Going the Distance: How Third Sector organisations work through turbulent times

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Going the Distance:

How Third Sector organisations work through turbulent times

Community Foundation
Tyne & Wear and Northumberland

About the Author

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https://www.stchads.ac.uk/category/research/

Researchers involved with the project

This report is built upon work undertaken over fourteen years in a study of 50 Third Sector organisations working in North East England and Cumbria.

I am indebted to my colleague Professor Fred Robinson, St. Chad's College, Durham University who co-directed on the project throughout its first three phases.

Highly valued contributions were also made to the project by Iain Zass-Ogilvie, Dr Emma Grit (née Dunkerley) and Dr Sue Shaw at St Chad's College, Durham University and Dr Judith Watson (née Brown), Dr Victoria Bell, Dr Peter van der Graaf, Robert Crow and Emma Bailey from Teesside University.

Third Sector Trends Study

The Third Sector Trends study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy.

The Community Foundation is now collaborating with partners including St Chad's College at the University of Durham, Power to Change, Barrow Cadbury Trust and Millfield House Foundation to expand and continue the research.

All publications from the Third Sector Trends study are available free to download at this address:

https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/

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Executive summary

This is a long report, but it is more accessible than you might think because all the sections and sub-sections are free standing. This means that readers can dip in and explore issues that interest them. For a concise summary of the all the main findings and conclusions drawn, go to Section 10.

There will never be a 'flat period' when life is predictable

Section 1 shows that the last 14 years have been characterised by continual change brought about by a global financial crash, government austerity policies, Brexit, the Coronavirus pandemic and now the cost-of-living crisis. And yet, the general trend in sector finances is one of steady growth.

Smooth trends conceal underlying financial turbulence

The study has tracked organisational finances running back 20 years. Section 3 shows that all organisations experience substantial ups and downs in their finances. These are more acute for the smallest organisations – but as they rely mainly on voluntarily given time, they can withstand change. The biggest organisations usually have sufficient assets to see them through crises if they are well managed. Middling sized organisations are the most vulnerable to unpredictable shifts in their finances.

Third Sector Organisations need 'staying power'.

To have staying power, they must learn how to manage unpredictability in their operational and funding environment. This study has examined organisational foresight, enterprise, capability and impact in a precise way – Section 4 shows how the fortunes of organisations vary depending upon their ability to anticipate and manage the consequences of change successfully.

Is organisational success about good management, fate or luck?

Section 5 tracks the financial success of well managed and less well managed organisations over the last 14 years. None of the well-managed organisations closed, but quite a few of the less well managed organisations collapsed when they were overwhelmed by events they should have anticipated and prepared for. Luck does play a part in organisational fortunes, but only if the organisation can distinguish between good and poor opportunities.

Underlying components of success: foresight, enterprise, capability and impact

Sections 6 to 9 explore the qualitative data which have been collected since 2008 as we have followed the fortunes of 50 organisations. Each section has five short sub-sections which explore specific issues. Using the organisational effectiveness framework we have developed, readers can pick and choose which areas they want to focus upon. But the sections and sub-sections are all inter-related – so we provide links to read further into the report if you want to.

A sample of key findings that you might like to explore further

The crucial importance of good governance (Section 6.4)

Commitment and competence of governing bodies has proven to be important in sustaining organisations' long-term success – and the absence of these qualities has contributed greatly to those which have struggled or closed. But it is the relationship between the chief officer and the governing body (and most crucially, the chair) that seems to matter the most.

When that synergy was absent due to complacency or disinterest in the board, compounded by limitations in the skill, vision or professionalism of chief officers, disaster was often not far around the corner. Of the seven TSOs that closed during the study, in at least four cases this may have been averted had the board and chief officer worked together more openly, honestly and effectively.

Making tough decisions can test leaders to the limit (Section 6.5)

Organisations must make difficult decisions to secure their future viability. Some decisions involve enacting promising new plans, others involve rejecting plans that are judged to be too risky or ill-conceived… Even when good decisions are made for the right reasons, an element of luck shapes what happens next.

No organisation can be blamed for taking decisions which were upended by circumstances that could not have been predicted. But recovering from such a situation requires good decisions too. Those leaders who were best able to critically reflect on the quality of their own decision making tended to be more successful in sustaining momentum in their organisation than those which abrogated responsibility or brushed mistakes under the carpet.

When resources are scarce, competition ensues (Section 7.2)

Competition over money is as common as it is inevitable in a sector which is ambitious to achieve a great deal but where financial resources are finite. There can also be competition over people, such as accessing support from volunteers or winning demand from beneficiaries. Places too, can be a site of competition where TSOs compete to provide service coverage in spatial areas.

Horror stories circulate about competition. But while there will always be pinch points when competition is at the fore between organisations, it is vital to recognise that it does not shape every aspect of sector relationships. The evidence from this study shows that complementary and cooperative relationships are the norm not the exception – although the form and strength of that cooperation varies depending upon circumstance.

Holding to mission is vital, but organisations must be curious and creative (Section 7.3)

Early in the study, we were not convinced that TSOs were or needed to be particularly innovative – continual good practice seemed to be more important than random experimentation. Section 7.3 shows that we were wrong about this. The evidence is now clear: innovation sits at the heart of Third Sector culture. It *drives* sector ambition and *shapes* sector practice in response to social change.

The Coronavirus crisis has heightened awareness of the ability of organisations to innovate. But it is clear from earlier evidence that practice is driven by the sector's 'culture of curiosity'. To some extent this is shaped by contingency – when things happen that force change. Innovation produces little value unless it is conceived, directed and applied to improve something. For this to happen, innovation must be built around existing principles of good practice that have been developed over many years.

Organisational complexity is not just about systems – but relationships (Section 8.5)

Bigger organisations have complex structures, bureaucratic processes and power hierarchies which are required to orchestrate the specialised division of labour of employees. Small organisations, which form more than two thirds of the Third Sector, are complex too. Understanding their 'social-life' helps to explain how all organisations facilitate and manage change. The energy of small organisations derives from the freely given time offered by their members. So a delicate balance must be struck to keep things running smoothly.

A 'negotiated order' develops where people accept responsibilities for and authority over certain tasks. Keeping things in balance is hard and accommodating to change can be unsettling – especially if newcomers have big or strange ideas. Medium sized and even the biggest organisations still have a strong 'personal dimension' too. And no matter how well structured they are, they do not run like clockwork because people are adept at putting spanners into the works.

Keeping the show on the road requires agility and cool heads (Section 10.3)

In an unpredictable operating environment, keeping things in balance in the long term is a tricky process. Most organisations avoid 'putting their eggs in one basket'. By diversifying sources of income, organisational leaders counter the risk of losing substantial funding from a single source. Even when organisations have a diverse portfolio of income sources from grants, contracts, trading, subscriptions, gifts and donations, investments and so on – it is unusual for them to maintain consistency.

The inherent financial uncertainties that leaders must manage tends to reinforce their determination to protect organisational autonomy. This is why most TSOs are pretty cautious about yielding control over aspects of their activities by working in formal partnerships or consortia to win larger sums of money from contracts or programme grants. And so, while this study shows that organisational leaders are generally quite good neighbours to one another – they can be suspicious about formalising ties that may ultimately constrain their freedom: and especially so if they perceive dangers of financial or reputational damage.

Change can make or break organisations (Section 10.4)

The Coronavirus pandemic presented fundamental challenges to the 'normal way' of doing things. There was no time to hang about, practices had to change immediately. But is it vital not to over-state the impact of Covid-19. Instead it should be recognised that the pandemic had helped 'crystalise' solutions which had been sitting in the waiting room for some while before the pandemic came along.

Being 'pushed out of their comfort zone' could be a positive thing because it made organisations re-think aspects of their 'usual' practices. Many recognised that some aspects of their standard practices neither worked especially well nor fully achieved what was intended. Habits are quite hard to shift in an organisation once everyone has become used to them.

Leaders play a crucial 'caretaking' role until they move on (Sections 10.5 & 6.3)

Well managed third sector organisations have staying power. This is underpinned by the ability of leaders to steer a straight course through troubled waters. A lot of the academic and popular literature on leadership in the Third Sector focus on 'driven' socially entrepreneurial leaders whose vision shapes everything they do. This has led observers to take the view organisations become so dependent upon leaders that they risk folding once they depart.

