www.scotland.gov.uk/Topics/People/15300/Actionplan



The Economic and Social Research Council (ESRC) is the largest organisation for funding research on economic and social issues. It supports independent, high-quality research which has an impact on business, the public sector, the third sector and Government. The issues considered include economic competitiveness, the effectiveness of public services and policy, and our quality of life.

The ESRC is an independent organisation, established by Royal Charter in 1965, and funded mainly by the Government.

The ESRC's planned total expenditure in 2009-10 is £204million. At any one time the ESRC supports more than 4,000 researchers and postgraduate students in academic institutions and independent research institutes.

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