



Walking a tightrope: balancing critical success factors in hard times

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1 Introduction

This report aims to identify and examine the key organisational practices of third sector organisations (TSOs) that seem to contribute to their success.

The analysis that underpins our conclusions is based on a study of 50 organisations (the 'TSO50') over the last two and a half years. In 2009, after the first round of the study, we devised a scoring methodology to assess the performance of each of these TSOs against 20 categories of organisational practice divided equally between four broad headings: *foresight*, *enterprise*, *capability* and *impact*. Following a second round of research interviews in 2012, we have scored the organisations again. This working paper presents the findings from that comparative analysis and also provides a critical assessment of the methodology. But most importantly, it takes the project forward by identifying ten 'critical success factors' from the initial list of 20 categories of organisational practice.

These opening comments about 'scoring' organisations sound very judgemental for two reasons. Firstly, awarding 'scores' gives the impression that we have, at our fingertips, the *answers* to the big questions organisational leaders face – and that a 'tool kit' of remedies is going to be available. And further, there is an implication that if TSOs do things 'the right way', their future success will be guaranteed. But that's not what we are saying. In fact, we think that a lot of organisations, perhaps most, are really struggling just now with uncertainties about their future – and many are being hit by issues which they just could not have seen coming. Even those organisations that are very well run by any standards cannot anticipate and then deal with everything that comes their way.

Secondly, we are mindful of the frustration that many organisations feel when the need for their services is growing faster than their capacity to meet that need. Indeed, in a tight fiscal environment, that capacity is shrinking in many cases as contracts become more demanding, grants are harder to secure, the level of public giving may be falling and the propensity of people to volunteer their time remains largely unchanged. Whatever anyone might say about the culture, economy and politics of the third sector, surely everyone would agree that this is a sector which is at least keen to help people in need, build stronger communities and strengthen civil society. Its hunger to help, in hard times, means that the sector feels that it has to do more, with fewer resources – putting pressure on TSOs and the people who volunteer or are employed by them.

This working paper shows that, to be successful, TSOs have to achieve an extraordinary balancing act. We draw an analogy with walking a tightrope: where everything, in the controlled environment of the circus tent, has to be kept in balance while the artist moves

steadily forward in a straight line to reach a clear objective. For the leaders of TSOs, it doesn't feel as straightforward as this because there is no big tent to protect them from the elements. So many factors can be outside the control of the organisation that, for many TSO leaders, running an organisation these days feels rather more like walking the plank.

When times are hard and leaders are under pressure, it's difficult to take a step back from urgent day-to-day issues, and take a more dispassionate view of what is going on. We are sympathetic to the situation that TSOs find themselves in and we want to help, as much as we are able, by presenting some findings and some ideas that suggest how the 10 'critical success factors' we have identified interact with each other. We also want to offer some insights into the ways that TSOs can damage their performance and undermine prospects for the future.

We apologise in advance that this working paper may not be as easy to read as some that we have produced in the past. Whilst we have tried hard not to make the argument unnecessarily convoluted or confusing, the paper does tackle some quite tricky methodological problems and also raises a number of philosophical questions about 'what can we know' about what appears to make some organisations more successful than others. We have to do this, however, in order to proceed onto the next phase of work, outlined in the conclusion.

This working paper is divided into a number of sections:

- Section 2 provides a brief overview of the study to contextualise the analysis that follows.
- Section 3 presents an explanation of the approach we have taken to scoring performance against 20 organisational practices.
- Section 4, offers a critical appraisal of how well this approach has worked in the context of a longitudinal study.
- In Section 5 the analysis of the scoring methodology is presented. Here, the success of organisations with different characteristics is compared.
- Section 6 is concerned with the identification of ten 'critical success factors' and an appraisal of how organisations with different characteristics succeed in achieving them.
- Section 7 summarises the findings from the paper and outlines the next steps in the research.

2 About the TSO50

The intention of the TSO50 study was to follow the fortunes of 50 Third Sector organisations (TSOs) which, to some extent at least, can be said to be representative of the sector in the North East and Cumbria. The sample was selected using three dimensions: the area within which the organisations operate; the size of the organisations; and the beneficiary groups which they serve.

To cover at least some of the varied economic, geographical, cultural and social characteristics of the North East and Cumbria, we sought to identify samples of 10 organisations in each of the five sub-regions, and in each of these sub-regional samples we focused on a particular beneficiary theme, as follows:

- County Durham: arts, heritage and environmental organisations.
- Cumbria: organisations working in predominantly rural areas.
- Northumberland: organisations working with older people.
- Tees Valley: organisations working with young people.
- Tyne and Wear: mental health organisations.

We also sought to include organisations of different sizes. Hence, in each of these sub-regions, organisations were selected in four main size categories:

- Large national organisations: with headquarters/head offices based outside our study region.
- Larger regional / sub-regional organisations: with more than 24 employees and an annual turnover of at least £1 million.
- Medium sized organisations: those with between 5 and 24 staff, and a turnover of more than £200,000, but less than £1 million.
- Smaller organisations: with a turnover of less than £200,000 and having fewer than 5 employees.

The first phase of the TSO50 interviews was carried out in 2009. Together with data from the first phase of the TSO1000 survey, these interviews provided us with a snapshot of the Third Sector at that time. Now, in this second phase of the study, we can start to look at

how the sector is managing change. The second phase of the TSO50 study was undertaken between November 2011 and April 2012. Out of the 50 organisations we had started with, we found that one had shut down, one could not be contacted, and one was unable to meet with us, so we were able to interview 47 organisations. The majority of the interviews involved the same interviewer and interviewee as in 2009.

In this second phase of our TSO50 interviews we have been finding out how organisations have been getting on since we last met with them, exploring particularly how they balance external and internal factors and influences, and how they respond to challenges and opportunities.

3 Defining and scoring organisational practice

When we were commissioned to do the Northern Rock Foundation Third Sector Trends Study in 2008, we were asked to experiment with research methodologies. Amongst other things, we were invited to explore whether or not it is possible to identify specific organisational factors which contribute to the success of TSOs. A possible outcome of this work, it was hoped, could be the production of an organisational self-appraisal tool that TSOs can use, independently and economically, to help them think about how they approach their work.

Following the first phase of qualitative research on the TSO50 in 2009¹, we came up with a list of 20 categories of organisational practice which could be 'scored' by researchers (see Figure 1). These were assembled under four broad headings: *Foresight*, *Enterprise*, *Capability* and *Impact*. The idea was to revisit the TSOs again in 2012 and 2014 to see how their scores changed in response to actions they took internally to tackle foreseeable and unforeseeable changes that were going on around them.

In 2012, we repeated the qualitative work we first undertook in 2009 with 47 of the original 50 TSOs. Following this, at least two researchers independently studied interview transcripts, interviewer notes, and listened to the tape recordings of interviews so that they would be in a position to make evidence-based judgements on organisational performance, scoring them again in relation to each of the 20 categories.

Before the scores of the 20 categories were compared, however, researchers collectively made decisions, from a 'big picture perspective', on the progress of each organisation over the last two and a half years. The outcome of that work is published in our report: *Journeys and Destinations*. The reason why this was done before scores were compared was to ensure that we did not predetermine our big picture judgements on the basis of the more finely tuned scoring process. And further, we wanted to be in a position to check whether, or rather, to what extent, our 'big picture' judgements on organisational success matched with much more focused judgements on 20 aspects of organisational practice. At no point in this process did we look back at the scores we gave in 2009 so as not to prejudge our decisions.