In this study we have worked with many inspirational leaders. We encountered sensible people who took their responsibilities seriously but remained quite humble about their own position. Their stewardship, or ‘caretaking’ rather than ‘psychological ownership’, involves a process of nurturing the organisation’s core assets of ideas, capabilities and energy. It is about keeping things in balance – and taking full responsibility for that role – which sometimes means making hard decisions that may upset and disappoint people but sustains organisational drive and momentum.

Upsetting the equilibrium in the social life of organisations (Section 8.1)

Covid-19 has upset the equilibrium in many organisations. Unwritten rules and unstated expectations have suddenly become open for renegotiation as priorities shifted, practices changed and pecking orders were upset. This has led, amongst people at all levels of organisations, to a lot of soul searching about what they want from their working lives.

So it is not surprising, in this context, that quite a lot of people in the organisations studied have asked to continue working from home, work fewer hours or have taken the decision to retire or leave to do something different. These changes are producing real disturbance in the social dynamics of organisations. Over the next few years, organisations will need to be carefully managed to attract new people, to look after their interests, help them develop their skills whilst also learning from their ideas. Change is inevitable, so organisations can never stand still.

Introduction

When this study was commissioned by Northern Rock Foundation in 2008, the plan was to collect robust quantitative evidence on the structure, dynamics, purpose and impact of the Third Sector. The research began with a baseline study on sector structure, and then the intention was to follow this up with a series of sector surveys in 2010, 2012 and 2014.

Statistical analysis provides 'big-picture' insights on how the Third Sector is affected by and responds to change. But they reveal little about the lived experience of running Third Sector organisations (TSOs). Consequently, it was decided that there should be a complementary longitudinal study of a small representative sample of TSOs from across North East England and Cumbria.

This report provides a summary of findings from the qualitative study which took place in three phases: 2008-10, 2012-14 and from 2016-19. These findings are then brought up to date, to take account of the impact of the Coronavirus pandemic with a series of interviews with a sample of the original participant organisations in 2022.

The aim of the report is, firstly, to track the fortunes of the original fifty TSOs which were included in the study. This is achieved by using a methodology which was devised to assess and monitor the strengths and weaknesses of individual organisations at a given point in time and then to assess how these organisations responded to the challenges and opportunities that came their way.

Secondly, the report looks at the 'lived experience' of leading organisations through turbulent times. The report will be structured as follows:

- Section 1 provides a brief overview of social, political and economic changes which have shaped the fortunes of TSOs through the period of study.
- Section 2 outlines the research methodologies which have been employed to collect and analyse data.
- Section 3 tracks the financial histories of organisations from 2004-2020 to assess the extent to which patterns of change are affected by wider social, economic and political circumstances.
- Section 4 presents assessments on how TSOs have fared over the years using the approach devised to assess and monitor organisational effectiveness.
- Section 5 considers whether there is a link between organisational management capability and financial wellbeing in TSOs of different sizes.
- Sections 6-9 present assessments, based on qualitative data, about the importance of 'foresight', 'enterprise', 'capability' and 'impact' in sustaining organisational success.
- Section 10 presents a summary of key findings.

Section 1

The social, political and economic context

Individual Third Sector organisations (TSOs) are autonomous entities and the people who manage and govern them assume responsibility for keeping them in good shape so that they can achieve their objectives. But TSOs do not operate in a vacuum. Consequently, a study of the trials and tribulations of running TSOs over a long period of time cannot proceed without taking into account the impact of external factors.

Since 2008, this study has followed the way leaders have steered their organisations through turbulent times. Often people have told us that keeping everything in balance is like 'walking a tightrope'. Others put it more bluntly and say it feels more like 'walking the plank'.[1]

People who run Third Sector organisations often cherish and champion their independence from the public and private sectors, just as they share strong values about tackling social problems collectively rather than just looking after themselves as private individuals.

While the Third Sector may have a different culture and identity from the public and private sectors, this does mean that it is unaffected by what is going on elsewhere. This section provides a brief overview of key events which have affected the environment within which TSOs operate over the last fourteen years.

Before the study started

Since the 1980s, Britain has undergone dramatic social, political, economic and cultural change. The Third Sector has played its part in tackling the consequences of this. But the sector has also contributed to developments by championing causes which have not been recognised, have been neglected or which have been caused by the activities of other sectors.

The governments of Prime Minister Margaret Thatcher (1979-1990) initiated a dramatic transformation of economy and society. This resulted in policies which had an enormous impact on the wellbeing of many communities as traditional heavy industries such as steelmaking, coal mining and shipbuilding collapsed. A range of former nationalised industries, such as telecommunications, were also 'privatised' which exposed them to competition in the open marketplace, so shifting emphasis away from public service to the maximisation of profitability.

Similarly, many mutual societies such as building societies took the opportunity to enter the private sector – shifting the balance of power from savers to shareholders. Faced with opposition from local authorities, Mrs Thatcher's government presided over the diminution of their powers and weakened democratic control over local issues – a trend which was continued by subsequent Labour and Conservative governments.

Policies such as these produced profound social change. Especially amongst more affluent individuals and households, the allure of conspicuous consumption strained cultural loyalties to social class and community. And the emphasis on individualism

[1] See 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*, Newcastle: Northern Rock Foundation.

was strengthened by government policies such as the 'right to buy' council houses so that people could become members of the so-called 'property owning democracy'.

These changes did not come without consequence. Many communities struggled as unemployment grew and poverty deepened. Government started to recognise that communities could not just be left alone to sort out their own problems and new emphasis was placed on the 'regeneration' of less affluent localities.

For example, the Single Regeneration Budget was established in 1994 by a Conservative government under the premiership of John Major. Championed by Michael Heseltine, these government funds were invested in area-based projects in several funding rounds. The programme strongly encouraged cross-sector partnership working to tackle issues in a holistic way in order to 'turn areas around'.[2] The programme channelled significant funds into over a thousand projects nationally and TSOs were often recipients of such funds.[3]

Following the election of New Labour in 1997 under the premiership of Tony Blair, government investment in place-based funding escalated. Government also recognised that aspects of social marginalisation caused by, for example, poverty, racial prejudice and other forms of discrimination ran across spatial boundaries. The Social Exclusion Unit was set up by government in 1997 to find new ways of tackling entrenched inequality.

Major funding schemes were introduced including, for example, the *Neighbourhood Renewal Fund* and *New Deal for Communities* to strengthen communities of place and interest.[4] Accompanied by doubts about the quality and cost of public services, government started to encourage the Third Sector to engage in the delivery of public sector services by contract.[5] The result was a steady increase in Third Sector funding from government: rising from £10.5bn in 2000/01 to £17.3 billion by 2008/09[6] (see Figure 1.1).

[2] There is a large academic literature on state-Third Sector partnerships. See, for contemporary examples, Atkinson, S. (1999) 'Discourses of partnership and empowerment in contemporary British urban regeneration'. Urban Studies, 36(1), 59-72; Audit Commission (1998) *A fruitful partnership: effective partnership working*, London: Audit Commission; Balloch, S. and Taylor, M. (2001) *Partnership working: policy and practice*, Bristol: Policy Press; and, Bovaird, T. (2004) 'Public-private partnerships: from contested concepts to prevalent practice', *International Review of Administrative Sciences*, 70 (2): 199-215; and, Craig, G. and Taylor, M. (2002) 'Dangerous liaisons: local government and the voluntary and community sectors', in C. Glendinning, M. Powell and K. Rummery (eds.) Partnerships, New Labour and the governance of welfare. Bristol, Policy Press.

