The reality check:

Final report from the second phase of the Third Sector Trends Study

Fred Robinson and Tony Chapman

POLICY&PRACTICE
St Chad's College
DURHAM UNIVERSITY

June 2013

i Acknowledgements

We gratefully acknowledge the Northern Rock Foundation which commissioned this study and helped and supported us throughout the project. We also want to thank the Third Sector Trends Advisory Board for their encouragement, advice and insights.

This study has been a team effort, of course, and we want to acknowledge the considerable contributions of our fellow researchers. They are listed in the Appendix as authors of the project working papers.

We are immensely grateful to the many people in Third Sector organisations who have contributed to this study, particularly those who took part in our foresight panels, helped us with the case studies, and responded to our questionnaire survey. We hope that our findings will be useful to them and to the sector as a whole.

`

Contents

1 Introduction

This report presents the key findings from the Northern Rock Third Sector Trends Study, marking the end of the second phase of the research. This longitudinal study of the characteristics and development of the Third Sector in North East England and Cumbria was commissioned by the Northern Rock Foundation in 2007, and the work has been undertaken by two groups of researchers. Quantitative analysis of secondary data was done by a group led by Professor John Mohan of Southampton University, which included input from Guidestar UK, the National Council for Voluntary Organisations (NCVO) and Newcastle and Cumbria Councils for Voluntary Service. The largely qualitative, survey-based work was led by Professors Tony Chapman and Fred Robinson of St Chad's College, Durham University, working with colleagues at Teesside University. This report covers both these components of the study and draws extensively on material from a series of over 20 working papers - freely available at www.nr-foundation.org.uk/resources/third-sector-trends-study/. (For a full list of the working papers see Appendix 1).

The impetus for the Third Sector Trends Study came from the Northern Rock Foundation (NRF) itself. The Foundation, a major funder of the sector in the North East and Cumbria, felt there was a real need for a better understanding of the scale, dynamics and support needs of voluntary and community organisations (the 'Third Sector'). That would be valuable in demonstrating the contribution the sector makes; it would be a great help in focusing support; and, more generally, would assist organisations in the sector to serve the community effectively. NRF saw the Third Sector Trends Study as an investment in the sector that would help not only Third Sector Organisations (TSOs) themselves, but also sector infrastructure bodies, funders and government agencies. It was envisaged that this research would help inform funding decisions, and assist policy and planning in the sector.

Before the study was commissioned, there was only a very limited amount of information about the Third Sector in the North East and Cumbria. There were – and still are – many suppositions about TSOs, often based on anecdote, rather than firm evidence. Over the past five years, we have been developing a better picture of

`

the sector which, we believe, provides a more realistic basis for understanding and supporting its work and contribution.

For us, the study has been a journey – as is apparent from looking at the working papers we have produced over the past five years. Slowly, tentatively, we have formulated and tested ideas about how the sector works. This journey has been taking place in quite turbulent times – the research was commissioned as the 'credit crunch' was coming to a head, and has been undertaken through a period of recession and spending cuts. It is not surprising, then, that much of the work has been concerned with seeing how organisations respond to challenges and change. Studying TSOs in this difficult economic context has not only highlighted the dynamics of the sector but has also shed light on factors which can make TSOs stronger, more resilient and better able to serve their communities.

Approach and methods

The approach to this study has three principal features:

- It is a longitudinal study, designed to track trends – changes over time. So far, the research has been undertaken in two phases; it is hoped that the planned third phase may follow in the future.

- It has both qualitative and quantitative elements. We have collected and analysed numerical data on the scale and scope of the sector and from a large-scale questionnaire survey, and have also undertaken interviews, organised focus groups and observed practice.

- It is a regionally-focused study. The Northern Rock Foundation wanted to commission work on the Third Sector in North East England and Cumbria, the Foundation's area of operation.

The study was conceived as a research project that should be highly relevant to practice and produce findings that would be very accessible. Consequently, throughout the study we have sought to present our findings as clearly as possible and disseminate them widely, especially to practitioners in the Third Sector.

The study comprises a number of separate, but interrelated, research exercises:

- Data from national databases and local listings was collected and then merged to create a database of TSOs in the North East and Cumbria. Analysis of basic data on nearly 7,000 charities was undertaken. The local listings, mainly supplied by local infrastructure organisations, were particularly important in identifying smaller TSOs. Surveys were also undertaken to help assess the characteristics of small 'below the radar' organisations. These

information sources made it possible to establish the overall scale and scope of the sector, and also provided a framework for the large scale questionnaire survey.

- A series of 29 in-depth interviews was carried out with chief officers of local infrastructure support organisations in the spring/summer of 2009. These are the organisations that support TSOs, and include Councils for Voluntary Service, Voluntary Development Agencies, Rural Community Councils and other sub-regional and regional agencies. These interviews helped to set the agenda for the research by identifying concerns, perceptions and the current state of knowledge about the sector. It was also an important opportunity to introduce the study to key individuals in the sector and it helped to secure access to their listings of local TSOs.

- The interviews with infrastructure organisations were supplemented by a series of focus group consultations with stakeholders from the public and private sectors as well as key informants from TSOs in the study area. These meetings were held in Spring 2010 and provided an opportunity to test out ideas and discuss the sector's strengths, weaknesses and future prospects.

- In-depth face-to-face interviews were conducted with a carefully selected sample of 50 TSOs across the study area. The sample was structured so as to include TSOs serving different groups of beneficiaries; bigger and smaller TSOs; and to provide coverage of the different parts of the North East and Cumbria. The interviews explored issues which had been identified through our literature and policy reviews and through the discussions with infrastructure organisations and focus groups. The first phase of these 'TS050' interviews took place in June to November 2009. A second phase of interviews was undertaken in 2012 (47 of the 50 TSOs were successfully re-interviewed). The interviews were supplemented by secondary data about them from their websites, and from material filed with the Charity Commission, media reports etc. An important feature of this research exercise was an innovative approach to analysis through the development of a scoring tool to assess organisational characteristics, which subsequently led to work on 'critical success factors'.

- A large scale questionnaire survey of TSOs was undertaken in the early summer of 2010 and repeated in 2012. Over 1000 responses were received in the first phase (hence we called it the 'TSO1000') and that was well exceeded in the second phase (over 1700 responses in 2012). This survey was designed to explore findings from all the other component parts of the study and generate data from a sufficient number of cases to allow analysis

of the relationships between different variables. Statistically comparable data from the two phases was successfully generated. The survey has proved invaluable in understanding how the sector is structured and, with baseline data from the first phase, we have been able to look at how the sector is being affected by change.

Taken together, these various components of the research have produced robust data to explore the anatomy and dynamics of the Third Sector in the North East and Cumbria. We have been able to undertake detailed analysis of the sector, look at how it works and assess its strengths and weaknesses. We believe that we have also been able to gain new and important insights that can help to make TSOs more resilient and more effective.

2 The scale and scope of the Third Sector

This study aimed to measure the scale and scope of the sector so that, for the first time, it would be possible to provide some reliable data on its size, characteristics and relative importance. That would make it possible to present the case for the sector in a more concrete way: for example, by indicating how many people it employs in the North East and Cumbria.

We had to invest a considerable amount of time and effort simply to establish the basic dimensions of the sector. A database, as comprehensive as possible, had to be carefully assembled. It includes the names and locations of all regulated organisations legally required to register with the Charities Commission, Companies House and the Financial Services Authority. But, in addition to that, we looked for other TSOs not registered with a regulator – primarily small, 'below-the-radar' organisations. These were found, or at least many of them were found, by searching local listings of organisations.