Once the *Journeys and Destinations* analysis was completed, researchers met in pairs to share their score sheets for each TSO. The researcher who had not undertaken the

¹ For a much more detailed account of how the scoring methodology was devised and used, please see Chapman and Robinson, *et al.*, 2010.

interview led the discussion, eliciting scores from the interviewer, comparing them with their own scores – and then discussing each one in detail. We did it this way, so as to put some pressure on the interviewer to explain, or even justify, why they had scored each category as they had done.

It is important to remember that in the majority of cases, the same interviewer visited the TSO in both 2009 and 2012. As a consequence, interviewers and interviewees had built up a relationship with each other. While the identity of the TSO50 is kept confidential from Northern Rock Foundation and also from other organisations in the TSO50, this does not mean that we, as researchers, do not meet the people we interviewed while we are out and about in the region. Often we do other work with them; we meet them at events, and so on. So we were mindful that bonds had developed which could potentially cloud our judgements. As it turns out, the differences between first and second scorer's judgements were minimal, reducing concerns that scoring might be too generous due to personal association.

The closeness of the scores that researchers arrived at independently undoubtedly surprised us. And where there were differences in scores, usually just one point in either direction, we were always able to come to an agreement on the right score by exploring the evidence through discussion. To repeat an earlier point, on no occasion did we compare the 2012 scores with those of 2009 until all of the scores had been agreed and entered into a spreadsheet. Once the TSO50 scores had been agreed, they were entered into a spreadsheet that had been created in 2009 to allow for comparison. Within that spreadsheet, we also entered data on organisational characteristics, including:

- Our definition of the ethos of organisations (defined in *Journeys and Destinations*).
- The size of the organisation (measured by the number of employees/volunteers).
- The resources of the organisation (measured by income).
- The income profile of the organisation over the last seven years (using data, where available, from the Charity Commission).
- Our judgement on the journey the organisation had made over the last two and a half years (as defined in *Journeys and Destinations*).
- The spatial area within which the organisation is located.
- The thematic service orientation of the organisation.
- The extent of reliance on public sector or private sector funding.
- The extent to which the organisation was working in partnership with other TSOs, public sector organisations or private sector companies.

This paper provides a comparative analysis of the scores between 2009 and 2010. Before we do that, though, we need to present some caveats.

4 How accurate are the scores?

We have to give an honest answer here and say, we don't know for sure, but we have done our best. We tried, as discussed above, to stop ourselves from introducing bias by not cross-referencing with previous decisions and by independently 'blind' double scoring of TSOs. But we have to recognise that between 2009 and 2012 we have learned a great deal more about how TSOs operate from other aspects of the research programme. This knowledge, we concede, will have made us more effective at making accurate judgements on organisational performance than we were in 2009.

Are the categories of equal importance?

When the 20 categories of organisational practice were devised in 2009, our purpose was to produce a list which was balanced in terms of their relative importance. So when we compared the performance of TSOs it was hoped that, for example, 'Communicating role and impact successfully to relevant audiences' had about the same level of significance as 'understanding and implementing relevant procedures and practices'. It would have been wrong, obviously, to have had a category on a very specific task, such as 'uses the internet to communicate successfully' compared with a broad category such as 'understands and implements relevant procedures and practices'. Having explored the interaction between the categories in some depth for the 2012 data, it seems to us that the balance between categories is still broadly right. And further, we feel that the four headline categories: foresight, enterprise, capability and impact, work well too.

What we are less convinced by is the extent to which each of the 20 categories has *equal value* for the successful operation of a TSO. We now believe, for example, that good governance is of critical importance for the success of a TSO. The relative importance of making a 'contribution to the wellbeing of the third sector', by contrast, is a somewhat lower priority. Although there is more work yet to be done as the research progresses to its third phase, we can begin to focus on 'critical success factors'. As a starting point, in this paper, we undertake some analysis on the scores we give for what we now consider to be the top ten critical success factors, rather than using the whole basket of indicators.

Have the definitions of categories changed?

As noted above, we have learned much about the operation of TSOs since 2009 - which has undoubtedly changed our views on what some aspects of organisational practice mean. Three of the categories have proven to be particularly contentious in our debates on scoring and we are no longer as confident as we were about the scope for comparability. These are:

- ***Uses innovation to meet beneficiary needs.*** As the research has progressed we have become less convinced that constant innovation is necessarily as important to a TSOs success as is generally believed. Nor do we find all that much evidence of innovation in practice. Instead, we have become more convinced that TSOs are most interested in delivering continuous good practice based on experience and evidence of success. Innovation is important in some walks of life, and is less so in others. So why this term has become so much of a preoccupation by funding bodies is a matter for conjecture. Many respondents in our study jokingly observed that the innovative part was to find a form of words to persuade funders that what they normally do is innovative – rather than it actually being different from their usual practice.² Where we find innovation, it is mainly located in the arena of the integration of organisational practice – and particularly so in the operation of partnerships. So this category was hard for us to score because we no longer felt fully confident that we knew how innovation could be defined or observed, nor whether it necessarily brought benefit or not.
- ***Makes a positive contribution to the third sector.*** This category is problematic for two reasons. Firstly, we are aware that opportunities to make a contribution to the operation of the third sector had become somewhat diminished by 2012. Many of the funded networks for TSOs to get together had been lost following the abolition of the regional development agencies, government offices for the regions, and other regional or sub-regional bodies such as Business Link, the Learning and Skills Council, Connexions, and so on. Similarly, the level of investment in infrastructure support and capacity building had diminished – so reducing the options for such involvement. Secondly, we are no longer convinced that making a contribution to the third sector, in general terms, *necessarily* helps TSOs to be more effective in what they do. The CEOs of some of the TSOs we talked to were inveterate networkers, while others were sceptical about the value of such activity. On balance, more CEOs seem to have moved towards a more sceptical position about the value of networking. We did our best to score TSOs in relation to this category, but do not feel by any means certain that we know what the advantages

² It is important to recognise that what may have been 'innovative' 20 years ago, when an organisation was established, may have become fully embedded in organisational culture and practice. Neither is this to say that such an approach to practice, if adopted by other organisations, would not then be defined as innovative should they attempt to adopt or adapt such practice for similar or different purposes.

and disadvantages may be in different situations. Certainly, some positive benefits can be identified – for example, CEOs who serve as trustees on the boards of other TSOs could well find that helpful in terms of their learning and understanding about organisational practice. Conversely, some TSOs probably limited their own effectiveness by giving ‘too much’ support to the sector whilst neglecting their own organisational priorities.

- ***Seeks to maximise impact on social wellbeing.*** We remain confident that most TSOs want to achieve the most they can for their beneficiaries. But we find much variation in the extent to which they want to impact on social wellbeing in more general terms. Certainly, people in the third sector tend to have strong social values, but for some, their horizons are very wide and for others rather short. It is not for us to make judgements on this, we now realise. Who are we to say that, for example, a TSO that serves a very particular beneficiary group with enormous focus, vigour and commitment (but sometimes at the expense of other social interests) is doing a bad job? And what if, by contrast, a TSO works tirelessly to tackle a whole range of social issues, but does so at the expense of its efforts to support its own beneficiaries? Defining and measuring social wellbeing, needless to say, is notoriously difficult even at an individual level, let alone for an organisation. Probably, when we invented this category, we were seduced by the idea that ‘maximising impact on social wellbeing’ is something that the third sector does particularly well. And maybe it does! The only way of knowing that for sure would be by comparing the attitudes and behaviours of people and organisations from other sectors. But this study is not attempting to do that.