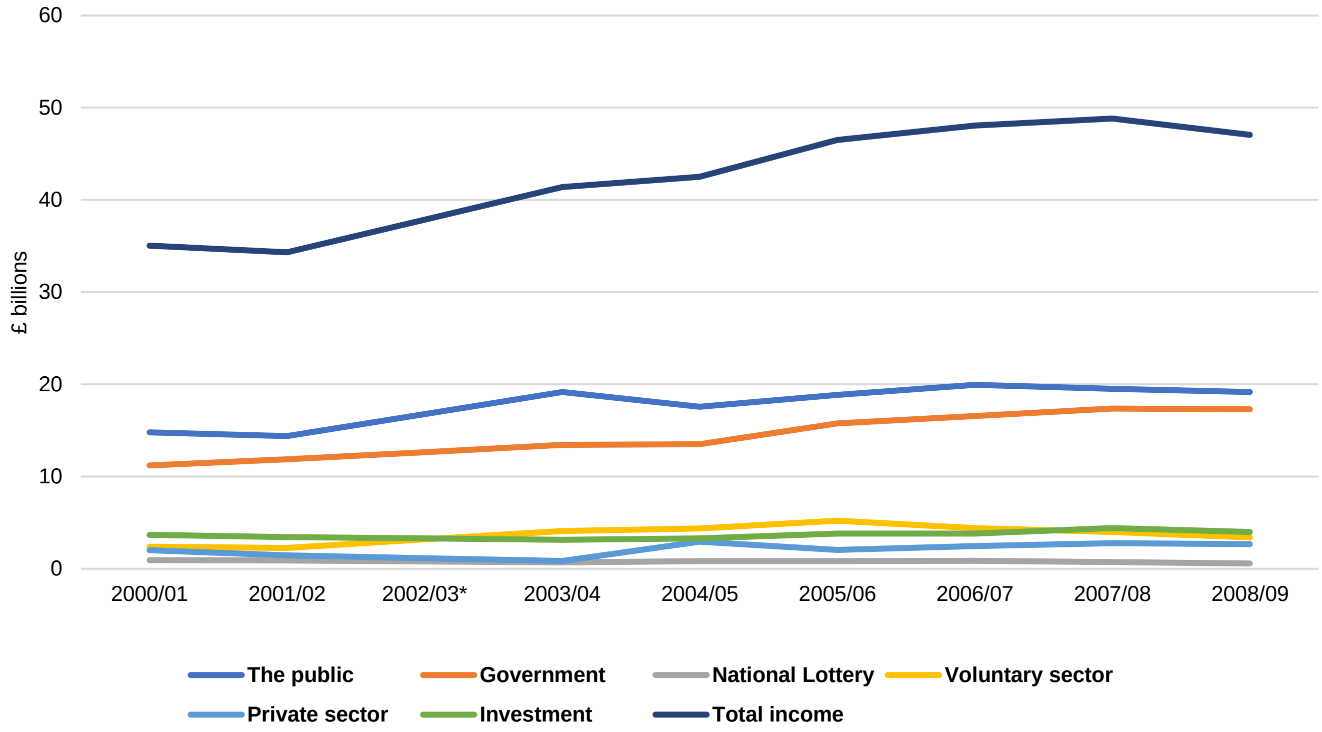
[3] See: Rhodes, J., Tyler, P. and Brennan, A. (no date) *The Single Regeneration Budget: final evaluation*, Department of Land Economy, University of Cambridge: https://www.landecon.cam.ac.uk/pdf-files/urban-and-regional-analysis/part1-final-eval-feb-07.pdf

[4] For a useful review of the policy drivers underpinning these programmes, see McNeil, C. (no date) *The politics of disadvantage: New Labour, social exclusion and post-crash Britain*, London: Lankelly Chase Foundation: https://lankellychase.org.uk/wp-content/uploads/2016/05/IPPR_Report-Politics-of-Disadvantage-20121213.pdf

[5] See: Cabinet Office (2010a) *Modernising Commissioning: increasing the role of charities, social enterprises, mutuals and cooperatives in public sector delivery*, London, Cabinet Office; Cabinet Office, (2007) The Future Role of the Third Sector in Social and Economic Regeneration: final report. London: HMSO.

[6] NCVO Almanac 2021: Income sources - Financials | UK Civil Society Almanac 2021 | NCVO

Figure 1.1 **Sources of Third Sector income 2000 - 2009** (Adapted from NCVO UK Civil Society Almanac 2021)



Third Sector income comes from many sources. Funding from charitable trusts and foundations, for example, increased from £2.4 billion in 2000/01 to a peak of £5.2bn in 2005/06 while National Lottery funding remained relatively stable at around £800-900m a year. Public giving grew from 14.7 billion in 2000/1 to 19.2 billion in 2008/9. Private sector income (other than that channelled through trusts and foundations) also grew by more than a fifth from £2 billion in 2000/1 to £2.7 billion in 2008/9.

The 'Third Way' approach to policy adopted by the Labour Party promoted the idea that 'governance' should be a shared enterprise which cut across the public, private and Third Sectors.[7] Concerns that the Third Sector might not be fully prepared to do so led to investment initiatives to strengthen capacity and capability including: *ChangeUp*, *Capacity builders* and *Future Builders* amongst others.[8]

This was accompanied by the formation of a wide range of government or quasi government organisations to promote partnership working within government and between local government, business and the Third Sector. Much of this was focused at regional and local level.

In North East England, for example, this led to the founding of the Government Office for the North East, a Regional Development Agency and a raft of organisations at sub-regional or local authority level such as Connexions, Learning and Skills Councils, Business Link, Local Strategic Partnerships and so on. Furthermore, it had become an expectation that the Third Sector should be represented at partnership board levels which, in turn, led to a substantive increase in levels of funding for

[7] See, Giddens, A. (2000) *The Third Way and its Critics*, Cambridge: Polity Press and Blair, T. (1998) *The Third Way: new politics for a new century*, London: Fabian Society. For a more critical discussion see, Finlayson, A. (1999) 'Third Way Theory', *The Political Quarterly*, 70:3, 271-279.

[8] Investment in Third Sector development was not limited to government funding. Amongst others, Big Lottery committed substantial investment through, for example, the BASIS fund: http://www.biglotteryfund.org.uk/global-content/programmes/england/basis.

existing local infrastructure organisations across the region and the development of several new ones.

In sum, when Third Sector Trends Study was being planned in 2007 by Northern Rock Foundation, there had been a long period of support for strengthening sector interactions through social and public policy. This occurred in a generally positive economic and fiscal environment under the stewardship of long-standing Chancellor of the Exchequer, Gordon Brown, who became Prime Minister in 2007. But the situation suddenly changed in 2008 when the world was engulfed in economic turmoil following a financial crash.

During the study

The global economic crash of 2008 was precipitated in the United States following the collapse of the sub-prime mortgage market.[9] In the UK, the Northern Rock Bank was the first major casualty as the economic crisis accelerated and, somewhat ironically in the context of this study, led the closure of Northern Rock Foundation which commissioned this project in 2008.[10]

Over the fourteen years within which this study has been running, there has been a period of more or less continuous, rapid and often highly unpredictable change. Following the general election of 2010 a Conservative and Liberal Democrat coalition government presided over a long and intensifying commitment to reduce the public-sector borrowing requirement which led to significant cuts in government spending especially at local authority level.[11]

Austerity policies were pursued relentlessly but their impact fell unevenly. The North East of England was hit hard by these policies and resulted in dramatic reductions in local authorities' income while councils in the affluent South East of England were penalised far less severely.[12]

Further political turmoil ensued in 2016 when Prime Minister David Cameron observed the Conservative Party's manifesto commitment to hold a referendum on membership of the European Union. Predicated upon the idea of releasing the UK from the European Union's apron strings, the pro Brexit lobby, led by Boris Johnson, pushed hard to win the referendum. Debates often focused divisively on populist issues such as stemming the flow of immigration.

Because Brexit dominated the political landscape, attention to the Prime Minister's signature 'Big Society' initiative which promised to strengthen civil society was quietly forgotten if it ever truly got off the ground.[13] The process of departure from the European Union dominated the headlines and the attention of government under the premiership of Theresa May and threatened further to undermine investment in

[9] See: Stigliz, J. (2010) *Freefall: free markets and the sinking of the global economy*, London: Allen Lane; Peston, R. (2012) *How do we fix this mess?* London: Hodder and Stoughton.

[10] See: Robinson, F. (2015) *Northern Rock Foundation: history and achievements*, Newcastle: Northern Rock Foundation. https://www.nr-foundation.org.uk/downloads/NRF-History_and_Achievements.pdf.

[11] See: Burton, M. (2016) *The politics of austerity: a recent history*, London, Springer.

[12] See: Gray, M. (2018) 'The depths of the cuts: the uneven geography of local government austerity', *Cambridge Journal of Regions, Economy and Society,* 12(3) 541-563.

[13] Cameron, D. (2010) Big Society Agenda speech. Available at: http://www.number10.gov.uk/news/speeches-and-transcripts/2010/07/big-society-speech-53572. See also: Norman, J. (2010) *The Big Society: the anatomy of the new politics*, Buckingham: Buckingham University Press; Blond, P. (2010) *Red Tory: how left and right have broken Britain and how we can fix it*, London, Faber and Faber. For a critical review, see: Alcock, P. (2010a) 'Building the big society: a new policy environment for the Third Sector in England', *Voluntary Sector Review*, 1(3), 379-389.

localities as the UK sought to remove itself from funding mechanisms such as the European Regional Development Fund and the European Social Fund.