These listings were obtained from infrastructure organisations such as Councils for Voluntary Service and also local authorities, community foundations, regional bodies and membership organisations. Access to listings had to be negotiated and confidentiality assured. The different sources were then collated into a single database, with duplications found and removed. (At the same time, incidentally, the researchers were separately commissioned to assemble a similar database for the Yorkshire and the Humber region). Much was learned about the practical challenges involved in doing such an exercise and, mindful of the relevance to other researchers elsewhere, the methodology was fully reported in detailed working papers (Mohan and Kane *et al*, 2010; Mohan, Kane, Branson and Barnard, 2011).

General charities

Quantitative data on the 'core' of the sector – registered charities – was analysed in detail and the findings presented in two working papers, one on the North East, the other on Cumbria (Kane and Mohan, 2010 a, b).

`

There is a good deal of merit in focusing particularly on 'general charities' – these are independent, not-for-profit charities that have elements of volunteerism and are for a wider public benefit. They constitute the bulk of the Third Sector in terms of resources and activity. This group is defined and used by the NCVO in their annual *Civil Society Almanac*, and excludes independent schools, colleges and universities, etc.

As Figure 1 shows, we found that there are 4,763 of these general charities based in the North East and 2,216 based in Cumbria. Their activities are undoubtedly important, and their economic presence is substantial. But they are smaller organisations than the national average. That is because few big charities are based in the North East and Cumbria – most big, national charities are based in London and the South East. The average income of a general charity in the North East is £153,400, compared with £207,500 for the UK. And in Cumbria, a largely rural county with many very small charities, the average is half that of the North East, at only £73,800.

Figure 1   **Characteristics of general charities in the North East and Cumbria**

	North East	Cumbria
No of general charities	4763	2216
Income in 2007/08	£731m	£164m
Expenditure in 2007/08	£673m	£148m
Assets	£1,300m	£340m
Percent with income < £10,000	53.4%	65.4%
Percent with income < £100,000	83.2%	89.9%
(Population)	(2.6m)	(0.5m)

In both the study area and in the UK as whole, the vast majority of charities are small, but the largest charities have a relatively big economic presence. The few with incomes of more than £10m account for 25% of charities' income in the North East (and 44% of charities' income in the UK as a whole).

The activity profile of charities in our study area is also different from the national pattern. In the North East there are more charities concerned with development/regeneration, employment and training, and providing services for young people, compared with the UK as a whole. There is also evidence of higher rates of charity formation in the North East than nationally over the last few years, and many of these new TSOs are in fields such as community development, environment and Third Sector infrastructure – activities that have been supported

9

relatively well by government funding in recent years (Mohan and Wilding *et al*, 2011).

In Cumbria, as in the North East, there is also a greater representation of organisations concerned with development/regeneration and, perhaps predictably, organisations running village halls. Both the North East and Cumbria have an under-representation of grant-making trusts and international organisations.

One of the most significant aspects of the sector in the North East is its high reliance on funding from statutory sources – national and local government. In the North East, our analysis found that 49% of charities' income is from statutory sources, compared with 38% for UK charities as a whole. And, of that, a higher proportion comes from local government, a source which is now under considerable pressure. The situation is quite different in Cumbria, however, where only 29% of income comes from statutory sources. Cumbria's small organisations rely on small amounts, often donations and subscriptions from individuals.

Other TSOs

Definition of the Third Sector is debateable and fluid. In addition to general charities, there are housing associations and other organisations registered as companies limited by guarantee, Industrial and Provident Societies, Community Interest Companies, and also many unregistered youth and community groups. Adding all these in would bring the number of TSOs based in the North East up to 6,624, with an income of £1.54bn. In Cumbria, as well as the general charities there are 468 of these other organisations, bringing the total there up to 2,684 TSOs, with a combined income of £322m. In the whole study area there are therefore altogether some 9,308 TSOs under this broader definition, with a total income of £1.86bn.

But this is not the full picture either. Small 'below the radar' community organisations should be considered too. Having built up databases with local listings information, estimates have been produced on the size of this component. It is estimated that there are about 9,000 of these organisations in the North East and 3,000-3,500 in Cumbria. They are an important part of community life. This group of organisations includes many involved in culture and recreation (for example: sports clubs) and also conservation and environmental organisations. A survey of them indicated that most – but not all – have very small incomes, are heavily reliant on volunteers and get their income from members' subscriptions, donations and grants (Mohan, Kane and Balodis, 2011). We found some indications that 'below the

radar' organisations are more prevalent in more deprived areas – while the opposite is true for registered charities.

Adopting a wide definition, therefore, would indicate that there are something like 20,000 TSOs in the North East and Cumbria, with a total annual income of around £2 billion.

Cross-regional flows

The research also looked at the expenditures of charities across regional boundaries. It is estimated that charities based in the North East spend about £57m on activity outside the area. But because few big charities are based in the region, there is a substantial flow of expenditure *into* the North East. An estimated £390m of charitable expenditure comes into the North East, spent by charities based elsewhere (comparable data for Cumbria is not available). To put this into context, about 40% of expenditure by general charities in the North East is accounted for by the spending of charities based outside the region. Of the nine English regions, only the East Midlands and East of England have a higher proportion of charitable expenditure in their areas accounted for by inflows from charities based elsewhere (Kane and Mohan, 2010a).

Employment and volunteering

Using various statistical sources, estimates were derived for the amounts of employment and volunteering associated with the Third Sector (see Kane, Mohan and Geyne-Rajme, 2010 a,b). Figure 2 presents figures for the North East and Cumbria.

About 4,430 TSOs in our study area employ staff. About two-thirds of these are general charities, the rest are other kinds of TSOs such as companies limited by guarantee. Many are very small, employing few people. Altogether, the sector employs an estimated 46,050 staff (37,000 in the North East, 9,050 in Cumbria). While these numbers are substantial, the sector represents less than 4% of total employment in the study area.

Figure 2   **Employment and volunteering**

	North East	Cumbria
Number of people employed by TSOs	37,000	9,050
Percent of paid workforce employed by TSOs	3.4%	3.8%
Number of TSOs employing staff	3,700	730
Number of people volunteering with TSOs	143,000	52,800
Number of hours volunteered per year	10.5m	2.5m

About a quarter of the population volunteer – giving unpaid help at least once a month. Just under 200,000 people in our study area volunteer with TSOs (143,000 in the North East, 52,800 in Cumbria), contributing about 13 million hours a year in total. Both the estimates for employment and volunteering are similar to the national picture.

3 The state of the Third Sector

It is difficult to come up with a definitive view of 'the state of the Third Sector'. The diversity of the sector means that there are many different experiences, pressures and trends. There can be no single, definitive story; but it is nevertheless possible to develop some meaningful and revealing interpretations of how the sector is faring.

Initially, we had a strong sense that the Third Sector in the North East and Cumbria was having a particularly difficult time. Interviews with some of the infrastructure organisations and sector leaders at the start of the study seemed to dwell on worries about funding and the problems of managing in a highly uncertain environment (Chapman and Robinson *et al*, 2009). We certainly heard about the strengths of the sector, such as its ability to reach into communities and its commitment to people-centred values. But interviewees also spoke about how the Third Sector was viewed negatively by the public sector; how TSOs were struggling to attract trustees; how jobs in the sector were poorly-paid and insecure; and how it was subject to unhelpful external pressures, especially continual shifts in public policy.

Perhaps one of our most abiding impressions was simply a great unease about the future. In these initial interviews we encountered what we came to call an 'abyss mentality' – a feeling that a crisis, especially in relation to funding, was looming, if not in the near future, then before long, in the next financial year (Bell and Robinson *et al*, 2010). It was hardly surprising that there was a sense of foreboding; we were hearing these views at the start of a recession that people feared – quite correctly, as it turned out – would be deep and long-lasting. However, our job was not to take these views on board uncritically but, rather, to look carefully at the situation and test out what we were being told.