All of these observations put our methodology under a critical spotlight and clearly raise questions about the validity of the whole exercise. But it is only three out of 20 categories that have caused us trouble in terms of judgement or interpretation. And further, as we argued in our first report on the TSO50 in 2009³, this was an experiment to explore ways of categorising critical success factors and we fully expected at the time that our views would change and adaptations would need to be made as the research progressed.

As noted in the introduction, our views *have* changed and in this working paper we propose that there are 10 critical success factors, which reflects our belief that if TSOs attend to these factors in an appropriate way, other vital aspects of organisational activity will naturally follow.

³ See Chapman and Robinson *et al.*, 2009, *What Makes Third Sector Organisations Tick?*

5 Comparative analysis of scores

The analysis in the following section is divided into several parts. The first stage of analysis presents headline findings showing if there are significant differences in organisational scores between 2009 and 2012. Following this, the performance of TSOs is analysed by comparing organisations which have been 'thriving or rising' against those which have been 'surviving or declining' in the last two and a half years. The third sub-section shows how organisational ethos has impacted upon their scores between 2009 and 2012.

Figure 1 presents headline scores for the TSO50 in 2009 and 2012. Average scores in each of the four principal categories, *Foresight*, *Enterprise*, *Capability* and *Impact*, indicate relatively limited change. Where change is observed, it is generally one of improvement. The only exception is in relation to *Impact*, where there is a slight fall in the overall score. This is primarily due to the lower score for 'making a contribution to the third sector'. This may be partly due to a reduced number of formal networks and fewer activities of infrastructure organisations since 2009.

It is gratifying to note that, despite a challenging funding, social and political environment, the sector appears to be standing up well. But taking the TSO50 as a whole may conceal much of what is going on beneath the surface for organisations with different characteristics, objectives and ethos. The next step is to explore what these variations are.

Figure 1 **Scores for the TSO50 in 2009 and 2012**

	2009	2012	% difference
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
<i>Total scores for Foresight</i>	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
<i>Total scores for Enterprise</i>	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
<i>Total scores for Capability</i>	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
<i>Total scores for Impact</i>	17.7	17.5	-0.8

Comparing scores of TSOs which are thriving or surviving

In our recent working paper, *Journeys and Destinations*,⁴ we asserted that evidence-based judgements on organisational performance against four dimensions of organisational practice helped to explain their progress from 2009 to 2012. These dimensions of organisational practice were defined as follows:

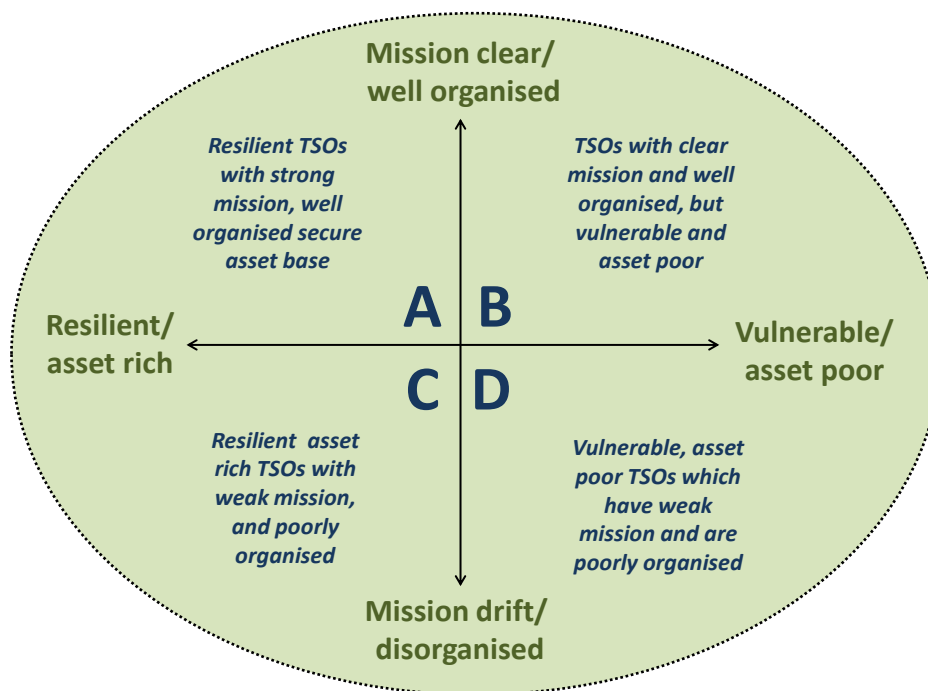
- **Resilience:** means that the organisation has the 'strength of character' to get through difficult times and to prosper when times are good without losing sight of its core mission.
- **Assets:** includes a range of 'tangible resources' (such as property, investments, contracts, reserves, etc.), '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 TSOs position in relation to these dimensions was positioned in diagrammatic form, as shown in Figure 2, and then each of the TSO50 were plotted in one of four quadrants in 2009 and 2012 according to evidence-based judgements. 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.
- 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 vulnerable to internal or external change.

⁴ See Chapman and Robinson, et al. (2012).

Figure 2 **Conceptual map of organisational effectiveness**



Once TSOs positions had been defined, their journey between quadrants between 2009 and 2012 was plotted. The analysis demonstrated that:

- 27 TSOs had remained successful and sustainable (that is, remained in position A in 2009 and 2012) and 4 more had become more stable and sustainable by moving into quadrant A. These are the 31 TSOs which we define in this paper as **'Thriving or Rising'**.
- 11 TSOs were in a stable position (staying in quadrant B,C or D) but were continually struggling to remain sustainable or even survive. Four TSOs had become less stable and sustainable. In this paper, we define this group of 15 TSOs as those which are **'Surviving or Declining'**.

Figure 3 compares the scores of TSOs which were **Thriving or Rising** with those TSOs which were **Surviving or Declining**. The scores suggest that TSOs which were **Thriving or Rising** improved by over 5% between 2009 and 2012. Improvement is particularly clear in terms of *Foresight* (up 8%), but a strong performance is shown in the development of *Enterprise* (up by more than 6%) and *Capability* (up by over 5%). By contrast, overall scores lowered by nearly 6% for TSOs which were **Surviving or Declining**. Assessments of their ability to make an impact fell by nearly 8%. Scores for *Foresight* and *Enterprise* both fell by over 6%. The Capability of TSOs to deliver their work successfully fell by a narrower margin: less than 3%. In sum, it is observed that while the differences in scores between **Thriving or Rising** TSOs and **Surviving or Declining** TSOs are not very large – they have moved, quite consistently, in *different* directions.

Figure 3 **Comparing scores of TSOs which are thriving/rising or surviving/declining**

	Thriving / rising		Surviving /declining	
	Score out of maximum 25 for each category	Score represented as% of possible maximum score	Score out of maximum 25 for each category	Score represented as% of possible maximum score
Foresight 2009	20.1	80.4	19.2	76.8
Foresight 2012	22.1	88.4	17.6	70.4
Foresight difference	+2.0	+8.0	-1.6	-6.4
Enterprise 2009	17.7	70.8	17.5	70
Enterprise 2012	19.3	77.2	15.8	63.2
Enterprise difference	+1.6	+6.4	-1.7	-6.8
Capability 2009	20.2	80.8	18.1	72.4
Capability 2012	21.6	86.4	17.4	69.6
Capability difference	+1.4	+5.6	-0.7	-2.8
Impact 2009	17.4	69.6	18.3	73.2
Impact 2012	18.1	72.4	16.4	65.6
Impact difference	+0.7	+2.8	-1.9	-7.6
All factors 2009 (max 100%)		75.9		73.1
All factors 2012 (max 100%)		81.1		67.2
Total Difference		+5.2		-5.9

Organisational ethos

In *Journeys and Destinations*, TSOs were divided into three categories: those with a market driven ethos, public sector driven ethos, and community driven ethos.