Upon his election as Prime Minister in 2019, Boris Johnson promised to loosen the government's commitment to an austerity regime and re-invigorate a policy focus upon less advantaged localities in order to help 'level up' regional and social disparities. Initially, this plan was derailed due to the complexities surrounding his promise to 'get Brexit done.' That stated, some new funding streams did become available to tackle local issues such as the £3.6 billion *Towns Fund* in 2019.[14]

The momentum of this policy drive was soon arrested by yet another unforeseen event – the onset of the Coronavirus pandemic which began in the UK early in 2020. The pandemic quickly accelerated and by March 2020 the government imposed the first of several 'lockdowns' which minimised social contact and face-to-face interaction. The consequences for public services, business and Third Sector activity were immediate and dramatic leading to a significant dent in economic activity and growth.[15]

In the Third Sector, specifically, the crisis led many think tanks and infrastructure organisations to predict catastrophic consequences for the sector as a whole and an 'existential threat' to individual organisations.[16] This resembled the response to the global financial crash and austerity policies where headlines also warned of the 'collapse' of the Third Sector. But the doom-laden reaction was subsequently shown to be over blown as new funding streams were orchestrated by government and charitable foundations to support a struggling sector.

As soon as the Covid pandemic began to abate, new concerns emerged about the 'cost of living' which have been precipitated in part by an energy crisis resulting from Russia's invasion of Ukraine in March 2022. As ever, think tanks and representative organisations heralded this as a catastrophe for the Third Sector with headlines claiming that charity energy prices could rise by 300 per cent and that this could lead to a sector 'meltdown'.[17]

It is worthwhile to take a step back and look at sector finances out of context of these many crises. As indicated in Figure 1.2, Third Sector income actually rose from £48 billion in 2020-11 to £55.9 billion by 2018-19. And while government income did fall from £17.4 billion to £15.8 billion during this period, the loss was more than compensated for by public giving which rose from £20.7 billion to £27.1 billion, and voluntary sector income from £3.8 billion to £5.1 billion.

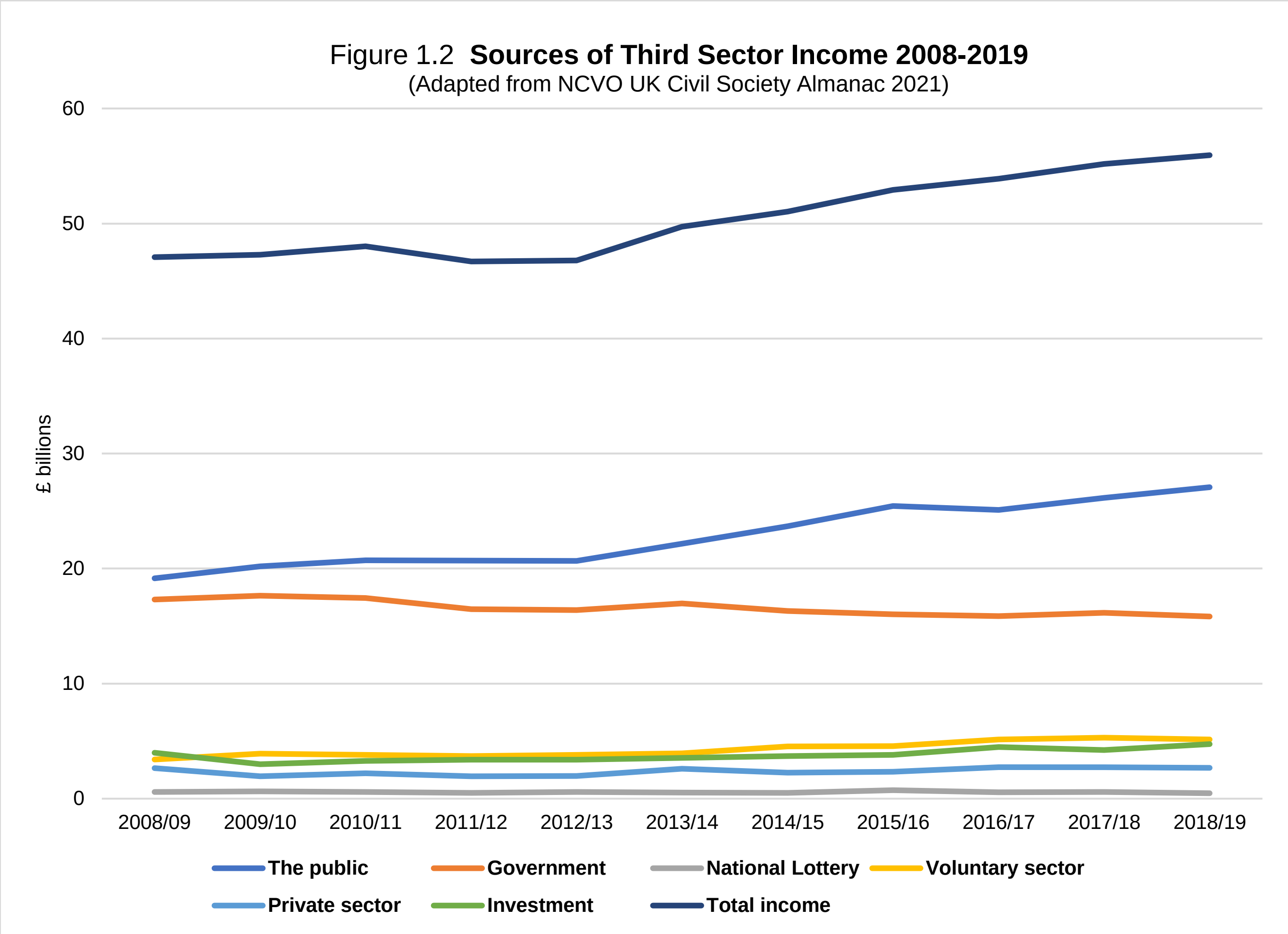
Too little is yet known about the financial situation of the Third Sector during and in the aftermath of the Coronavirus pandemic. But analysis of data from 360Giving and Third Sector Trends survey research indicate that funding flowed quite freely into the sector from government, the local public sector, trusts and foundations during the pandemic and that organisational reserves are stronger now than they were in 2019.

[14] See: Towns Fund prospectus - GOV.UK (www.gov.uk)

[15] See, for example, Crossley, T., Fisher, P, Lovell, P. and Low, H. (2021) *A year of Covid: the evolution of labour market and financial* inequalities, London: Institute for Fiscal Studies.

[16] For example: Cooney, R. (2020) 'Coronavirus: charities face 'existential threat' warns NAVCA chief, *Third Sector*, 20th March Coronavirus: Charities face 'existential threat', warns Navca chief | Third Sector; Hargrave, R. (2021) 'Small charities face 'existential threat' from Covid crisis, CAF boss warns', *Civil Society News*, 29th April: Small charities face 'existential threat' from Covid crisis, CAF boss warns (civilsociety.co.uk); Butler, P. (2020) 'Coronavirus leaves one in ten UK charities facing bankruptcy this year', *The Guardian*, 9th June: Coronavirus leaves one in 10 UK charities facing bankruptcy this year | Coronavirus | The Guardian.

[17] Third Sector (2022) 'Charity sector faces "potential meltdown" over cost-of-living new prime minister warned.' 7th September: Charity sector faces 'potential meltdown' over cost-of-living crisis, new Prime Minister warned | Third Sector



Continuity and change in the Third Sector

Longitudinal research is valuable because it helps to distance the observer from the difficulties of the 'here and now'. Furthermore, there is an opportunity to see how leaders of TSOs have responded to each of the crises that have come their way over the last fourteen years.

On the whole, headline data produced by NCVO indicate that the Third Sector has gone from strength to strength financially over the last 20 years; rising from £35 billion in 2000-01 to £55.9 billion in 2018-19.

The above analysis indicates that it is inappropriate always to imagine that the worst is about to happen. The Third Sector appears to be much more robust and sustainable than it is given credit for by commentators – and that happens because it is strongly supported financially by government, the general public, trusts and foundations, the National Lottery and by private businesses.