We were not convinced that the pessimism we encountered was necessarily wholly justified. Partly, that was because there had previously been dire warnings that the sector was heading for a 'funding cliff' in 2006, as various funding streams were coming to an end – yet, in the event, not very much happened.   Moreover, the Third Sector had enjoyed strong growth under New Labour and a scaling back of that might be uncomfortable, but would probably not be a disaster.

We were also especially conscious that it is 'natural' for organisations in this sector, as in the small firms sector, to come and go; there will be turnover and that could actually be healthy and helpful in re-invigorating the sector. Analysis of the quantitative data on general charities in the North East and Cumbria showed that there is, indeed, a fair amount of turnover in the sector (Mohan and Wilding *et al*, 2011). In our study area, about 70% of charities active in 1996 were still active in 2008 (85% in the case of charities with annual incomes greater than £100,000). These survival rates appear to be similar to those experienced in other parts of the country. The point we want to make here is simply that there is some turnover – even in the 'good times'.

The TS050 exercise also served to temper pessimism. We interviewed 50 TSOs of all kinds in 2009 and repeated that in 2012. We were surprised to find that nearly all of them were still going when we went back. In 2012 we were able to interview 47 of them (only one had closed down; one was undergoing reorganisation and was unable to meet us; one could not be contacted). Furthermore, although some had been struggling, others had been doing well, and, even in these difficult times, there was hopefulness and not much of an 'abyss mentality' (Robinson and Bell *et al*, 2012).

Many expressed great uncertainty about the future when we interviewed them the first time – and said much the same again, when we returned 2½ years later. Their survival seemed to be a demonstration of their ability to cope with such uncertainty. Perhaps uncertainty is, in any case, intrinsic to the sector – and maybe always will be. And perhaps it will inevitably be the case that some will accept, and work effectively with, such uncertainty; while others will be frustrated by it and hanker after greater stability.

The TSO1000 survey provided valuable data on the state of the sector, particularly since the first phase was able to serve as a benchmark for the second phase. That meant the findings could be set in context and we could start to think about identifying trends.

A key indicator of the state of the sector is income – though we must stress that rising income does not necessarily imply 'success', nor falling income 'failure' (see Chapman and Robinson, 2013). Trends in income do, however, give some indication of the situation facing TSOs individually and collectively.

In 2012, 21.6% said that their organisation's income had fallen significantly over the preceding two years, compared with 12.9% who had said that in 2010 (Figure 3). Correspondingly fewer reported a significant rise in income. However, most (70.4% in 2012, 71.4% in 2010) said that their income had stayed about the same. So,

`

there is certainly an indication here of TSOs under increasing pressure – but indications, too, of stability being the experience of a substantial part of the sector.

Figure 3 **Reported income trends: TSO1000 surveys 2010 and 2012** (column percentages)

Organisation's income over *last* two years has:	2010	2012
Risen significantly %	15.7	8.1
Stayed about the same %	71.4	70.4
Fallen significantly %	12.9	21.6

Bigger and smaller TSOs

As we sought to develop a view on the 'state of the sector', it became clear that the size of organisations is a crucial variable. There is a significant difference between the smaller TSOs and the larger ones, and that is fundamental to understanding how the sector is faring.

The smaller organisations can often be relatively insulated from the changes taking place in the wider environment. Many of them are local community organisations reliant on volunteers rather than paid staff. They receive little or no funding from the public sector, so that cuts in public expenditure may not have a direct impact on them. Recession may reduce their income from subscriptions, donations and grants, but they will often find ways to manage. Our impression, from the TSO50 interviews in particular, is that many of these organisations are generally able to carry on regardless. They are resilient and manage as best they can. And they have shown that they can survive: 37.5% of the smaller TSOs (with annual incomes under £25,000) in the TSO1000 survey were established before 1945, 65.5% were established before 1980.

By contrast, most of the bigger organisations are very much affected by external changes and pressures, and may have to work hard to survive. Organisations that employ staff, obtain funding from the statutory sector and deliver public services will have to respond to cuts and threatened cuts to their funding. Many are being challenged by new approaches to service delivery – the 'personalisation' of care budgets, for example – and they are also being expected to 'do more for less'. It is this part of the sector – the bigger organisations – that we tend to hear about in media stories about cuts, and rightly so. Many of these organisations are having to cope with a turbulent and difficult situation.

Figure 4 **Income trends over the last two years: TSO1000 surveys 2010 and 2012 by income of TSOs** (column percentages)

	TSO income risen significantly			TSO income remained about the same			TSO income fallen significantly			N=	
	2010	2012	% difference	2010	2012	% difference	2010	2012	% difference	2010	2012
£0-£10,000	5.4%	2.3%	-3.1%	79.4%	82.1%	+2.7%	15.1%	15.6%	+0.5%	423	666
£10,001-£50,000	20.3%	10.5%	-9.8%	73.7%	72.4%	-1.3%	6.0%	17.2%	+11.2%	217	344
£50,001-£250,000	18.6%	12.1%	-6.5%	63.9%	54.7%	-9.2%	17.5%	33.2%	+15.7%	183	289
£250,001-£1,000,000	33.9%	15.8%	-18.1%	53.2%	53.7%	+0.5%	12.8%	30.5%	+17.7%	109	190
£1,000,000+	26.8%	14.9%	-11.9%	62.5%	59.5%	-3.0%	10.7%	25.7%	+15.0%	56	74
All TSOs	15.5%	8.1%	-7.4%	71.5%	70.4%	-1.1%	13.1%	21.5%	8.4%	988	1,563

`

Figure 4 provides a further analysis of reported income trends, this time cross-tabulated by turnover. It suggests that the incomes of the small organisations have been relatively little affected by recent economic difficulties. The larger ones appear to have been much more affected.

In our TSO1000 samples, 43% of organisations had an annual turnover of under £10,000. In 2010, 5.4% of these *small organisations* said their income had risen significantly over the previous two years. That proportion had reduced to just 2.3% in 2012. Clearly, very few experienced increased income. Rather more experienced falling income – but there was virtually no change: in 2010 15.1% reported a significant fall in income and in 2012 15.6% said their income had fallen over the two years. There is – as would be expected – some change in income, and that is mostly downwards. But the amount of change among these small TSOs has stayed the same. Stability is a feature of most of these organisations. They are also often very local and hence close to their supporters and beneficiaries; many operate at neighbourhood or village level.

The other 60% or so of organisations, with incomes above £10,000 a year, have experienced much more turbulence. There has been a considerable decrease in those reporting rising incomes and a large increase in those experiencing falling income. In 2012, as many as a third of them (those within the range of £50,000 to £250,000 turnover in Table 4) said their organisation's income had fallen significantly. The Table suggests that *middle-ranking organisations have been under most financial pressure* – as some of the infrastructure organisations had told us in our initial interviews. (This is explored in more detail in Chapman and Robinson, 2013). In addition, some areas of activity have been harder-hit than others. The sector's infrastructure organisations appear to have been disproportionately affected by reductions in income: 26.6% of them in 2012 reported falling income over the previous two years, while only 4.8% saw a rise in income.

In the TSO1000 survey we also asked respondents to say what they thought would happen to their organisation's income over the *next* two years. Table 5 shows that the smaller organisations are more likely than the bigger ones to expect that their income will stay much the same. That is consistent for 2010 and 2012 and is to be expected: smaller organisations are less reliant on external funding which is likely to be variable and hard to predict.