- TSOs with a **community driven ethos** tend to be smaller; they are run mainly by volunteers and employ few, if any, staff; and, they tend to endure over long periods of time. 16 TSOs in the study had a community driven ethos, of which 82% had maintained or improved their position as successful and sustainable organisations between 2008 and 2012.
- TSOs with a **market driven ethos** tend to be larger organisations; they often employ more staff than volunteers; they operate in a business like way; and, they are socially enterprising. 18 TSOs in the study had a market driven ethos, of which 94% had maintained or improved their position as successful and sustainable organisations between 2008 and 2012.
- TSOs with a **public sector driven ethos** come in various shapes and sizes; they tend to be more responsive to the agendas of public sector bodies to shape their mission and destiny rather than defining mission on their own terms. 14 TSO in the study had a public sector driven ethos, of which only 7% had maintained or improved their position as successful and

sustainable organisations over time; 71% struggled to remain sustainable, the remainder had become less stable or even closed.

The research findings presented in the *Journeys and Destinations* report demonstrated, therefore, that the 'ethos' of an organisation has a significant impact upon their potential to succeed over time.

In Figure 4, TSO scores against the four headline categories of organisational performance, that is, *Foresight*, *Enterprise*, *Capability* and *Impact*, are presented. These data show that:

- TSOs with a **market driven ethos** were already scoring more highly than other organisations in 2009: they were achieving almost 85% of the maximum possible score compared with 75% for TSOs with a public sector driven ethos and 65% for TSOs with a community driven ethos. The observation that the overall score of these organisations had fallen slightly between 2009 and 2012 needs to be set in that context. Scores rose in some categories. Organisational ability to frame and pursue their *mission* rose by 4.4 percentage points to nearly 89%. This suggests that these TSOs were doing very well. Only in relation to *impact* categories did scores fall – but this may reflect a change in the way we interpreted these factors (as discussed in Section 4).
- TSOs with a **public sector driven ethos** achieved an overall score of 75% of a potential 100% in 2009. This score fell by over 6% in 2012, suggesting that their performance went down in our estimations. In particular, the scores suggest decline in competence in terms of *foresight* (down by nearly 8%) and *enterprise* (down by over 7%). A slight improvement in *impact* scores (by over 4%) should be noted, albeit from a lower starting point than TSOs with a market driven ethos or community driven ethos.
- TSOs with a **community driven ethos** went up in our estimations in terms of performance: rising by almost 10% between 2009 and 2012. These TSOs started from a lower score than TSOs with a market driven ethos or a public sector driven ethos in 2009, but clearly did a lot of catching up by 2012. Performance scores increased by more than 10% in relation to *foresight*, *enterprise* and *capability*, and by 13% for *impact*.

Figure 4 **Comparative scores for 2009 and 2012 by 'organisational ethos'**

	Market driven ethos		Public sector driven ethos		Community driven ethos		Whole sample	
	Score out of maximum 25 for each category	Score represented as% of possible maximum score	Score out of maximum 25 for each category	Score represented as% of possible maximum score	Score out of maximum 25 for each category	Score represented as% of possible maximum score	Score out of maximum 25 for each category	Score represented as% of possible maximum score
Foresight 2009	21.1	84.4	19.8	79.2	18.4	73.6	20.2	80.8
Foresight 2012	22.2	88.8	17.9	71.6	20.9	83.6	20.6	82.4
Foresight difference	+1.1	+4.4	-1.9	-7.6	+2.5	+10.0	+0.4	+1.6
Enterprise 2009	20.9	83.6	18.0	72.0	13.9	55.6	17.6	70.4
Enterprise 2012	20.8	83.2	16.2	64.8	16.8	67.2	18.1	72.4
Enterprise difference	-0.1	-0.4	-1.8	-7.2	+2.9	+11.6	+0.5	+2.0
Capability 2009	22.1	88.4	18.7	74.8	17.3	69.2	19.4	77.6
Capability 2012	22.1	88.4	18.0	72.0	19.8	79.2	20.1	80.4
Capability difference	+0.0	0.0	-0.7	-2.8	+2.5	+10.0	+0.7	+2.8
Impact 2009	19.6	78.4	17.9	71.6	15.5	62.0	17.7	70.8
Impact 2012	18.8	75.2	18.8	75.2	18.8	75.2	17.5	75.2
Impact difference	-0.8	-3.2	+0.9	+3.6	+3.3	+13.2	-0.2	+4.4
Total 2009		84.6		74.5		65.1		74.9
Total 2012		83.9		68.1		74.7		76.3
% difference		-0.6		-6.4		+9.6		+1.4

Resilience and assets

The 20 categories of organisational performance which were devised in 2009 to assess the TSO50 were designed to be of broadly similar weight. That is, no judgement was made at the time of the relative importance of each category for organisational success. It was also recognised, however, that once the second phase of the research was complete, it might be necessary to look again at these 20 categories and consider whether individual or groups of factors may be more or less influential in organisational success.

We now examine this possibility by dividing the twenty categories of organisational performance into two broad groups. As shown in Figure 5, ten categories are allocated under the heading of ***Resilience and Assets***, and the remainder under the heading ***Organisation and Mission***.

Figure 6 shows that resilience and assets scores for TSOs which were ***Thriving or Rising*** increased between 2009 and 2012 by nearly 6% and that scores for mission and organisational capability rose by over 4%. TSOs which were ***Surviving or Declining***, by contrast, fell by 7% and nearly 5% respectively.

Finally, Figure 7 compares changing scores for TSOs with a particular organisational ethos. This table shows that scores for TSOs with a market driven ethos fell slightly, but from a strong starting point in 2009 (with scores well above organisations with a public sector or community driven ethos). Scores for TSOs with a public sector driven ethos fell back significantly for resilience/assets (by over 8%) and mission/organisation (by nearly 5%). TSOs with a community driven ethos raised scores for resilience/assets by nearly 12% and for mission and organisation by nearly 8%.

Taken together, the evidence suggests that there is a close correlation between organisational ethos and relative success in maintaining or improving their position between 2009 and 2012. We are mindful, however, that these scores are drawn from evidence-based judgements on TSO performance in relation to a wide range of discrete categories which, as discussed in Section 4, are still being developed. Not until the third phase of the research is completed in 2014 will it be possible to come to more definitive conclusions about the validity of these findings.