The problem with headline statistics is that they can mask the realities of the lived experience of guiding Third Sector organisations through turbulent times. This report therefore looks beneath the surface to find out how organisational leaders keep going – often seemingly against the odds.

Section 2

Research methodology

The TSO50 study began in 2008. Its purpose was to follow the experiences of organisations to see how they anticipated and managed change. The research project has already produced several reports which provide more detailed description of how methodologies were devised and used in the study.[18]

- ***What makes a Third Sector organisation tick?***, published in 2010, described the approach taken to collecting qualitative data in the study – and included the original interview schedule.
- ***Walking a tightrope***, published in 2013, provided a detailed explanation of the framework developed to assess organisational effectiveness.
- ***Journeys and destinations***, published in 2012, presented analysis on the first two phases of the research and offered a critical commentary on the application of the research methodology.

Research sample

A sample of TSOs was selected using three criteria: the area within which the organisations operate; the size of organisations; and the beneficiary groups which they serve.

To cover the varied economic, geographical, cultural and social characteristics of the North East and Cumbria, the study identified 10 organisations in each of the five sub-regions and each of these samples focused on a particular beneficiary theme, as follows:

- ***County Durham***: arts, heritage and environment.
- ***Northumberland***: older people.
- ***Tees Valley***: young people.
- ***Tyne and Wear***: mental health.
- ***Cumbria***: rural areas.

TSOs of different sizes were sampled as follows:

- ***10 large national organisations***: which had been working in North East England for many years but were headquartered outside of the region.
- ***10 larger regional / sub-regional organisations***: with more than 24 employees and an annual income of at least £1 million
- ***10 medium sized organisations***: those with between 5 and 24 staff, and an income of between £200,000 and £1 million.
- ***10 smaller organisations***: with income between £50,000 and £200,000 and having fewer than 5 employees.
- ***10 less formal small TSOs***: with few or no employees and income below £50,000.

The study involved three intensive phases of work, followed by a lighter touch follow up study in 2022 to assess the impact of the Coronavirus pandemic.

[18] All three reports can be located here: Third sector trends research | Community Foundation.

- The first phase was funded by Northern Rock Foundation and took place from 2009-2010 and included 50 organisations in North East England and Cumbria.
- The second phase, also funded by Northern Rock Foundation, took place between 2012-2014. 45 of the original 50 organisations were still operating.
- The third full phase of the study was limited to North East England between 2016-18 and was funded as part of an ESRC project on interactions between the public sector and Third Sector.[19] Of the original 40 TSOs, 31 were still operating. While it was not possible to continue the qualitative work in Cumbria, the financial situation of the organisations continued to be tracked.
- In 2022 when the light touch follow-up study was undertaken, 31 of the original 40 TSOs in North East England remained. By this time, seven had closed and two had moved to the public sector.

Data collection

The research has involved a number of elements of work, including:

- ***Desk research*** on participating organisations in each of the four phases of the research. This has included content analysis of Google searches on recent media stories about each organisation or other mentions of the organisation in, for example, policy documents or minutes of meetings of public sector bodies.
- ***Financial data*** has been collected from the Charity Commission on an annual basis stretching back to 2004 on most organisations taking part in the study.[20] Additionally, data on grant funding has been collated using *360Giving* data over the last ten years.
- ***Observation*** has been possible at each of the three phases of study as interviews have taken place on site. The only exceptions are three small organisations which have no offices. Observation was undertaken in a more structured way in the first phase of study, thereafter, notes were taken on significant changes from the initial visit.
- ***Interviews*** were undertaken with organisational leaders at each phase of the study. When TSOs employed staff, the chief officer was interviewed. In smaller organisations the chair of the board of trustees was interviewed. Interviews typically lasted for two hours and were digitally recorded.

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[19] See: Chapman, T., Mawson, J., Robinson, F. and Wistow, J. (2018) *How to work effectively with the Third Sector: a discussion paper for public sector organisations*, Durham: Institute for Local Governance. How to work effectively with the third sector - St Chad's College Durham (stchads.ac.uk).

[20] The Charity Commission publishes basic data on the finances of charities over the last five years, so it has been possible to collect data on participating organisations up to five years before they agreed to take part in the study in 2009.

The situation of the TSO50 in 2022

The Community Foundation Tyne & Wear and Northumberland commissioned additional work on this aspect of the Third Sector Trends study to complement the survey work to be undertaken from June 2022.

This work included updating financial data for the entire sample of organisations which joined the study in 2008 (including Cumbria) which continued to operate. Additionally, desk research was undertaken on the current activities of organisations using information from their own websites; secondary references in, for example, media stories about their work; annual reviews of financial wellbeing, governance and future plans drawn from the most recently submitted Charity Commission reports. An exploration of their successes in gaining grants was undertaken for the first time, using data from 360Giving, and covered the entire period of study.

The work also aimed to undertake follow up interviews with ten organisational leaders who have been involved for the duration of the study (or at minimum, those who were in post during its third phase[21]). The purpose of the interviews was to bring the analysis up to date following the Coronavirus pandemic.[22]

It was hoped that interviews could be undertaken with more of the original participants of the study but many, as would be expected given its longevity, had retired since 2018 or had moved on to work in other organisations. Nevertheless, in the qualitative analysis, examples have been drawn upon extensively from their experiences in the first three waves of the study.

The volume of qualitative evidence, together with supporting information which has been collated makes analysis complex and challenging. The analysis which is provided in this report merely scratches the surface of the available material and is limited to the exploration of organisational competence under the headings of *foresight, enterprise, capability* and *impact*. There will be scope to explore the evidence in more detail in future in conjunction with analysis of quantitative findings from the six phases of the survey work in North East England and Cumbria.[23]

[21] There were only two organisational leaders in this position, one of whom refused to participate. Two interviews still needed to be completed at the time of writing. These will still take place and data collected will be included in subsequent reports.

[22] These interviews also provided an unprecedented opportunity to invite participants to reflect on their own experiences of leadership throughout the long period of social, political and economic turmoil which has shaped the circumstances within which TSOs have worked. Analysis of these interviews will be undertaken at a later date.

[23] Third Sector Trends survey data has been collected in the following phases, following a baseline study of sector structure, 2010, 2012, 2014, 2016, 2019. The survey shifted from a biennial exercise up to 2016 to a triennial interval from 2019 which brought studies across all northern regions into line. The next phase of surveying will proceed from June 2022.

Section 3

How have organisations fared?

Organisational finances

As shown in Section 1, Third Sector finances over the last twenty years have risen steadily. The problem with headline statistics is that they can mask the substantial fluctuations in income of individual organisations. Consequently, while overall sector income has steadily increased, it does not necessarily 'feel that way' to people who manage organisations.

Assessments of the financial situation of TSOs can be misleading if increased income is associated with 'success' while income decline is assumed to signify 'failure'. Third Sector Trends research recognises that income fluctuation is an 'endemic' feature of organisational life in the Third Sector. It is something organisational leaders have to learn to live with.

A key issue for this section of the report is to find out if these income fluctuations follow distinctive patterns that are associated with wider social, economic or government policy changes. [24]

Financial profiles of TSOs

Since this study began, headline income profiles of TSOs have been tracked. In this analysis organisations are divided into three categories to reflect their different structures, resources, interactions and impact (see Figure 3.1).[25]

Figure 3.1 **Characteristics differentiating small, medium and large TSOs**

	Smaller TSOs	Medium sized TSOs	Large TSOs
Organisational structure	Relatively informal structures, personal and socially complex relationships based on mutual consent.	Semi-formal organisational form usually with relatively flat structures. Authority and accountability established but effected through personal interaction.	Formal, more complex, hierarchical organisations with specialised staff and established divisions of labour depending on scale and range of activity.
People resources	Mainly or wholly run by volunteers. Occasional part-time employee or consultant support for specialised tasks.	Most activity is organised, managed and to an extent delivered by employees, but heavy reliance on volunteer support.	Employees are the principal resource producing most work energy, though often supported by volunteers.