Figure 5 does not present a particularly pessimistic picture. Looking at the data for the bigger TSOs, rather more expected a *decrease* in income at our 2012 survey (27.9%) than at our 2010 survey (22.8%). However, there was

a similar rise in the proportion expecting an *increase* in income: 33.7% expected an increase in 2012, compared with 27.4% in 2010. Turbulence may be increasing, uncertainty may be greater – but this is a mixed picture of future prospects, not a doom-laden one. In fact, there is considerable hopefulness; across both size categories and for both years, *there are more TSOs expecting an increase than a decrease in income*.

Figure 5 **Expectations about future income levels** (column percentages)

Organisation's income over *next* two years will:	2010			2012		
	Smaller TSOs	Bigger TSOs	Total	Smaller TSOs	Bigger TSOs	Total
Increase %	13.5	27.4	18.9	17.0	33.7	23.6
Remain similar %	73.4	49.7	64.3	68.3	38.4	56.4
Decrease %	13.1	22.8	16.8	14.7	27.9	20.0

Note: 'Small' TSOs are those with annual income below £25,000; 'big' are those above £50,000.

Associated with these expectations about income are expectations about demand for services. In the 2012 survey, 73.8% (69.0% in 2010) of the bigger TSOs said they thought that the need for their services would increase in the future. This compares with 34.0% of small organisations taking the same view. *So, a majority of bigger organisations predict increasing demand*. This is reflected in expectations about income – but only up to a point. It appears that many expect demand will increase but their resources will not: it would be a case of trying to do more for the same, if not for less. Some, unable to do that, would be overstretched, with insufficient resources to meet demand.

There seems to be a realistic understanding that funding is tight. Funding from statutory sources is much more relevant to the bigger organisations than the smaller ones. In 2012, 43.7% of the bigger TSOs said they expected funding from statutory sources to decrease, and 39.7% expected it would remain similar to current levels (Figure 6). However, the proportion expecting an increase in statutory funding had grown and the proportion expecting a decrease had fallen. Hence it would seem that some of the bigger organisations feel prospects are quite bright. But given the pressure on public spending, it is not surprising that a large majority of TSOs – of all kinds – expect to become more reliant on grants from charitable sources and donations from the public, and become more reliant on volunteers.

`

Figure 6 **Expectations about funding from statutory bodies: TSO1000 surveys 2010 and 2012** (bigger TSOs only: column percentages)

	Big TSOs	
Funding from statutory bodies over the next two years will:	2010	2012
Increase %	8.5	16.6
Remain similar %	38.2	39.7
Decrease %	53.3	43.7

'Big' TSOs are those with annual incomes above £50,000.

Role of the Third Sector

Over the past few years there has been a great deal of political rhetoric about the role of the Third Sector. Bound up with the 'Big Society' and amid concerns about public expenditure cuts, there are hopes and expectations that the Third Sector will become increasingly important in delivering public services. The Coalition Government takes the view that TSOs can help deliver better public services and can be more efficient than some public sector organisations. We have therefore been tracking Third Sector interest in tendering for public services. Broadly, we found that TSOs' awareness of these opportunities for delivering public services has grown – but, so far, we have found little change in the proportion of organisations actually getting involved.

The bigger organisations are most likely to have the capacity and the ambition to deliver public services. In our TSO1000 survey in 2012, 18.7% of the *bigger* TSOs reported that they are already delivering public services for which they have tendered, and a further 9.6% are bidding to do so (Robinson and Chapman, in *VINE*, 2013). Despite quite strong encouragement from the government – and despite the increase in opportunities and awareness – that level of involvement does not appear to have changed since 2010.

In addition, there are those TSOs who have considered getting involved in delivering public services, but have rejected the idea. That group has increased slightly. In 2010, 26.8% of the bigger organisations said they were aware of these opportunities but had decided that they were not relevant to their organisation's objectives. That proportion rose to 32.5% in 2012.

TSOs are nowadays being encouraged to develop partnerships and consortia, particularly in order to achieve the scale and capacity often needed to tender for public services contracts. This is of relevance to the bigger organisations

which, as we have noted, are much more likely to get involved in delivering public services than smaller organisations.

The TSO1000 survey does point to an increasing interest in partnership bidding, for example bidding for contracts as part of a consortium. Altogether 30.6% of the bigger TSOs in 2010 reported that they had been involved in partnership bidding – and many of them had been successful. By 2012, that had risen to 41.3% (see Figure 7). This looks to be a significant trend in the sector in the North East and Cumbria. Moreover, it is a trend that may help to develop and strengthen the sector; it might therefore be considered as a positive response to changing opportunities.

Indeed, in an additional analysis of the bigger TSOs, we found that those which had experienced falling income over the previous two years were particularly interested in developing networks and partnerships with others. But very few TSOs – of whatever size and experience – express any interest in going further than that by taking over services from other TSOs or getting involved in mergers.

Figure 7 **Involvement of bigger TSOs in partnership bidding: TSO1000 surveys 2010 and 2012** (column percentages)

	Big TSOs	
Has your organisation been involved in partnership bidding?	2010	2012
Yes – and we have been successful %	22.4	26.4
Yes – not yet been successful %	8.2	14.9
All Yes	*(30.6)*	*(41.3)*
No – but considering this %	24.1	20.3
No – and not considering this %	45.3	38.4

Note: 'Big' TSOs' are those with annual incomes above £50,000.

Perceptions of the Third Sector

A further aspect of the 'state of the sector' is its perceptions of itself – and its perceptions of how others see it. Here, we are concerned with questions of self-confidence as well as self-assessment, and also ideas about how the sector is positioned.

On the whole, the Third Sector in the North East and Cumbria sees itself in a favourable light. That came across in both the TSO50 and TSO1000

`

exercises. For example, in the TSO1000 surveys, nearly all respondents, from both bigger and smaller TSOs, saw their organisations as:

- ■ 'being able to produce innovative solutions' (84.7% agreed with that statement in 2010, 93.0% agreed in 2012);

- ■ 'effective in the delivery of community support and planning' (90.0% agreed in 2010, 98.1% in 2012)

- ■ 'professional in practice' (94.2% agreed in 2010, 97.5% in 2012)

- ■ 'able to work well in partnership' (86.9% agreed in 2010, 96.7% in 2012)

- ■ 'good at communicating our achievements' (73.5% agreed in 2010, 74.3% in 2012)

In our initial interviews, several of the infrastructure organisations said that the Third Sector is viewed negatively by the public sector and, over the course of the study, we have certainly heard it said that the public sector has a limited understanding of the Third Sector. It is said that voluntary organisations tend to be taken for granted – and, perhaps worse – seen as a way of providing services on the cheap.

In the TSO1000 surveys, however, this did not come across. Most TSOs – bigger and smaller – responding to our surveys thought that the public sector has a positive view of them. Around 70% said that the public sector 'values the work of our organisation'; and 'respects its independence'. But there is an important caveat here. Most do not feel that the public sector listens to them. Only about 30% feel that they are able to be involved in developing and implementing policies on issues which affect them. Less than 30% of TSOs think that the public sector acts upon their opinions and responses to consultations.

Hence, TSOs may feel reasonably good about themselves and think they are well regarded, but they also feel that they do not have much clout. We did find, however, that the larger TSOs tend to have more positive perceptions of how the Third Sector is viewed by the public sector (Chapman and Robinson in *VINE*, 2013). This is probably because those larger TSOs work more closely with the public sector, more of the time.

Variation within the sector

As our analysis developed, it became increasingly apparent that there are many different ways of trying to make sense of a sector that is complex and diverse. We said that the sector shouldn't 'be forced into analytical categories which lack real meaning', and that it should not be thought of as being more structured than it really is. Using analogy, we said at the start of our work that the Third Sector was more like an abstract painting than a jigsaw or mosaic (Chapman and Robinson *et al*, 2009).