Figure 5 **Measures of resilience, assets, organisational capability and mission**

	Resilience and Assets	Organisation and Mission
FORESIGHT		
Knows what they are there to do and who they serve		✓
Plans on the basis of realistic appraisal of capability		✓
Leader(s) are focused on longer term objectives	✓	
Governing body understands aims and supports plans	✓	
Would consider making hard decisions in response to challenges	✓	
ENTERPRISE		
Knows how to spot and assess opportunities		✓
Knows when to compete or cooperate with others		✓
Uses innovation to meet beneficiary needs		✓
Has an organisational culture which is responsive to change	✓	
Maintains useful relationships with stakeholders to help achieve aims	✓	
CAPABILITY		
Staff, volunteers and trustees are properly prepared to perform their roles	✓	
Is appropriately 'professional' in approach to practice	✓	
Can work effectively with other organisations	✓	
Plans and manages finances effectively		✓
Understands and implements relevant procedures and practices		✓
IMPACT		
Communicates role and impact successfully to relevant audiences		✓
Beneficiaries appropriately involved in shaping activities and development		✓
Benefit to users is considered and assessed		✓
Makes a positive contribution to the third sector	✓	
Seeks to maximise impact on social wellbeing	✓	

Figure 6 **Scores for resilience/assets, mission/organisation: 2009-12**

	Resilience and assets 2009	Resilience and assets 2012	Percentage difference	Mission and organisation 2009	Mission and organisation 2012	Percentage difference
Thriving/ rising	74.4%	80.2%	+5.8%	77.6%	82.0	+4.4%
Surviving/ declining	72.2%	65.2	-7.0%	73.8%	69.2%	-4.6%

Figure 7 **Scores for resilience/assets, mission/organisation by TSO ethos: 2009-2012**

	Market driven ethos	Public sector driven ethos	Community driven ethos	Whole sample
Resilience and assets 2009	85.0%	74.6%	60.6%	73.6%
Resilience and assets 2012	83.8%	66.4%	72.2%	75.0%
Percentage difference	-1.2%	-8.2%	+11.6%	+1.4%
Mission and organisation 2009	84.2%	74.4%	69.6%	76.2%
Mission and organisation 2012	84.0%	69.6%	77.2%	77.6%
Percentage difference	-0.2%	-4.8%	+7.6%	+1.4%

6 Critical success factors

The qualitative analysis of TSO practices presented in our report *What makes a Third Sector Organisation Tick*, and the more recent *Taking the Temperature*,⁵ demonstrate that organisational success is dependent on the complex interaction of a range of factors. In this section, we present an overview of that analysis by summarising key findings in relation to each of the 20 organisational practices that underlay our headline indicators: *Foresight*, *Enterprise*, *Capability* and *Impact*.

Based on this analysis, we identify ten factors which we feel are the most important in defining whether or not a TSO is operating as successfully as it might reasonably be expected to do so in the circumstances it finds itself. Following this, further analysis of the organisational scores is presented in relation to these ten 'critical success factors'.

What works, what doesn't?

So far, scores for each of the 20 categories of organisational performance, under each of the headline groups *Foresight*, *Enterprise*, *Capability* and *Impact*, have been blended together. There has been an implicit assumption that higher scores suggest closeness to a position of 'good organisational practice', and lower scores to that of organisational underperformance. But these distinctions have not been explained. In this section, each broad heading and the five discrete categories that lay behind are briefly described to clarify underlying assumptions, drawn from qualitative evidence, about good practice and poor practice.

⁵ See Chapman and Robinson *et al.*, 2009 and Robinson and Bell, *et al.*, 2012.

Foresight

Foresight is defined as *'the capability of an organisation as a whole to be able to anticipate change and develop strategic plans to accommodate to or exploit opportunities arising from change. Change is considered on three levels: change in the external economic, political and cultural environment; change in the organisation itself; and, change in beneficiary needs'*.

Figure 8 **Features of organisational foresight**

Good organisational practice	Indications of poor organisational practice
<p>Knows what they are there to do and who they serve: has a clear understanding of who its beneficiaries are; knows how it can best serve its beneficiaries.</p>	<p>It is possible for a TSO to know who they are there to serve and know what they are there to do whilst, at the same time, failing to take the right steps to achieve their objectives. Drift from core mission may be a common factor in undermining organisational effectiveness.</p>
<p>Plans on the basis of realistic appraisal of capability: knows how to assess opportunities; knows what its capabilities are and can match these with its ambitions.</p>	<p>Losing the connection between mission and practice is, in weaker organisations, often associated with a failure to understand organisational capability (or the potential to develop it) and therefore take on new activities for which they have insufficient skill, experience or even interest to do properly.</p>
<p>Leaders are focused on longer term objectives: leader(s) focus on its 'big picture' objectives; plans its activities with its principal objectives in mind.</p>	<p>Most organisations find themselves at the mercy of sudden change from time to time. That can result from the loss of key staff, trustees or volunteers; or from unexpected external factors. Good organisations can weigh up what the significance of these changes is for the longer term – rather than reacting too quickly and unwisely. Keeping a big picture perspective is hard but necessary.</p>
<p>Governing body understands aims and supports plans: governing body has the right skills mix, energy and commitment to develop and support organisational objectives; governing body works with 'one mind' once agreement has been reached on the organisation's objectives.</p>	<p>Good governance requires a balancing act. Boards which are dispossessed, uninterested, unimaginative, inadequately skilled and knowledgeable, intrusive, over ambitious, combative, divisive, destructive and delusional can make poor decisions. Unbalanced boards rarely speak with one mind or effectively communicate what they want to happen – producing uncertainty and inefficiency.</p>
<p>Would consider making hard decisions in response to challenges: organisation remains focused on its principal strategic objectives if faced with new opportunities or a crisis; organisation contemplates radical action to ensure continued service to its beneficiaries (such as downsizing, merger, closing).</p>	<p>Making difficult decisions and communicating them effectively is a critical success factor in TSOs. Organisations which prevaricate or bury their heads in the sand rarely prosper over time. Often crises occur over resource constraints producing a tendency to protect the interests of people who work and volunteer in a TSO – perhaps at the expense of the needs of beneficiaries.</p>

Enterprise

Enterprise is defined as *'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'*.

Figure 9 **Features of Organisational enterprise**

Good practice	Indications of poor organisational practice
<p>Knows how to spot and assess opportunities: organisation has knowledge and a clear understanding of where opportunities might present themselves; organisation has a mechanism to undertake successful opportunity appraisals.</p>	<p>TSOs which react to opportunities on the near horizon without proper appraisal of the potential longer-term consequences of such action for achieving their mission often find themselves in hot water. Weaker TSOs cannot distinguish between good opportunities and bad ones.</p>
<p>Knows when to compete or cooperate with others: organisation knows who its potential competitors or partners are and understands its relationship with them; the organisation has a clear understanding of its reasons for choosing to compete or cooperate.</p>	<p>TSOs which refuse to contemplate cooperation because they want to win everything for themselves often fail to achieve their potential. Conversely, organisations that throw themselves into marriages of convenience without due diligence face almost inevitable problems as a consequence. Decisions to compete or cooperate, when taken lightly, may well produce problems.</p>
<p>Uses innovation to meet beneficiary needs: the organisation employs innovative practice with the sole purpose of meeting the needs of its beneficiaries; the organisation know how to learn from its own and others' innovative practices.</p>	<p>Innovation in practice is less common than we expected when this study was started. We are respectful of those organisations which know what they do well and exercise continuous good practice rather than constantly experimenting for the sake of it. False claims about innovation to win bids may be exposed soon enough.</p>
<p>Has an organisational culture which is responsive to change: the organisation has the ability to marshal all its resources to address new challenges and opportunities; the organisation communicates with and successfully prepare its people for change.</p>	<p>TSOs which are unresponsive to internal or external change can miss good opportunities or fail to tackle issues which need attention. Some organisations change too readily without proper regard to the potential consequences. In both cases there can be a chasm between decision making and communication with staff and volunteers which can cause uncertainty, insecurity and inefficiency</p>
<p>Maintains useful relationships with stakeholders to help achieve aims: the organisation maintains positive relationships with relevant external stakeholders; the organisation knows which networking or relationship building opportunities to prioritise in order to pursue its objectives.</p>	<p>Some TSOs can be insular or secretive and fail to communicate fully with organisations which support or resource them – leading to loss of trust. Other TSOs work hard to project and promote their organisation's interests, but sometimes do so without first having established clear strategies to achieve their objectives. This can produce opportunity overload and constantly skew organisational mission.</p>

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'*.