[24] See Chapman, T. and Robinson, F. (2013) *On the Money: how does the way Third Sector organisations think about money affect the way they work.* Newcastle upon Tyne: Community Foundation Serving Tyne & Wear and Northumberland on-the-money-final.pdf (communityfoundation.org.uk). For an updated version of this report, see Chapman, T. (2017) 'Journeys and destinations: how Third Sector organisations navigate their future in turbulent times', *Voluntary Sector Review, 8(1), 3024. http://10.1332/204080516X14799054697067*s

[25] For further discussion, see Section 15, 'A tale of three sectors' of Chapman, T. (2020) *Third Sector Trends in North East England 2020: a digest of findings,* Newcastle upon Tyne: Community Foundation Serving Tyne & Wear and Northumberland THIRD-SECTOR-TRENDS-IN-NORTH-EAST-ENGLAND-2020-1-1.pdf (communityfoundation.org.uk)

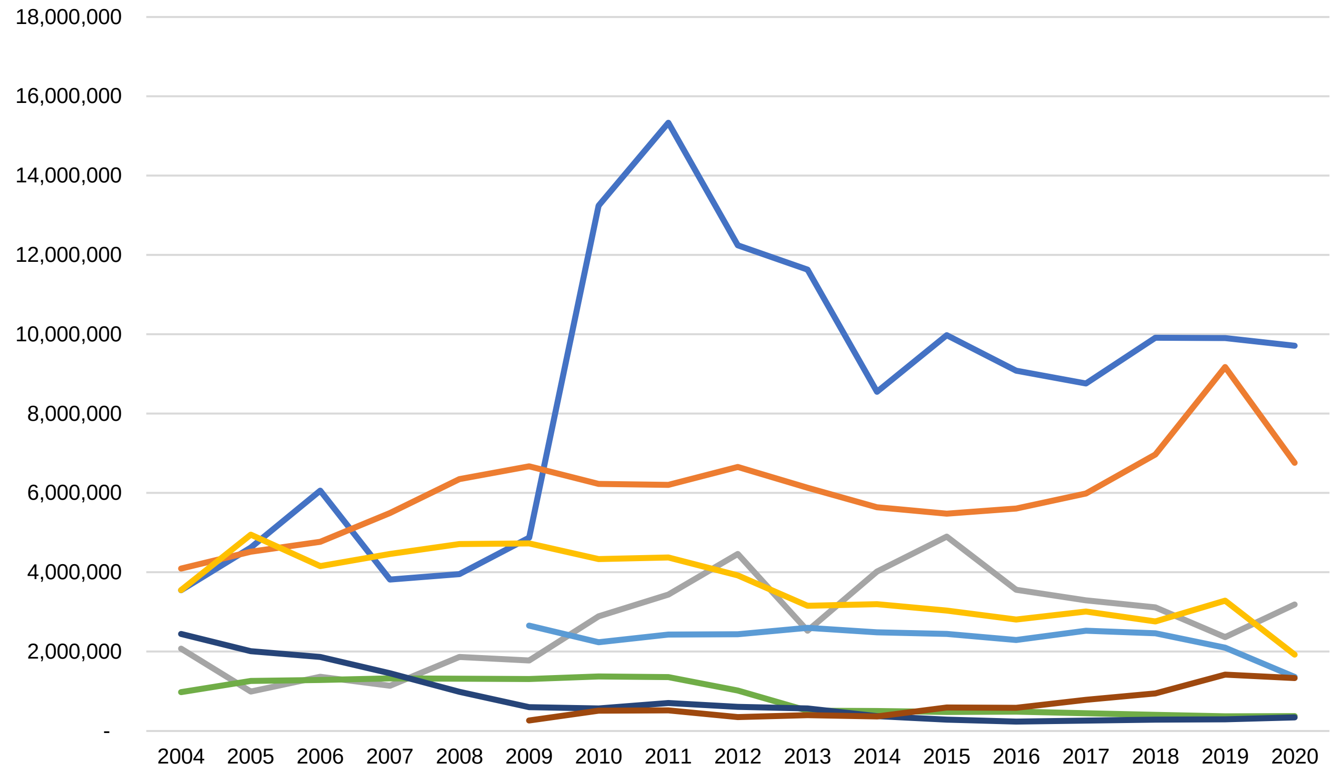
Figure 3.1, continued…

Financial resources	Limited financial needs, but require occasional grants or fundraising activities.	Tend to be asset poor and heavily reliant on grants, in kind support and self-generated trading.	Many have substantive assets and reserves, but heavily reliant on income generation from grants, contracts and earned income.
Interactions	Generally locally focused, autonomous in outlook but maintain useful informal links with other like-minded organisations.	Work in informally and often in complementary ways with other TSOs but only rarely in formal partnerships.	Likely to be engaged in more formal or contractual partnership arrangements. Usually well connected with relevant public sector stakeholders.
Impact	Tend to adopt generalist approach to the delivery of service with impact of 'intangible' nature which is hard to measure or compare.	Rooted in communities of interest or practice. Strong producers of 'use value' and 'intangible' value but generally disinterested in assessing impact formally.	More likely to be engaged in tangible aspects of service delivery funded by contracts and grants; more accustomed to monitoring/evaluation of impact if required.

Figure 3.2(a) presents income data on larger regionally-based TSOs (with average annual income of £1m or more). The graph shows the extent of income fluctuation which these organisations have experienced.

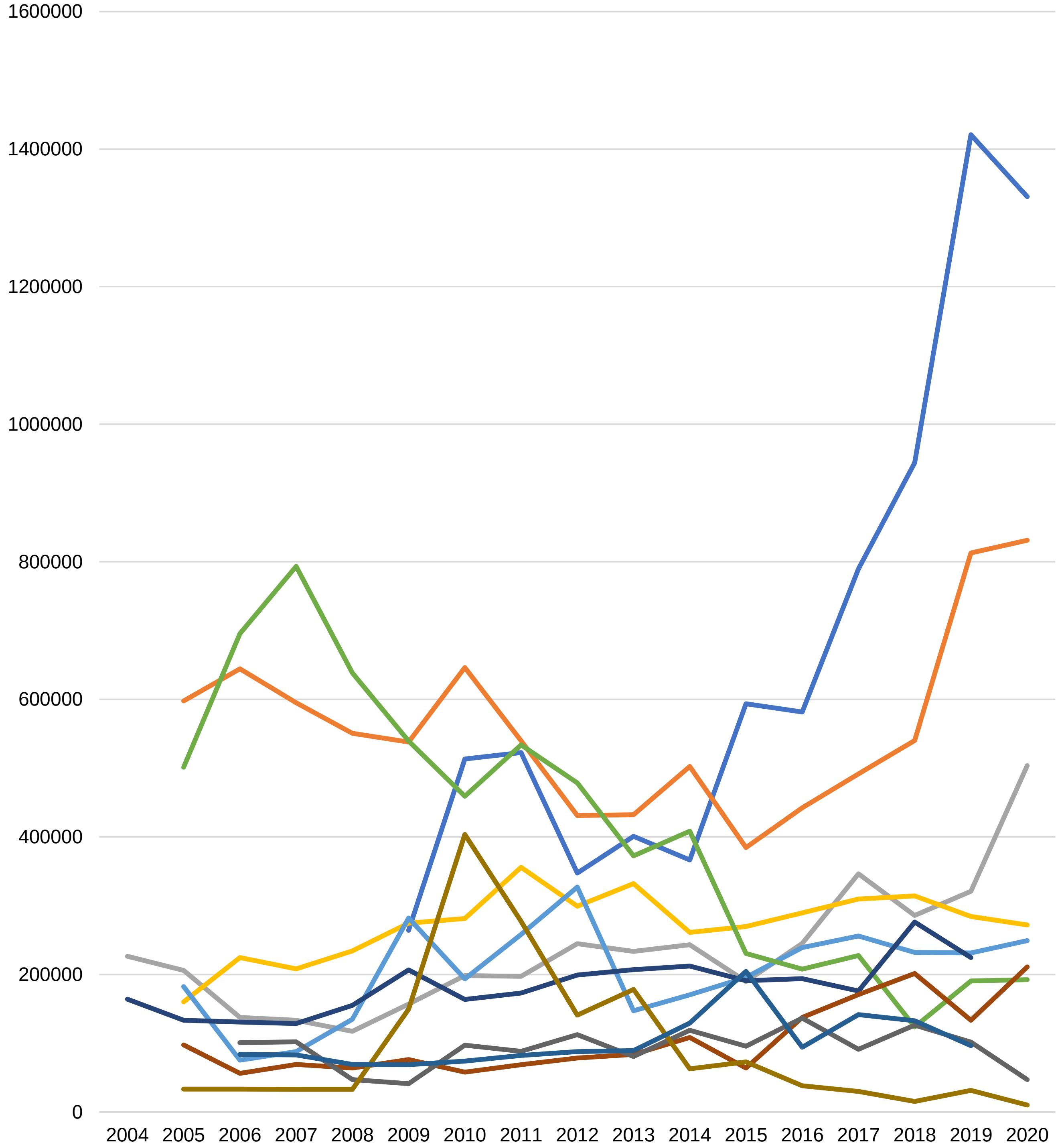
It is clear that organisations do not share the same or similar income profiles. For example in 2009-2010, following the global economic financial crisis, there was no obvious impact that was shared by all the organisations. Similarly, during the period of government austerity measures from 2010-2019, there are no distinct patterns of income decline which are shared.

