northern rock foundation
Third Sector Trends Study

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Keeping the show on the road: a survey of dynamics and change amongst Third Sector Organisations in North East England and Cumbria – Summary

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Introduction

This working paper summarises the findings from a large-scale questionnaire survey of over 1,000 Third Sector Organisations (TSOs) in North East England and Cumbria. This 'TSO1000' survey forms part of the research work undertaken by Teesside University for the Northern Rock Foundation's *Third Sector Trends Study*.

The survey examined how TSOs are managing their activities and preparing for the future. Because it is a large-scale survey, it is possible to show how different parts of the sector are changing and how they view their options and opportunities. The *Third Sector Trends Study* is longitudinal, so future surveys will be able to reveal how the sector has fared, as organisations negotiate their way through turbulent times.

It will show, for example, how reductions in public expenditure have affected – and perhaps reshaped – the third sector in North East England and Cumbria. More broadly, it should be possible to judge whether, and in what ways, the sector has benefitted from being singled out as one of the essential components of the coalition government's 'Big Society'.

First, we present our general conclusions from this large-scale survey about how organisations are positioning themselves for change. Following this, we discuss the four key dimensions of TSO practice that emerged from a series of related case studies (the 'TSO50') previously undertaken as part of this research.

General conclusions: positioning for change

A key objective of the Northern Rock Foundation *Third Sector Trends Study* is to explore how different parts of the sector are characterised and how this impacts on their response to change.

In our first working paper, we speculated about the possibility of identifying and clustering TSOs with common characteristics in order to identify particular types of organisations. However, we now know that many TSOs defy placement in a simple or single framework. Consequently, here we have explored how TSOs are ***positioned*** in the social market and have identified three broad categories of organisational placement within the third sector.

More entrepreneurial organisations which deliver direct services to beneficiaries

These organisations, which are the most optimistic about their future, share similar characteristics. They tend to have been more recently established (since 1981), are of medium to large size and operate beyond the boundaries of a single local authority level. They are more likely to provide direct services to beneficiaries and they generate much (but not necessarily 'most') of their funding through earned income or from contracts.

These organisations are characterised by a business-like attitude. They plan actively to increase their income and are willing to collaborate with other organisations across sectors and engage in partnership bidding to secure future funding. Moreover, they are quite successful in this and invest significantly in capacity building by providing training to their staff, volunteers and trustees.

This group of organisations, comprising roughly 15–20 per cent of organisations, are the entrepreneurial representatives of the sector, constantly on the lookout for opportunities, combining a strong sense of business acumen with professional values.

More established organisations which are embedded in their communities

Established organisations with long histories, often dating back before 1945, also feel quite secure about their future; they are less interested in increasing their income; and, are less interested to work in partnerships or to work across sectors. The majority of their income is generated through grants and gifts, more rarely contracts, but they are often partially reliant on long-lasting Service Level Agreements from local authorities and their own earned income.

These organisations are characterised by their relatively small size; usually operating at the neighbourhood or single local authority level. This group, compromising about 40–60 per cent of the sector are the most established and 'conservative' group in the sector (in the sense that they are comfortable with a situation within which their practice is established, embedded and continuous).

They deliver valuable services to their local beneficiaries and are mainly concerned with consolidating these services. They operate on a strong value basis and are less open and responsive to demands from funders and policy makers. They are less concerned with capacity building and formal partnerships, formal business practice and training.

Less secure organisations growing or emerging in the 'boom years'

There appear to be two other organisational positions but their shared characteristics are quite hard to disentangle. In broad terms, roughly 20–30 per cent of TSOs occupy these positions in the sector.

These organisations have usually been operating for some time and experienced significant growth during the period of Labour government, or may be fledgling organisations which emerged in response to significant investment in many new regeneration initiatives.

They have benefitted from the upsurge in national and local government investment in community and may have gained significant assistance in their establishment through capacity building and infrastructure support.