Figure 10 **Features of organisational capability**

Good practice	Indications of poor organisational practice
<p>Staff, volunteers and trustees are properly prepared to perform their roles: the organisation employs effective strategies to inform and train its staff [and volunteers] to undertake their roles successfully; the organisation understands how to motivate its staff to maximise their potential.</p>	<p>Most TSOs prepare staff and volunteers well for the roles they perform in line with statutory requirements. But more focused training and staff development can be limited. The 'fire-fighting' culture of poorly governed organisations tends to put this issue down the priority list. There is a risk that when TSOs shift quickly from their core mission, and take on work which is beyond their capability, staff can struggle to cope and become frustrated or demoralised. Failure to invest appropriately in staff is a good indicator of problems in other areas of activity.</p>
<p>Is appropriately 'professional' in approach to practice: the organisation approaches its work in such a way as to win the confidence of its beneficiaries, funders and other key stakeholders; the organisation knows how to deal with trustees, employees and volunteers who could or do undermine their professionalism.</p>	<p>Professionalism is essential to organisational success and most organisations achieve this. Serving beneficiary interests is generally at the heart of the organisation, and care and attention is given appropriately. But if staff and volunteers are stretched or underprepared for their roles, the impact of work can be undermined. Staff, volunteers and trustees with behaviours that challenge organisational credibility are not dealt with adequately in weaker organisations.</p>
<p>Can work effectively with other organisations: the organisation prioritises the maintenance of effective and productive relationships with the TSOs with which it works; the organisation knows when and how to adapt its own practice preferences in order successfully to work with other organisations.</p>	<p>Lack of reliability, dependability and low levels of inter-organisational diplomacy in partnership relationships can undermine the confidence of other organisations. Not maintaining dialogue with funders and partners about inflexibility or changes in the ways things are done can produce serious problems about TSO credibility.</p>
<p>Plans and manages finances effectively: the organisation has the appropriate skills and systems in place to plan and manage its finances and budgets successfully; the organisation plans its use of financial resources successfully to maximise its impact on serving beneficiaries.</p>	<p>Not managing finances effectively in practical day-to-day terms is relatively uncommon, Organisational strategies surrounding resource allocation are often weak, however, in less well managed organisations. This can result in staff and volunteers being stretched in terms of time and resources, which can undermine their motivation and confidence. Trying to push resources a long way to achieve maximum impact is a laudable aim – but doesn't usually work in the long term.</p>
<p>Understands and implements relevant procedures and practices: the organisation has sufficient knowledge and understanding of its statutory responsibilities; the organisation has (or has access to) appropriate systems and processes to manage its responsibilities.</p>	<p>Few organisations lack awareness of statutory responsibilities and generally comply readily with them. There is little evidence to suggest that TSOs are overloaded with bureaucratic procedures imposed by outside agencies of government or other funders.</p>

Impact

Impact is defined as *'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'*.

Figure 11 **Features of organisational impact**

Good practice	Indications of poor organisational practice
<p>Communicates role and impact successfully to relevant audiences: the organisation adopts and maintains appropriate media to communicate its purpose, activity and successes; the organisation prioritises the resources it commits to its communications strategy to maximise organisational benefit.</p>	<p>TSOs have very different needs in this respect, depending upon their scale and activity - which makes generalisation difficult. Some weaker TSOs mistakenly believe that a good communications strategy will resolve other deeper problems and may over invest in this aspect of practice. Others, which practice well, can expect potential admirers to beat a path to their door - but may be mistaken in this.</p>
<p>Beneficiaries are appropriately involved in shaping organisation's activities and development: the organisation ensures that it maintains awareness of its beneficiaries' changing needs; the organisation ensures that beneficiaries have an appropriate role to play in shaping the organisation's strategic mission</p>	<p>Beneficiaries are not always fully and directly involved in shaping organisational mission and strategy and this can sometimes be justified. Where it is not justified, lack of engagement can produce unhealthy social distance between TSOs and their actual (or potential) beneficiaries and substantially weaken the quality of service provision. The poorest TSOs do not even recognise that they are out of touch with their beneficiaries.</p>
<p>Benefit to users is assessed and considered: the organisation adopts appropriate methods to record, monitor and report upon its impact; the organisation acts upon its intelligence on user impact to maximise the benefits to the people who use its services.</p>	<p>Assessing and considering the impact of practice is vital in all TSOs, but the methods adopted to do this vary, depending upon scale and activity. Some of the poorer TSOs may monitor impact under duress and miss opportunities to learn about themselves. The poorest TSOs retain a very strong, but misplaced, belief in their capability because they fail to assess or notice evidence about underperformance in the production of benefit.</p>
<p>Makes a positive contribution to the third sector: the organisation makes a positive contribution to its own 'community of interest' within the third sector; the organisation makes a positive contribution to raising the esteem, impact and reputation of the third sector in wider terms.</p>	<p>Some of the weakest TSOs are insular and isolate themselves from outsiders - suggesting an unwillingness to learn about themselves. If they gave more by contributing to their community of interest or practice, they could gain benefit. Some TSOs neglect their own organisational interests by becoming too preoccupied with sector politics – believing that being in the 'right place at the right' time will bring opportunities that will resolve deeper organisational problems that they need urgently to address.</p>
<p>Seeks to maximise impact on social well-being: the organisation has sufficient knowledge and understanding of its ability and potential to contribute to social well-being; the organisation is driven primarily by its purpose to serve its beneficiaries.</p>	<p>TSOs have strong social values, but interests vary in scale, range and depth so it is not possible to generalise. Insularity can restrict access to understanding and knowledge of change – but there is no real evidence to show that this is the case. TSOs are generally well aware of what is going on around them. Very few organisations have an instrumental or cynical attitude towards beneficiaries, but those which do, put organisational interests first and beneficiaries' interests second.</p>

Why have these ten categories been selected?

The answer to this question derives from the analysis of each of these 20 factors in the previous section. Essentially, what we have done is to identify those factors which, if organisations fail to attend to them appropriately, are likely to have a very significant impact on the TSOs ability to carry on what they do effectively over time.

What we are not doing, however, is making an assumption that if these ten factors are all successfully attended to, then organisations will grow, stay the same size or, for that matter, get smaller; nor are we necessarily saying that they will be sustainable forever, operating in much the same way as they do now. On the contrary, the point of the exercise is to see how TSOs manage their medium-term opportunities so that they have at least a reasonable chance of operating in the long term. It is not inconceivable, either, that some TSOs could score very highly on these ten critical success factors – but have a plan to close in the near future. Indeed, that might be precisely what a good organisation *should* do in certain circumstances.

This is not to argue that the remaining ten factors are less important to the organisation for overall successful practice – it is more a question of arranging categories in causal priority.

We need to explain why 10 of the organisational attributes have not been included in our list of critical success factors.