Figure 3.2(a) **Larger regional TSOs' income profiles 2004-2020** (adjusted for inflation)



As Figure 3.2(b) shows, several medium-sized organisations experienced substantial income fluctuation while others had greater continuity.[26] It is not possible, though, to observe common patterns of bumps or troughs in organisational financial profiles which are associated with major economic crisis or in response to governement fiscal policiies.

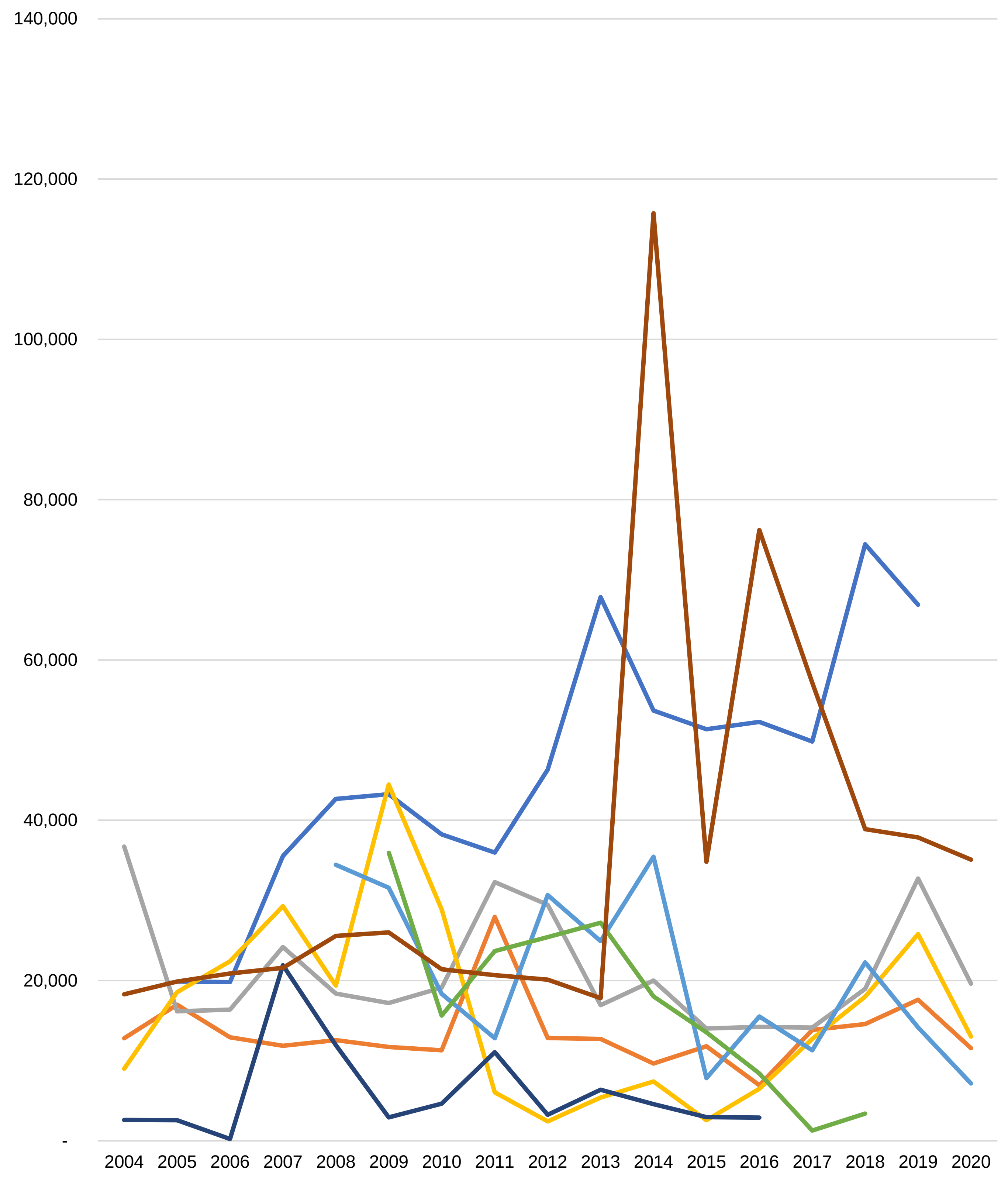
Figure 3.2(b) **Medium sized TSOs' financial profiles** (adjusted for inflation)



[26] Data were adjusted for inflation using the Bank of England Inflation Calculator 1949-2021: Inflation calculator 1949-2021 | Bank of England.

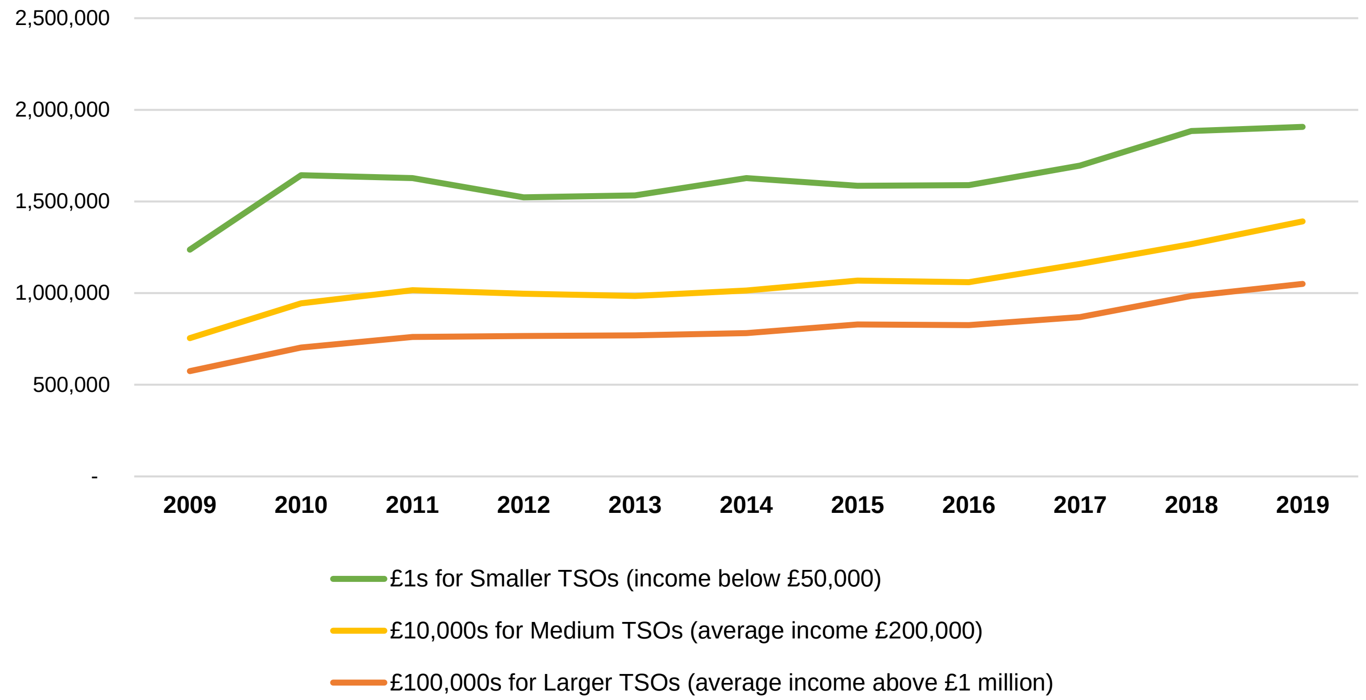
Amongst smaller TSOs (see Figure 3.2(c), fluctuations in income are proportionally more prounounced than is the case of medium and larger sized organisations. But again, income profiles do not follow a pattern – on the contrary, the data are, quite literally 'all over the place'.