Some organisations appear to be ***closer in position to more successful entrepreneurial TSOs***, but they are less mature and less independent organisations. These TSOs are more fearful (or too optimistic) about the looming public sector budget cuts. They are more likely to have a high level of dependence on public sector funding – most particularly from large-scale regeneration or sustainable communities projects.

Other organisations seem to be ***closer in position to the more established and traditional locality-based organisations*** but may not have sufficient assets or regularised core income, or be sufficiently embedded in their communities to weather future storms. These TSOs seem to be less active in scanning the horizon and forward planning. They tend to be less well informed about possibilities.

Research methodology

A questionnaire was designed to explore themes and issues identified in previous qualitative work. In particular, it builds on the findings from the TSO50 study and also takes into account points raised by the Foresight Panels. The questionnaire was piloted with the TSO50 group of organisations, which resulted in a number of stylistic changes to add clarity, encourage response and to ensure reliability.

A database of TSOs in North East England and Cumbria was provided by our research partners at Southampton University, NCVO and Guidestar UK. Because coverage of the small and unincorporated organisations was very patchy and unreliable, the sample was drawn from a database of registered charities in the study region.

The questionnaire was mailed to a sample of 6,000 organisations in April 2010. Adjusting the initial sample to exclude invalid entries on the database produced a final sample of 5,288 organisations. In total, 1,051 completed questionnaires were returned: a response rate of 20 per cent. This is an acceptable response rate for a survey of this kind.

The sample characteristics have been matched with mapping data from the *Third Sector Trends Study* undertaken by Southampton University, NCVO and Guidestar UK. These comparisons confirm that the sample is broadly representative of the third sector in North East England and Cumbria.

Summary of key findings

The main findings of this first TSO1000 survey, conducted in mid-2010, are presented under the four key themes which emerged in the TSO50 study, which highlighted four principal dimensions of TSO practice: *Foresight, Enterprise, Capability* and *Impact*.

Foresight

Organisational foresight is concerned with *'the capability of an organisation as a whole to be able to anticipate change and develop strategic plans to accommodate or exploit opportunities arising from change'*. In exploring foresight, the TSO1000 survey looked particularly at how organisations see their future prospects.

In spite of the economic climate, most TSOs are fairly confident about their future survival and financial prospects:

- The vast majority of TSOs (89%) believe that their organisation will continue to operate in the long term;
- Most TSOs (72%) expect their income to remain the same over the next two years and 11% think their income will rise significantly. However, 17% expect a significant fall in income.

Almost all TSOs (97%) think that demand for their services will stay the same or rise significantly. Those that have, or may have, a role in delivering public services are also confident that their involvement in the delivery of public services will stay the same or increase.

Only 17% of TSOs expect a significant fall in their income. These organisations tend to be very pessimistic about most things – apart from the expectation that demand for their services will increase. They are especially pessimistic about future income from statutory bodies. Many of them have already experienced decline: 38% of organisations that have experienced falling income over the last two years expect income to fall further over the next two years.

The more optimistic organisations, expecting a rise in income, tend to be:

- More recently established (post-1997);
- Operating across relatively large geographical areas;
- Medium-sized (income between £50,000 and £250,000);
- Providers of primary services;
- Able to generate earned income.

They are also likely to have had recent experience of income growth. It remains to be seen, as the study proceeds, if these optimistic expectations are justifiable.

Enterprise

Enterprise is defined in this study as the *'the organisation's capability to marshal its resources and prioritise its energies to achieve the objectives it sets itself in its strategic mission. Enterprise is the means by which the organisation successfully positions itself in order to generate, find or win opportunities which will ultimately benefit its beneficiaries'*.

Income

There remains a high reliance on grant income by most organisations. Contracts and Service Level Agreements, together with other sources of earned income, are most important for direct service providers and newer TSOs. These sources are much less important for the smaller and more local organisations which operate with a more traditional model of third sector working. Few TSOs have investment income. And unlike many small private sector businesses, very few TSOs take on loans.