- None of the organisational *impact* factors have been included in the list of ‘critical success factors’. As we have argued consistently, understanding impact is crucial to an organisation’s success. But, we now believe that if the 10 critical success factors we have identified are already attended to properly, an appropriate focus on impact will automatically follow.
- As explained in Section 4, we are no longer convinced that innovation is, of itself, necessarily a reliable indicator of organisational success. Instead, we feel that for the most part ‘consistent good practice’ is more important. Innovation means taking risks in the hope that it will work – but often it doesn’t. Professional judgement based on long-term practice experience, according to our observations, works better.
- It is vitally important that successful TSOs have an *organisational culture which is responsive to change*, but only in the context of an organisation which knows what it is doing. We argue that this is only likely to happen if these 10 critical success factors are already being successfully achieved. Organisations in perpetual crisis may well have a culture which is responsive to change – by constantly fire-fighting, panicking and making bad decisions – it does not, of itself, indicate successful practice.
- To maximise organisational capability TSOs need to: *prepare people in the organisation to perform their roles; be appropriately professional in practice; and work effectively with other organisations*. None of these factors will make an organisation successful in isolation; however, they must be addressed in the context

of an organisation which has a clear mission and a strategy to achieve that mission. The critical success factor, therefore, is to: *Plan on the basis of realistic appraisal of capability.*

Figure 12 compares the scores given to TSOs in 2009 and 2012 for each of the critical success factors. The scores are presented as percentages in rank order to make interpretation easier.

The scores suggest that nearly all TSOs 'know what they are there to do and who they serve' (that is, they have a clear mission) and that overall scores for this factor were unchanged between 2009 and 2012. But this does not necessarily mean, as noted above, that they were always effective at holding to that mission. For this critical success factor, the pattern of causal priority is obviously a complex one. Clearly all of the other critical success factors had to come into play to ensure that mission is achieved. That stated, it seems reasonable to argue that none of the other factors could be achieved if the TSO was not clear about its mission in the first place.

Organisations appeared to be getting slightly better at: *planning on the basis of realistic appraisal of capability; making hard decisions in response to challenges; maintaining useful relationships with stakeholders; understanding and implementing procedures and practices; having a governing body that understands aims and gives support; knowing when to cooperate and compete with other TSOs; and, knowing how to spot and assess opportunities.* No change is observed in relation to *planning and managing finances effectively* or for *leaders being able to focus on longer term objectives.*

It is a little worrying that we score four of these factors for the whole of the TSO50 at around or below 75% of their potential score of 100%. If it is essential that TSOs are *well governed, focus on longer-term objectives, know when to cooperate or compete, and manage finances effectively,* then there is some room for development if scores are low. The question here is, however, do the scores of TSOs with different characteristics vary?

Figure 13 compares those TSOs which are *thriving or rising* with those which are *surviving or declining.* From this table, the indications are that the scores of the former have increased quite significantly, by about 6%, while the latter have a falling score of 6%.

Figure 12 **Changing scores for each critical success factor (expressed as percentages)**

Critical success factors in rank order (2012)	Top 10 critical success factors 2009	Top 10 critical success factors 2012	Percentage difference
Knows what they are there to do and who they serve	94%	94%	=0.0
Plans on the basis of realistic appraisal of capability	82%	84%	+2.0
Would consider making hard decisions in response to challenges	80%	84%	+4.0
Maintains useful relationships with stakeholders to help achieve aims	78%	80%	+2.0
Understands and implements relevant procedures and practices	76%	78%	+2.0
Governing body understands aims and supports plans	74%	76%	+2.0
Knows when to compete or cooperate with others	72%	76%	+4.0
Plans and manages finances effectively	76%	76%	=0.0
Leader(s) are focused on longer term objectives	74%	74%	=0.0
Knows how to spot and assess opportunities	72%	74%	+2.0
<i>Total top 10 critical success factors average</i>	77%	79%	+0.9

Figure 13 **Scores for top 10 critical success factors by organisational journeys from 2009 to 2012**

	Top 10 critical success factors 2009	Top 10 critical success factors 2012	Percentage difference
TSOs which were thriving/ rising between 2009-2012	77.2%	83.0%	+5.8%
TSOs which were surviving/ declining between 2009-2012	74.2%	67.8%	-6.4%

Figure 14 repeats the exercise by comparing TSOs that have been allocated to different categories of organisational ethos.

- TSOs with a **market driven ethos** had a very high score in 2009 of almost 88% – which was maintained in 2012.
- TSOs with a **public sector driven ethos** gained a score of over 76% in 2009 but it had fallen to just below 70% in 2012.
- TSOs with a **community driven ethos** had a relatively low score of 68% for the top ten critical success factors in 2009, but this had risen almost to 80% in 2012.

The directions of travel which are observed in this table, when taking into account our qualitative analysis as reported in *Taking the Temperature*, seem to us to make a lot of sense.

- TSOs with a **market driven ethos** seem to have been well established in 2009 in their determination to operate in a business-like way, and while they may well have had to change some of their practices to meet changed conditions, the scores suggest that they have held a firm course.
- TSOs with a **public sector driven ethos** seem to have struggled to hold their course, by comparison, and the indications are that they have slipped back a little in terms of their capability to marshal their resources and hold to their mission.
- TSOs with a **community driven ethos**, by contrast, seem to have strengthened their position quite significantly – suggesting that they had adapted quite readily to new circumstances and been successful in achieving what they want.

Figure 14 **Scores for top 10 critical success factors by organisational ethos between 2009 and 2012**

	Market driven ethos	Public sector driven ethos	Community driven ethos	Whole sample
Ten critical success factors 2009	87.8%	76.6%	68.2%	77.8%
Ten critical success factors 2012	87.8%	69.4%	79.2%	79.6%
Percentage difference	=0.0%	-7.2%	+11%	+1.8%

What we cannot be entirely sure about however, having undertaken this quantitative analysis, is whether or not the organisations in question actually changed their practices for better or worse that much, or whether *our appreciation* of what really makes a difference to

organisational success has changed as our experience and understanding has developed. This question will form the basis of the discussion in the concluding section of this report.

7 Summary and next steps

The conclusion to this working paper comes in three parts. Firstly we summarise the main results from the analysis – taking the evidence at face value – in order to consider the impact of change on the way that TSOs operate. Secondly, we raise some questions about the reliability of the findings and make some observations on how we may be able to improve levels of confidence in the methodology as the research progresses. Finally, we comment on how we intend to use this analysis as we proceed with the study.

Scoring organisational performance

Despite the challenging funding, social and political environment within which TSOs are currently working, our analysis suggests that the sector appears to be holding up well. Headline scores in each of the four principal categories, *Foresight*, *Enterprise*, *Capability* and *Impact*, indicate relatively limited change – suggesting that most TSOs are resilient and organised in relation to the deployment of their assets. Where change is observed, it is generally one of improvement. Subsequent analysis suggests that headline scores for the TSO50 as a whole conceal some more significant changes in scores between organisations with different characteristics, objectives and ethos.

When scores were compared for TSOs which were *Thriving or Rising* over the last two and a half years with those TSOs which were *Surviving or Declining*, interesting findings emerged. The results suggest that TSOs which were *Thriving or Rising* improved their scores by over 5% between 2009 and 2012. Improvement is particularly clear in terms of *Foresight* (up 8%), but a strong performance is shown in the development of *Enterprise* (up by more than 6%) and *Capability* (up by over 5%).

By contrast, overall scores lowered by nearly 6% for TSOs which were *Surviving or Declining*. Assessments of their ability to make an *impact* fell by nearly 8%. Scores for *foresight* and *enterprise* both fell by over 6%. The Capability of TSOs to deliver their work successfully fell by a narrower margin: less than 3%. In sum, it is observed that while the differences in scores between *Thriving or Rising* TSOs and *Surviving or Declining* TSOs are not very large, they have moved, quite consistently, in different directions.