Nevertheless, it is possible to make out patterns and trends. Our 'state of the sector' overview gives a 'big picture' impression of a sector that is doing reasonably well in an uncertain and difficult environment, but there is a good deal of variation across the sector. Some TSOs are very hopeful, others very fearful; some have better prospects than others.

At the end of the first phase of the research we developed a description of the sector that highlighted the situations facing different kinds of organisations (Chapman and Robinson, 2011). It was broad-brush, but therefore readily understood. It seemed to resonate with people in the sector, who found it to be a recognisable interpretation.

From our survey work, we identified three broad groupings, based on the 'positions' of TSOs within the sector:

- Entrepreneurial organisations – organisations with a business-like attitude, with business acumen and professionalism. These TSOs are on the lookout for new opportunities. For the most part, these are medium-sized organisations providing direct services to beneficiaries. We estimated that about 15-20% of TSOs in our area are in this group.

- Established organisations, embedded in their communities and close to their beneficiaries. They have a strong value base and tend to be quite conservative in their approach. Many are small, long-established and depend primarily on grants and donations. About 40-60% of TSOs are in this group.

- The third group comprises TSOs that mainly grew up in the 'boom years' before the current recession. Many of them provide services to local statutory bodies and may not be locally embedded. They are generally less secure than those in the other two groups, and thus give some cause for concern. They may not have much of an asset base or regular core income. We think that some will respond to changing circumstances and successfully adapt by becoming more

`

entrepreneurial and opportunistic; others will not. This group makes up about 20-30% of the sector.

This analysis certainly helps make sense of the different positions and different experiences of TSOs. It also helps to explain why there can be very different ideas about how the sector is faring: it depends on position and perspective.

This somewhat generalised view began to form the basis for a more detailed analysis of what makes some TSOs more 'successful' than others. It provided us also with a bridge – from a 'state of the sector' approach to an investigation into the factors that can help TSOs to be successful.

4 Successful TSOs

Responses to change

Having developed a picture of the sector, our next task was to try to understand how individual organisations operate. In particular, we wanted to look at how TSOs navigate a changing environment and, building on that, we sought to move towards our goal of establishing the critical factors that can help to make some TSOs more successful than others. Ultimately we want to be able to say what TSOs should concentrate on in order to be successful – so they can serve their beneficiaries as well as they possibly can.

When we revisited the TSO50 in 2012 we were able to explore how these organisations had responded to changes in their operating environment (Chapman and Robinson *et al*, 2012). There seemed to be three main kinds of response to change:

- Resisting change. Some TSOs carry on regardless; they see no need to change and can continue successfully without changing what they do or how they do it. That can work well, especially for small, community groups. For some TSOs, however, resistance can lead to serious trouble if they fail to implement necessary and realistic responses to the pressures bearing on them.

- Preparing for change. Some TSOs ensure that they are alert to changes in their environment and are ready to respond. They can take difficult decisions. These TSOs include those we identified as entrepreneurial, business-like and professional.

- Reacting to change. There are also organisations that may respond when they have to – but sometimes that can be too late, or too limited a response. Such TSOs, which may include some of those that grew up in the 'boom years', can be in a very vulnerable position.

`

Critical success factors

Having considered these broad responses to change, the focus of our analysis shifted to the factors that appeared to be most important in enabling organisations to respond to change effectively and to operate and develop successfully. Looking closely at how the TSO50 had performed, we were able to identify four factors which seemed to be most important in helping TSOs to succeed (Chapman and Robinson *et al*, 2012). These are:

- ■ ***Resilience:*** means that the organisation has the 'strength of character' to get through difficult times - and to prosper when times are good - without losing sight of its core mission.

- ■ ***Assets:*** includes a range of 'tangible resources' (such as property, investments, contracts, reserves, etc), 'people resources' (commitment, skills, motivation, values, etc.) and 'ideas' (the intellectual property to produce practices that lead to good solutions).

- ■ ***Mission:*** means that the TSO knows who it is there to serve and knows what it wants to achieve.

- ■ ***Organisational competence:*** means that the TSO can marshal its assets to work efficiently and effectively; in short, the TSO is well organised.

Each of these factors was positioned in diagrammatic form, as shown in Figure 8. Each of the TSO50 (excluding those which were branch operations) were placed in one of four quadrants in 2009 and 2012 according to our assessment of each of the TSOs, based on the evidence obtained through the interviews and secondary data. The four quadrants were defined as follows:

- ■ TSOs in **position A** have a clear mission and are well organised to achieve that mission. They have a strong asset base of resources, people and ideas which makes them more resilient to internal or external change.

- ■ TSOs in **position B** have a clear mission and they are well organised to achieve that mission. However, they have a weak asset base of resources, people and ideas. They are vulnerable to the impact of internal or external change.

- ■ TSOs in **position C** have a strong asset base of resources, people and ideas and are resilient to internal or external change. But they are not particularly well organised and do not have a clear mission.

25

■ TSOs in **position D** are not particularly well organised and do not have a clear mission. They have a weak asset base of resources, people and ideas. They are evidently vulnerable to internal or external pressures.

Once TSOs' positions had been defined, their journey between quadrants over the period 2009 to 2012 was plotted. This analysis demonstrated that:

■ 27 TSOs had remained successful and sustainable (that is, were in position A in 2009 and remained in that position in 2012) and four more had become more stable and sustainable by moving into quadrant A. We have called this group, of altogether 31 TSOs, *'Thriving or Rising'.*

■ 11 TSOs were in a stable position (staying in quadrant B, C or D) but had continued to struggle to remain sustainable or even survive. A further four TSOs had become less stable and sustainable over time. Their position had deteriorated. We call this group '*Surviving or Declining'.*

Again, this exercise seems to show that that the sector is generally resilient: many organisations had remained in a good position; some had improved. The majority appear to be maintaining stability and have been reasonably successful in negotiating change.

Figure 8   **Conceptual map of organisational effectiveness**
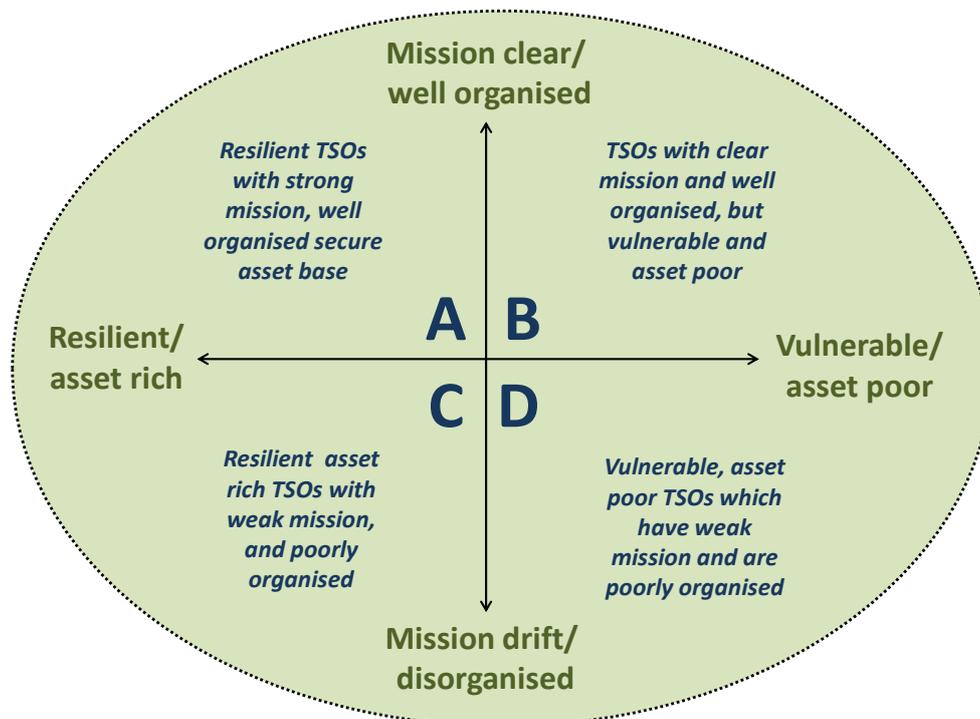
Organisational ethos

In addition, we wanted to explore the 'ethos' of our TSO50 organisations and then examine whether that is associated with, or related to, the 'journeys' that they had undertaken. By the term 'ethos' we mean the *cultural orientation* of the organisation – in relation to the market, the state, or the community. (We do not mean the extent of their dependence on market, state or community – although admittedly that can connect with ethos). The three categories can broadly be described as follows:

■ **Market-driven ethos**. These TSOs are business-like in their practice – they are clear about what product or service they offer. But they remain strongly attached to their values. They may be described as social enterprises; as both 'value-led' and 'market driven'.