Organisational planning

Those TSOs expecting to expand are more likely to plan to collaborate with others and change their practices, when compared with those expecting stable or reduced income. These organisations also have more confidence in their ability to: *produce innovative solutions to meet beneficiary needs; effectively deliver community support;* and *be professional in their practice*.

Those TSOs which are interested in collaborating with other TSOs are much more likely to be aware of opportunities to deliver public services and are also much more likely to be bidding for, or delivering, public services (27% compared with 9% which are not planning to collaborate). Those TSOs which intend to change their practices are also more aware of opportunities and much more likely to be bidding for public service contracts.

In more general terms, this survey has confirmed many of the findings from the TSO50 study. But we find a sector which is more varied (and perhaps polarised) in its composition than we might have expected.

Most TSOs appear to have capacity to concentrate on building external relationships and networks, seem to know when it is better for them strategically to compete with other organisations and when it is most beneficial for them to work cooperatively. We also find, however, that some organisations are likely to have organisational cultures that are more responsive to change than others.

Capability

An organisation's capability is defined as *'its ability to employ, manage, and develop its resources in order to achieve its strategic objectives. All of the resources of the organisation are considered, including: its trustees, employees and volunteers; its financial resources; its property; and its relationships with partners, funders and other key stakeholders'*.

Training

Only 56% of TSOs provide training for their staff, volunteers and employees. 42% of TSOs use in-house provision, 39% use external sources, (with 18% using only a combination of both), and 11% said they used distance learning.

Volunteers are the primary recipients of training (41%), followed by trustees (32%) and employed staff (part-time staff, 33%; full-time staff 29%). Only 22% report that they have a training budget – but many access free training on offer from infrastructure organisations and funding bodies. Larger organisations were far more likely to have a training budget than smaller organisations.

The highest priorities for training identified by TSOs were *bidding for grants* and *fundraising*. These priorities were particularly important among more recently established organisations. The lowest priorities identified by TSOs were training for *managing staff and volunteers*, and also *training in business planning, financial management* and *strategic management*. It may be a matter of concern that these aspects of organisational capability have such a low priority.

It is clear from the survey that organisations which do have a training budget and invest in staff development are generally more successful organisations (against a wide range of criteria) and are more confident about their future. What is not yet known is whether this is a causal relationship. It is suspected that robust organisations choose to invest in training because they are also effective at defining future priorities and developing their capability to achieve their objectives.

Partnership

The survey found considerable variation in willingness to get involved in partnership bidding. Newer organisations appear to be more likely to engage in partnership bidding, as are those organisations which are larger and those which have recently experienced growth in their income. The largest organisations report the most success in partnership bidding, while the medium-sized organisations say that they have often been unsuccessful.

However, our related work from Foresight Panels reveals that TSO willingness and ability to engage in formal partnership is hampered by two significant barriers. Firstly, competition over finite resources makes TSOs nervous about collaborating in more 'restricting' formal partnerships. Secondly, the unequal power relationship between TSOs and the public and private sector means that TSOs are often not in a strong enough position to negotiate the conditions of partnership. While entrepreneurial TSOs are much more interested in developing partnership relationships than traditional TSOs, many remain very cautious about investing in partnerships.

Impact

In this study, impact relates to *'the organisation's capability to serve its beneficiaries effectively and to make a wider contribution to the community of practice within which it works, to the third sector in general, and to civil society broadly defined. Crucially, this involves the ability of the organisation to understand its impact and to be able to communicate this effectively to outsiders'*.

An overwhelming majority (90%) of TSOs feel that the work they do is valued by the public sector bodies with which they work. Furthermore, 84% said that public sector bodies 'understood the role of their organisation' and 88% felt that their independence is respected. However, TSOs do not feel that the public sector keeps them well informed; it does not involve them sufficiently in policy; nor does the public sector properly take account of the sector's views. These perceptions of the public sector, both positive and negative, varied little across the sample.