In a previous research paper, *Journeys and Destinations*, it was shown that the 'ethos' of an organisation has a significant impact upon its potential to succeed over time. In this paper, TSOs were again divided into three categories: those with a *market driven ethos*, a *public sector driven ethos*, and a *community driven ethos*, to see how their scores changed. Our findings suggest that:

- TSOs with a ***market driven ethos*** were already scoring more highly than other organisations in 2009: they were achieving almost 85% of the maximum possible score compared with 75% for TSOs with a public sector driven ethos and 65% for TSOs with a community driven ethos. The observation that the overall score of these organisations had fallen slightly between 2009 and 2012 needs to be set in that context. Scores rose in some categories. Organisational ability to frame and pursue their *mission* rose by 4.4 percentage points to nearly 89%. This suggests that these TSOs were doing very well. Only in relation to *impact* categories did scores fall – but this may reflect a change in the way we interpreted these factors (as discussed in Section 4).
- TSOs with a ***public sector driven ethos*** achieved an overall score of 75% of a potential 100% in 2009. This score fell by over 6% in 2012, suggesting that their performance went down in our assessments. In particular, the scores suggest decline in competence in terms of *foresight* (down by nearly 8%) and *enterprise* (down by over 7%). A slight improvement in *impact* scores (by over 4%) should be noted, albeit from a lower starting point than TSOs with a market driven ethos or community driven ethos.
- TSOs with a ***community driven ethos*** went up in our assessments in terms of performance: rising by almost 10% between 2009 and 2012. These TSOs started from a lower score than TSOs with a *market driven ethos* or a *public sector driven ethos* in 2009, but clearly did a lot of catching up by 2012. Performance scores increased by more than 10% in relation to *foresight*, *enterprise* and *capability*, and by 13% for *impact*.

Following this, the twenty categories of organisational performance were divided into two broad categories, entitled ***Resilience and Assets*** and ***Organisation and Mission***. The analysis demonstrated that resilience and assets scores for TSOs which were *Thriving or Rising* increased between 2009 and 2012, rising by nearly 6%, and that scores for mission and organisational capability rose by over 4%. TSOs which were *Surviving or Declining*, by contrast, fell by 7% and nearly 5% respectively.

When these scores were compared by organisational ethos, we found that:

- Scores for TSOs with a market driven ethos fell slightly, but from a strong starting point in 2009 (with scores well above organisations with a public sector or community driven ethos).

- Scores for TSOs with a public sector driven ethos fell back significantly for resilience/assets (by over 8%) and mission/organisation (by nearly 5%).
- TSOs with a community driven ethos raised scores for resilience/assets by nearly 12% and for mission and organisation by nearly 8%.

Figure 15 **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 is essential - 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.

Taken together, the evidence suggests that there is a close correlation between organisational ethos and relative success in maintaining or improving their position between 2009 and 2012.

The qualitative analysis of TSO practices presented in our report *What makes a Third Sector Organisation Tick*, and the more recent *Taking the Temperature*,⁶ demonstrate that organisational success was dependent on the complex interaction of a range of factors. We have come to a view that ten of the 20 categories of organisational practice are particularly important for organisational success. These are summarised in Figure 12.

When 'critical success factor' scores are compared by organisational ethos, notable differences in performance can be observed.

- TSOs with a **market driven ethos** had a very high score in 2009 of almost 88% – which was maintained in 2012. These TSOs seem to have been well established in 2009 in their determination to operate in a business-like way, and while they may well have had to change some of their practices to meet changed conditions, the scores suggest that they have held a firm course.
- TSOs with a **public sector driven ethos** gained a score of over 76% in 2009 but it had fallen to just below 70% in 2012. These TSOs seem to have struggled to hold their course, by comparison, and the indications are that they have slipped back a little in terms of their capability to marshal their resources and hold to their mission.
- TSOs with a **community driven ethos** had a relatively low score of 68% for the top ten critical success factors in 2009, but this had risen almost to 80% in 2012. These TSOs seem to have strengthened their position quite significantly – suggesting that they had adapted well to new circumstances and been successful in achieving what they want.

But how reliable are these observations after just two phases of the research in a longitudinal study? The next sub-section summarises our views.

Understanding the impact of change

To the question, how accurate are our scores, we have given an honest answer and said, we don't know for sure, but we have done our best. We tried to stop ourselves from introducing bias by not cross-referencing with previous decisions and by independently 'blind' double scoring of TSOs. But we have to recognise that between 2009 and 2012 we have learned a great deal more about how TSOs operate from other aspects of the research programme. This knowledge, we have conceded, will have made us more effective at making accurate judgements on organisational performance than we were in 2009.

When the 20 categories of organisational practice were devised in 2009, our purpose was to produce a list which was balanced in terms of their relative importance. Having explored the interaction between the categories in some depth for the 2012 data, it seems to us that the

⁶ See: Chapman and Robinson, *et al.* 2010; Robinson and Bell, *et al.*, 2012.

balance between categories is still broadly right. And further, we feel that the four headline categories: *foresight*, *enterprise*, *capability* and *impact*, work well too.

What we are less convinced by is the extent to which each of the 20 categories has *equal value* for the successful operation of a TSO. This is why we have now redefined ten of the categories as 'critical success factors' on the assumption that if these issues are given priority, the other organisational practices are more likely to fall into place.

What happens next?

The TSO1000 surveys, Foresight Panels, and the qualitative analysis of the TSO50 were designed to give us three lenses through which to study the third sector. Up until now, we have not attempted to bring these sets of data together to examine particular aspects of study. But this will happen in the next few papers.

The next substantive working paper we will publish will ask the question: *what does success look like?* This is a more difficult question to answer than may be thought because measures of 'organisational success', (that is, running a good organisation) may differ markedly from a definition of success in achieving benefit (that, is having a beneficial impact through organisational practice).

We have no doubt at all that most people in the third sector are much more interested in the latter issue from a social values perspective – they want to make a positive difference to society. It is not surprising, however, that when people are engaged in the day-to-day affairs of keeping an organisation viable, that the former measure of success can come to the fore – keeping the organisation going in hard times.

We understand it, but are nevertheless troubled by the tendency of people within the third sector (not forgetting stakeholders in other sectors) to equate organisational success (often defined in the third sector as 'organisational sustainability') with stable or rising income. Ideas surrounding the principles of 'growth' are pernicious in the language of organisational performance in the private sector, in particular, but they have also crept into the discourse of the third sector too.

Commentators from government, think tanks, political parties and academia often talk about third sector development in these terms. They ask how interventions can be 'scaled up' to maximise impact – which by definition seems to mean that TSOs or consortia of TSOs have to get bigger. Similarly, observers on commissioning and procurement often use data on stable or rising TSO income over a period of time as an indicator of success and trustworthiness. These are but two of many possible examples.

In the next paper, we want to ask if 'growth' is the right issue to be concentrating on. We want to ask basic questions such as: 'who *needs* to grow?' and 'does growth indicate better impact for beneficiaries?' And, most importantly, 'is it possible or desirable for TSOs to experience continual growth?'

It will be argued, using data from the TSO50 and TSO1000 that the focus (or preoccupation) with rising and falling income may actually be rather misleading as an indicator of organisational wellbeing. Rather, we will restate our belief that good governance is the best predictor of organisational wellbeing (at times when income may be stagnant, falling or rising) – and that focusing attention on income as an aim in itself can lead to disastrous consequences organisationally and, ultimately, for beneficiaries.

8 References

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