■ **Community-driven ethos**. These are organisations that are not only *for* the community but also *of* the community. They are embedded in their community of place or interest, and reliant on its support. Many of these TSOs are small and they are often very reliant on volunteers; they may endure over long periods of time.

■ **Public sector-driven ethos**. These TSOs include those which are aligned closely with the public sector or at least are very much shaped by public sector agendas. Their objectives may thus have been defined by others, particularly through the operation of funding regimes. They may struggle to find the flexibility to respond when public policy priorities change.

Our working paper *Journeys and Destinations* (Chapman and Robinson *et al,* 2012) culminated with an analysis of the relationship between the ethos of organisations and their assessed positions in 2010 and 2012. Those that we categorised as having a market or community-driven ethos had generally fared well. In terms of our assessments based on the interviews, most (14 of the 18) judged to have a market-driven ethos were in quadrant A (in Figure 8) in 2009 and were still there in 2012. Those with a community ethos displayed similar strength and stability. By contrast, those with a public sector-driven ethos were doing less well. Most of them appeared to be struggling in 2009 and still struggling in 2012.

Scoring the TSO50

These attempts to uncover patterns – based on generalised 'success factors', the 'positions' of TSOs, and their 'ethos' – are certainly helpful, but are broad abstractions. More detail is required to get closer to understanding how and why the trajectories of TSOs differ.

Early on in the TSO50 work, we decided to develop a 'scoring system' designed to assess the characteristics of each organisation in the TSO50 sample (Chapman and Robinson *et al*, 2010). Each TSO was scored in relation to 20 criteria, grouped under four headline categories of organisational performance: Foresight, Enterprise, Capability and Impact. The 20 criteria are listed in Figure 9.

Scores (out of 5 for each of the 20 categories) were based on assessments by the TSO interviewer and another member of the research team who listened to the recorded interview and also looked at secondary evidence about the organisation. Scores were then discussed and agreed. The aim was not to 'judge' the TSO in a normative way but, rather, to introduce an element of detachment and clarity – and not just find a quote that would support what we wanted to say. Each TSO was scored after the first phase interviews in 2009 and again, after the second phase, in 2012. We did not look at the 2009 scores when we came to determine the second score in 2012; we wanted the two assessments to be independent. It should be noted, too, that these scoring assessments were made separately and independently from the assessments of TSO 'positions' and 'ethos'.

`

Figure 9   **Average scores for the TSO50, 2009 and 2012**

	2009	2012	% change
Foresight			
Knows what they are there to do and who they serve	4.7	4.7	0.0
Plans on the basis of realistic appraisal of capability	4.1	4.2	2.0
Leader(s) are focused on longer term objectives	3.7	3.7	0.0
Governing body understands aims and supports plans	3.7	3.8	2.0
Would consider making hard decisions in response to challenges	4.0	4.2	4.0
Total scores for Foresight	20.2	20.6	1.6
Enterprise			
Knows how to spot and assess opportunities	3.6	3.7	2.0
Knows when to compete or cooperate with others	3.6	3.8	4.0
Uses innovation to meet beneficiary needs	3.2	3.1	-2.0
Has an organisational culture which is responsive to change	3.3	3.5	4.0
Maintains useful relationships with stakeholders to help achieve aims	3.9	4.0	2.0
Total scores for Enterprise	17.6	18.1	2.0
Capability			
Staff, volunteers and trustees are properly prepared to perform their roles	3.7	4.0	6.0
Is appropriately 'professional' in approach to practice	4.0	4.0	0.0
Can work effectively with other organisations	3.8	3.8	0.0
Plans and manages finances effectively	3.8	3.9	2.0
Understands and implements relevant procedures and practices	4.1	4.4	6.0
Total scores for Capability	19.4	20.1	2.8
Impact			
Communicates role and impact successfully to relevant audiences	3.6	3.6	0.0
Beneficiaries appropriately involved in shaping activities and development	3.7	3.6	-2.0
Benefit to users is considered and assessed	3.8	3.8	0.0
Makes a positive contribution to the third sector	3.0	2.8	-4.0
Seeks to maximise impact on social wellbeing	3.6	3.7	2.0
Total scores for Impact	17.7	17.5	-0.8

When we came to compare the 2009 and 2012 scores, we found that there had been little change in total scores across the whole group of organisations, but there were notable differences when the group was disaggregated.

The average scores for the *Thriving or Rising* sub-group of organisations had increased. Improvement was particularly evident in relation to Foresight, and also in terms of Enterprise and Capability. By contrast, the overall scores for the *Surviving or Declining* sub-group had decreased. Biggest falls were in terms of Impact, and also Foresight and Enterprise. The differences in total scores between *Thriving and Rising* TSOs and *Surviving or Declining* TSOs are not very large – but the point is that they have moved in different directions (see Chapman and Robinson *et al*, 2013).

Looking at 'ethos', we found that:

- TSOs with a market-driven ethos had already achieved high scores in 2009 and their total score fell very slightly by 2012. In 2009 this sub-group scored an overall 84.6% of possible points in our assessment, which reduced to 83.9% in 2012.

- TSOs with a public sector ethos went down in our assessment, notably in relation to Foresight and Enterprise. The overall score fell from 74.5% in 2009 to 68.1% in 2012, a drop of 6.4 percentage points.

- TSOs with a community-driven ethos started from a relatively low overall score in 2009, but that went up significantly in 2012. Performance increased most in relation to Impact. The overall score rose from 65.1% in 2009 to 74.7% in 2012.

In our working paper *Walking a Tightrope* (Chapman and Robinson *et al,* 2013) we came to the view that the ethos of an organisation has a significant impact on its potential to succeed over time. In addition, 'ethos' links closely to 'position' in our schema. But it is obviously important to go into this in more detail. Hence we looked closely at scores for the full 20 scored criteria, reviewed the meaning and implications of these criteria and, from that, we were able to identify ten of these which seem to be particularly important for organisational success. These ten critical success factors are set out in Figure 10. These are the factors which, if organisations fail to attend to them appropriately, are likely to have a very significant impact on their ability to maintain or achieve organisational wellbeing and sustainability. To underline that, Figure 10 sets out 'what goes wrong if these conditions are not met'.