On the whole, TSOs considered that they are effective in delivering community support, reaching into communities, and involving beneficiaries in decision-making. Interestingly, the larger organisations do not seem to feel they are at any disadvantage owing to their size – in fact, they were more inclined than the smaller TSOs to consider themselves effective in these areas.

The survey indicates that most TSOs do not put even a low priority on involving beneficiaries in assessing the impact of what they do. For those who do, informal discussions are the most common method, followed by the use of a complaints procedure, using surveys and organising events. Larger organisations generally appear to take such practices more seriously. Moreover, the larger organisations are more likely to have formal methods of impact measurement, no doubt often associated with contract arrangements.

In some organisations, user engagement is important and integrated into practice; in most it is much less developed. Similarly, impact measurement is well established in some organisations and hardly considered in many others. The consequences of these differences need to be more fully investigated, but at this stage it seems that more agile, entrepreneurial TSOs are likely to benefit most from developing impact measures – helping them to succeed in the competition to deliver public services.

Conclusion: Keeping the show on the road

The new coalition government has signalled a sea change in the way that the social market will operate – not least in terms of the reduced spending it intends to commit to that sector. Shortly after the publication of this working paper, the government will publish its public sector spending review on 20 October 2010. The consequences of this for the third sector may be very significant if, as is expected, government cuts public spending by between 25 and 40 per cent.

While government takes the difficult step of cutting public sector funding and tackling public debt, the prospect of the local third sector remaining as vibrant as it is now seems implausible. It is likely that many jobs will be lost in the local third sector as budgets are cut and funding streams end. This will be a sad loss for those individuals who face redundancy and for those beneficiaries who depended upon their contribution.

However, we do not think that there will be a wholesale collapse in the number of organisations in the third sector. Many of the ***traditional*** organisations which are embedded in their communities may reduce the size of their operations. They may be able to offset this by supplanting lost financial resources with higher levels of local public commitment.

The more ***entrepreneurial***, service-oriented organisations have shown themselves over the years to be agile in changing markets. They are used to the fluctuations in their income and many may have sufficient resource, momentum and commitment to keep going during the most difficult and immediate period of contraction – even if that could result in reduced levels of operation.

The organisations in the ***middle ground*** may, however, be much more vulnerable over the next two years. Those locally based organisations, mainly in less affluent areas, which emerged or grew quickly in response to many of the initiatives of the previous government and have remained largely dependent on such sources of income may find it hard to sustain themselves.

The third sector has enjoyed something of a boom over the last few years in financial terms and it is likely that now, there will be a period of contraction. That said, there will be opportunities which cannot yet be foreseen. Some organisations will do well for reasons which we cannot yet determine.

This is a third sector which is populated with people who have strong values and beliefs, and have the skills and commitment to make a difference. This research shows, perhaps surprisingly, that the third sector in North East England and Cumbria remains quite optimistic about the future. One way or another, we think, the majority of organisations will keep the show on the road.

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Background note

The Northern Rock Foundation's TSTS in North East England and Cumbria began in November 2008, and has two main aims:

1) to produce robust data and independent analysis on the scale and scope of the Third Sector in North East England and Cumbria;

2) to provide an analysis of the dynamics of the Third Sector through longitudinal study of stakeholder perceptions, organisational practice and local impact.

Teesside University's Third Sector Development Unit (TSDU) has undertaken the qualitative study of the Third Sector, led by Tony Chapman (Teesside University) and Fred Robinson (Durham University).

Alongside this, colleagues at the University of Southampton, the National Council for Voluntary Organisations and Guidestar UK have undertaken a comprehensive quantitative mapping exercise of TSOs in the study region. The two sides of the work come together in a longitudinal panel survey of a representative sample of local organisations.

Research findings are being disseminated on a regular basis throughout the life of the project.

More information

- **Northern Rock Foundation Third Sector Trends Study:** www.nr-foundation.org.uk/thirdsectortrends

- **Full report**
The full report on this study is available to download free of charge from the website above.

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