`

Figure 10   **Critical success factors**

Critical success factors	What goes wrong, if these conditions are not met?
Knows what they are there to do and who they serve	Not having a clear mission or constant mission drift undermines organisational effectiveness in planning and practice.
Plans on the basis of a realistic appraisal of capability	Failure to understand capability leads to poor assessment of opportunities and means that people in the organisation are not prepared properly to do their roles.
Leader(s) are focused on longer term objectives	Most organisations are at the mercy of change – being in constantly reactive mode to sudden difficulties leaves organisations vulnerable to poor decision making.
Governing body understands aims and supports plans	Inadequately skilled, informed, organised and motivated boards make poor decisions and damage organisational wellbeing.
Would consider making hard decisions in response to challenges	Failure to make difficult decisions and communicate them effectively can produce serious problems - TSOs which prevaricate or bury their heads in the sand rarely prosper in the longer term.
Knows how to spot and assess opportunities	TSOs which react to opportunities on the near horizon without proper appraisal of the potential longer-term consequences are at risk of failure.
Knows when to compete or cooperate with others	Decisions to compete or cooperate, when taken without proper consideration, can produce profound problems for organisations later on.
Maintains useful relationships with stakeholders to help achieve aims	Failing to appreciate, understand and act to meet the needs of key stakeholders weakens an organisation's ability to sustain existing activity or develop new areas of activity.
Plans and manages finances effectively	If organisational strategies surrounding resource allocation are weak, this can have a serious impact on sustainability and staff morale.
Understands and implements relevant procedures and practices	Few organisations lack awareness of statutory responsibilities and generally comply readily with them, but if they did not, organisations would become vulnerable to collapse.

The importance of governance

When we look at how TSOs respond to change in relation to their 'ethos' and these 'critical success factors', it seems evident that governance is at the heart of the matter. Good governance – appropriate, effective, and resourceful – can make a very big difference in helping an organisation to manage and succeed, even in difficult circumstances.

We have no doubt that many TSOs are under pressure. Some are struggling, some may not even survive. There is certainly an element of luck in this – their operating environment may make life very difficult for them or, on the other hand, they may find that what they do suddenly becomes 'flavour of the month'. That said, however, we do think that organisations are not just passively at the mercy of external pressures; they can try to find a way forward and their chances of doing that successfully are much greater if their governance is right.

The critical success factors we have identified are really aspects of governance – by which we mean an organisation's ability to hold on to its mission, steer a course, manage its resources and plan realistically and wisely. A board of trustees that knows what it wants to do, works together well and that has skills and experience really is invaluable. Alongside that, effective and consistent management is vital.

Good governance is about organising assets and holding on to the mission – and it is about making choices. In our TSO50 interviews we were particularly struck by the importance of assessing options and making the right choices. In particular, that means weighing up what opportunities to go for and what relationships to nurture, with an awareness that there are opportunity costs in doing one thing rather than another. We were struck, too, by the significance of an organisation's ability to make hard decisions; this seems a really vital 'success factor', especially in difficult times. It is also a reminder that 'success' may not be a simple matter of growth, or even survival. Success *could* mean that a TSO appraises its options and decides that it will have to close down – but will aim to do so in such a way that beneficiaries can continue to be supported by others.

In our working paper, *Taking the Temperature* (Robinson and Bell *et al*, 2012) we presented some quite stark and disconcerting examples of poor governance. We referred to boards or management committees that were weak, sometimes directionless, sometimes just rubber-stamping operations. It is clear to us that there is some poor practice and there are certainly organisations that are not well-placed in relation to the critical success

factors. There are, of course, many other organisations that are well-served by excellent governance.

Figure 11   **Support needs identified by TSOs** (TSO1000 survey 2012)

What percentage of TSOs put a 'high priority' upon gaining support from umbrella organisations in the following areas?	Smaller TSOs (in 2012)	Larger TSOs (in 2012)
Funding alerts and advice so that we can spot new opportunities	34%	71%
Assistance on how best to increase public giving to support our organisation	26%	50%
Help to communicate our organisation's successes	24%	65%
A network of like-minded organisations to build relationships and partnerships	19%	58%
Information and advice about local policy issues	17%	53%
Up to date information and advice about policy at a national level	16%	55%
A volunteer bureau to provide people to help us in our work	14%	30%
Help with evaluation of our work so we can evidence impact	13%	56%
Reasonably priced training sessions that are relevant to changing external requirements	12%	51%
Advice on organisational management issues (e.g. governance, employment	9%	42%
Reasonably priced back-office support (e.g. payroll, legal issues, insurances)	6%	36%
Provision of loans with reasonable terms for development	2%	14%

Supporting the sector

Do these findings suggest there is a need for more support to help TSOs strengthen their governance – and, therefore, help develop a stronger Third Sector? Is that the 'policy implication' we should draw from this?

In the TSO1000 survey we asked TSOs what support they are currently accessing and what kinds of support they see as a high priority. Funding is the top concern: most of the bigger TSOs already received or wanted 'funding alerts and advice so that we can spot new opportunities'. Fewer smaller organisations say they want such support but, of those that did, this was their top priority as well. However, many organisations said they were also interested in other issues – notably wanting help with aspects of governance and management. The larger TSOs stressed the need for help with communication, networking, policy information, and so on (Figure 11).

33

We wondered if there were any indications that those TSOs which had had support with governance and management development were any more successful than those which had not. In fact, on the whole there were not big differences between those with rising income and those with stable or falling income – apart from in two important respects (shown in Figure 12). TSOs that had experienced a rise in income were more interested in help with organisational management than were those with stable or falling incomes. They were also more interested in loans.

Figure 12 **What support are TSOs accessing now, or consider as a high priority?** (TSO1000 survey 2012)

	TSOs with rising income	TSOs with stable income	TSOs with falling income
Advice on organisational management issues (e.g. governance, employment)	60.3	39.4	47.5
Provision of loans with reasonable terms for development	23.4	9.2	14.4

Many of the *smaller* TSOs – most of which have stable incomes – do not particularly want support of the kind listed in Figure 11. Building capacity or changing what they do is not on their agenda. It can be argued, as we suggested in an earlier working paper, that the vast majority of smaller TSOs can be left to get on with it (Robinson and Bell *et al*, 2012), but they should make sure their governance is good and right for them. Light touch regulation is needed, as is access to support for those (relatively few) smaller TSOs considering significant growth and development.

In relation to the *larger* TSOs, we have come to the view that it really is important for them to look closely at all the key aspects of governance that we have identified as critical success factors. As Figure 12 shows, there is some indication that many of those that are doing well and increasing their income (though bearing in mind that increasing income is a proxy variable for 'success') are working on governance issues. They are also, incidentally, showing signs of greater 'enterprise', being more open to the possibility of raising loans.

`

One point that seems to emerge from much of our work is the short-term, reactive approach of many TSOs. That is demonstrated, for example, in their emphasis on prioritising help with funding. It is also evident in terms of the training priorities they identified: their priorities are very focused on funding, while, for most, training on aspects such as business planning, personnel and financial management are deemed to be far less important. We are clear that there needs to be a concern with longer term planning and practice; a focus on funding is not enough. Moreover, while relatively few may share the values of the private sector, TSOs can benefit from adopting 'business-like' practices that are concerned with efficiently reaching longer-term goals.

Support for larger TSOs may take many forms and can be provided by a variety of agencies. We would prioritise support that encourages organisations to review their boards and take steps to strengthen them. Boards – and managers – need to be ready, willing and able to adopt realistic plans and take difficult decisions. Funders can make their support dependent on an organisation being able to demonstrate good management and governance – and funders may help by undertaking or supporting external reviews. Such reviews or audits could usefully build from assessments of the critical success factors we have identified.

It should be stressed that it is reasonable to have a turnover of organisations in the Third Sector, as in other sectors. Not all struggling organisations can – or necessarily should – survive. Those that are no longer useful or effective ought to be merged with others or close down. In these cases, organisations may need help with mergers or with closing down in an orderly way: achieving a so-called 'good death'. The most important thing, not to be lost sight of, is protecting service users, rather than simply saving organisations.

In our earlier working papers we said that the larger organisations that are doing well can be helped to continue to be successful. That might involve policies concerned with public procurement for example, ensuring that Third Sector organisations are in a good position to bid for contracts. But we would now also want to emphasise governance issues and support that embraces and inspires an enterprising approach – linked to mission, values, and realistic understanding of both opportunity and capability.

5 Conclusion

We now know much more about the Third Sector in the North East and Cumbria. We have moved on from anecdote and supposition – and we now have a fuller understanding of the sector based on careful analysis of quantitative and qualitative data. We can provide a reliable account of the scale and scope of the sector; we are able to say how it is faring; and can point to the factors that have an important bearing on the success, or otherwise, of individual TSOs.

The North East and Cumbria has a substantial and reasonably resilient Third Sector. The area has over 9,300 'registered' TSOs, with a total income of £1.86bn. There are at least another 12,000 unregistered organisations, most of them very small. About 46,000 people are employed by TSOs, representing just under 4% of the area's total employment. Added to that, there are at least 200,000 volunteers. Compared to the UK as a whole, there are few large charities in our study area – and there is a heavier reliance on funding from statutory sources.

All our analyses point to significant differences between large and small organisations. The smaller TSOs are generally self-reliant, stable and may be little affected by external change. They are good at surviving and most are not interested in growth or change. They hope – and expect – to stay the same.

The larger TSOs are much more likely to be affected by changes occurring in their operating environment. It can be difficult for them to achieve a balance between organisational wellbeing and successfully pursuing the mission they have set themselves. And they often have to work, as best they can, with considerable uncertainty.

`

We have looked closely at the state of the sector and, while appreciating that there are real pressures and problems, we do not think there is a crisis. Smaller organisations are generally stable and the larger ones are often resilient and successful. That said, an increasing proportion of the larger organisations report that their income has been falling. On the other hand, many are fairly optimistic about the future – though that optimism may, of course, prove not to be well-founded.

Much of our analytical work has been concerned with examining how different kinds of TSOs respond to change. We have looked at this from several perspectives, focusing particularly on the outlook or ethos of different TSOs. We have identified a number of types of organisation – broadly, those which are entrepreneurial; those very much embedded in their community; and those close to the public sector in terms of how they operate and, often, what they do.

There are important differences in respect of the response and responsiveness to change of these different types. But we stress that the key to 'success' is primarily good governance. An organisation that has an effective board of trustees and skilled and competent management has a good chance of coping with the challenges it will inevitably face. Effective governance is not a panacea, but it certainly helps a lot, enabling a TSO to hold on to its mission, manage resources and plan realistically – especially important in turbulent times. The ethos of a TSO may be considered unhelpful in that it may make it difficult for the organisation to respond well to challenges and opportunities. But, whatever the ethos, good governance can help steer an effective course, choosing the right options and taking difficult decisions.

We have looked in detail at the characteristics of TSOs in relation to their Foresight, Enterprise, Capability and Impact. From that, we have abstracted what we believe to be 'critical success factors'. These factors – such as planning, focusing on objectives and assessing opportunities – are very much bound up with good governance. We think that organisations that are well governed will focus on these factors; we also think that all would gain from considering how well they perform in terms of all of these factors. And we feel strongly that some need to put rather more emphasis on addressing these issues and enhancing their governance; getting the organisation right is no less important than getting the funding secured. But of course, both are means to an end, not ends in themselves.

We believe that we have gone a long way towards building a better understanding of the sector and have helped to show how TSOs can work better. Our findings are, however, still to some extent provisional. We have only looked at two points in time and from that perspective we have developed *ideas* about the processes that bring about change in the sector. We hope to test these ideas with a third phase of the work (in 2014) and assess, too, the impacts of contemporary economic pressures on the sector. Our aim, throughout all of the work, is to help strengthen the Third Sector -- so that it can offer effective support to individuals and communities.

`

6 List of working papers

(All available free to download at www.nr-foundation.org.uk/resources/third-sector-trends-study/)

Bell, V., Robinson, F., Chapman, T., van der Graaf, P., Shaw, S., Brown, J. and Chinaka, G. (2010) *Forearmed with Foresight: speculations on the future development of the Third Sector in North East England and Cumbria.*

Chapman, T. and Robinson, F. (2011) *Taking stock, moving on: a summary report and position statement at the end of the first phase of study.*

Chapman, T. and Robinson F. (2013a) *On the money: how does the way Third Sector Organisations think about money affect the way they work?*

Chapman, T. and Robinson, F. (2013b) *The crystal ball: how do third sector organisations see their future?*

Chapman, T., Bell, V., and Robinson, F. (2011) *Measuring Impact: easy to say, hard to do. A think-piece to stimulate sector debate from the Third Sector Trends Study*

Chapman, T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P. (2013) *Walking a tightrope: balancing critical success factors in hard times.*

Chapman, T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P. (2012) *Journeys and Destinations: the impact of change on Third Sector Organisations.*

Chapman, T., Robinson, F., Brown, J., Crow, R., Bell, V. and Bailey, E. (2010) *What makes a Third Sector Organisation tick? Interactions of foresight, enterprise, capability and impact.*

Chapman, T., Robinson, F., Brown, J., Shaw, S., Ford, C., Bailey, E. and Crow, R. (2009) *Mosaic, Jigsaw or Abstract? Getting a big picture perspective on the Third Sector in North East England and Cumbria.*

Chapman, T., van der Graaf, P., Bell, V., Robinson, F. and Crow, R. (2010) *Keeping the show on the road: a survey of dynamics and change amongst Third Sector Organisations in North East England and Cumbria.*

Kane, D. and Mohan, J. (2010a) *Mapping Registered Third Sector Organisations in the North East.*

Kane, D. and Mohan, J. (2010b) *Mapping Registered Third Sector Organisations in Cumbria.*

Kane, D. and Mohan, J. (2010c) *Mapping Registered Third Sector Organisations in Yorkshire and the Humber.*

Kane, D., Mohan, J. and Geyne-Rajme, F. (2010a) *Paid work and volunteering in the Third Sector in North East England.*

Kane, D., Mohan, J. and Geyne-Rajme, F. (2010b) *Paid work and volunteering in the Third Sector in Cumbria.*

Mohan, J., Kane, D. and Balodis, L. (2011) *Beyond the regulated Third Sector: a survey of organisations in the North East*

Mohan, J., Kane, D., Branson, J. and Barnard, S. (2011) *Entering the lists: what can be learned from local listings of Third Sector Organisations? Results from a study of Northern England.*

Mohan, J., Kane, D., Wilding, K., Branson, J. and Owles, F. (2010) *Beyond 'flat earth' maps of the Third Sector: enhancing our understanding of the contribution of 'below-the-radar' organisations*

Mohan, J., Wilding, K., Kane, D. and Clark, J. (2011) *Trends in the North: what we have learned from the quantitative programme of the Third Sector Trends Study.*

Robinson, F. and Chapman, T. (2011) *Building better boards: what's the problem? A think-piece to stimulate sector debate from the Third Sector Trends Study.*

Robinson, F., Bell, V., Chapman, T., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P. (2012) *Taking the temperature: how are Third Sector Organisations doing?*

Also:

Chapman, T. and Robinson, F. (2013) 'Third Sector Trends and Challenges', *VINE, 41, pp 6-13. (Voluntary Organisations' Network North East, Newcastle upon Tyne).*

`

northern rock
foundation

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

Tel: 0191 284 8412
Fax: 0191 284 8413
Minicom: 0191 284 5411
Email: generaloffice@nr-foundation.org.uk
Website: www.nr-foundation.org.uk

Charity Commissioners' Reference Number
1063906