Figure 3.2(c) **Smaller TSOs' financial profiles** (adjusted for inflation)



Turbulence in organisational finances, as shown in Figure 3.3, can be 'ironed out' by aggregating income data.[27] These data show that in each TSO size category there has been steady, though only slight growth in overall income since 2009.

Figure 3.3 **Aggregate income for small, medium and large TSOs** (adjusted for inflation)



The same data can be reconfigured (see Figures 3.4(a) to 3.4(c)) to show annual percentage income increase or decrease compared with average annual income for each organisation.

- Some ***larger organisations*** have experienced substantial annual income fluctuation when compared with average annual income between 2009-2019. Only in one case is there evidence of consistently and substantively increasing income (Organisation D). Variations from average income are not especially pronounced (ranging from 50 per cent below average income to 170 per cent of average income).
- ***Medium sized organisations*** exhibit higher percentage swings in income compared with larger organisations, ranging from around 40 per cent below average income to 230 per cent above average income. Fluctuations appear to be at their highest in the earlier and later years of the study.
- Amongst ***smaller organisations***, swings in income are more pronounced, ranging from about 25 per cent below average income to 325 per cent above average income. This is likely to reflect the fact that income stability is less important to small organisations because they employ none or few paid employees. Income fluctuation may simply reflect the receipt, for example, or an occasional grant or legacy.

[27] The period 2009-2019 has been used because there is a complete record of financial data for the whole sample during this period. Incomplete data would skew the analysis.

Figure 3.4(a) **Larger TSOs, percentage variation from mean annual income** (adjusted for inflation)

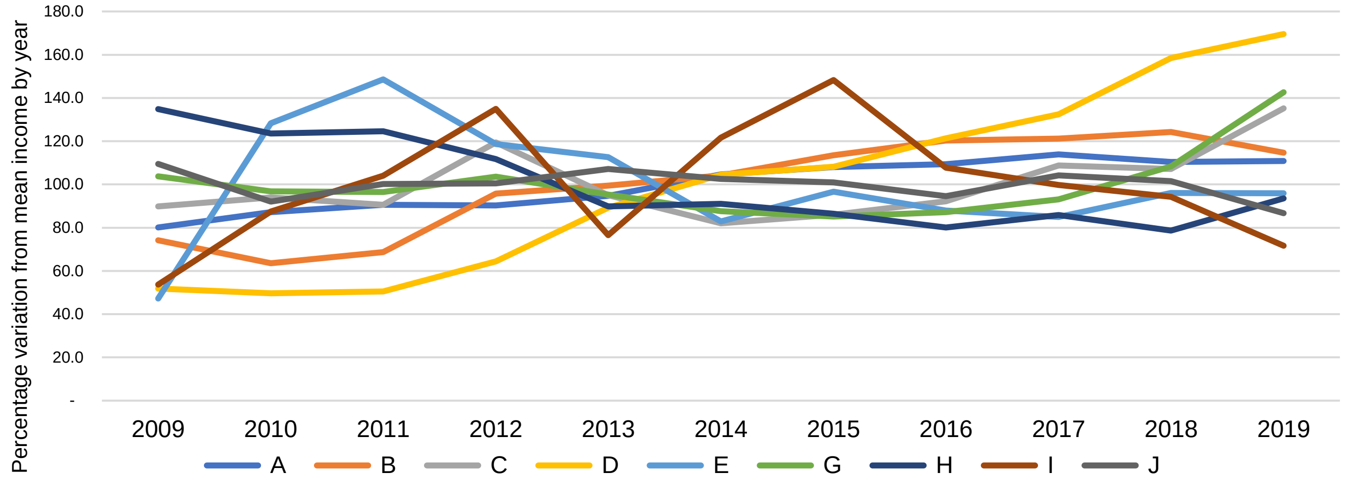


Figure 3.4(b) **Medium sized TSOs, percentage variation from mean annual income** (adjusted for inflation)

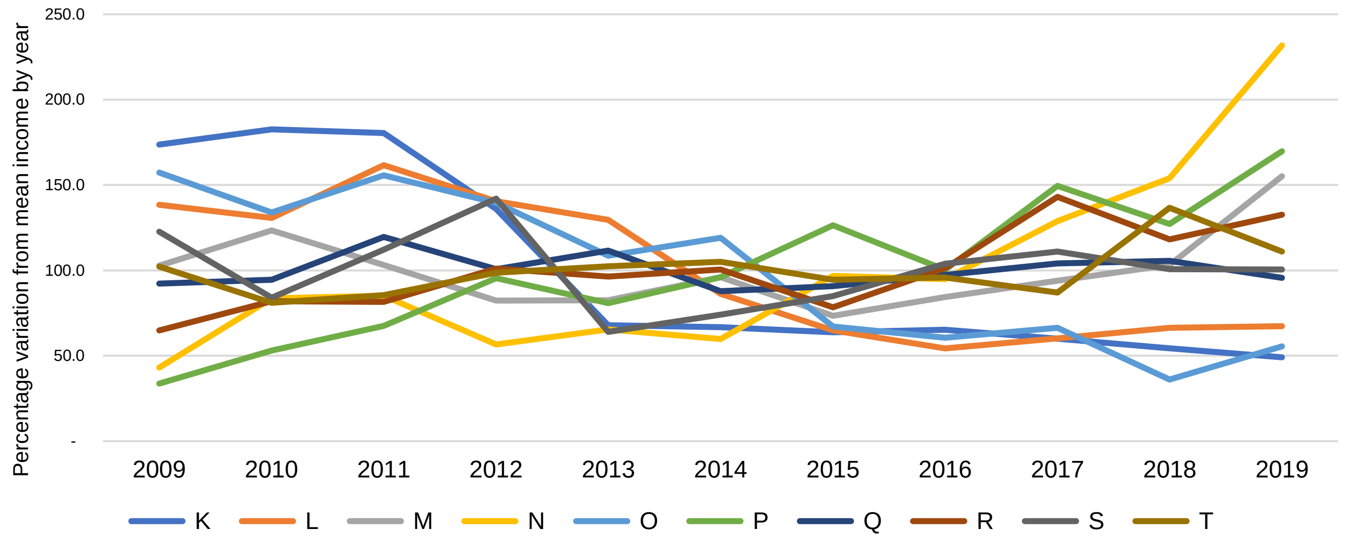
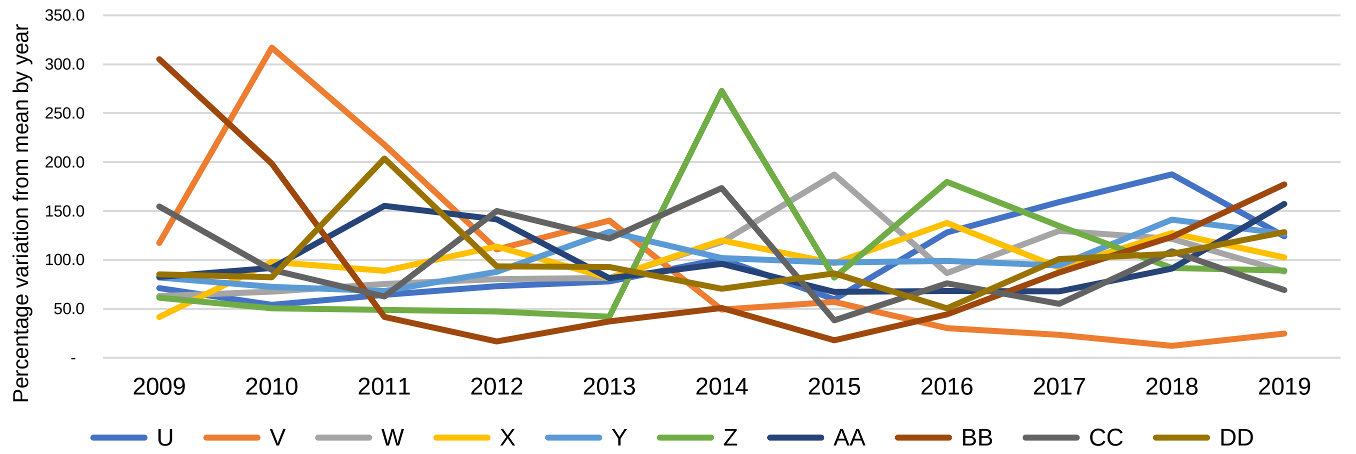
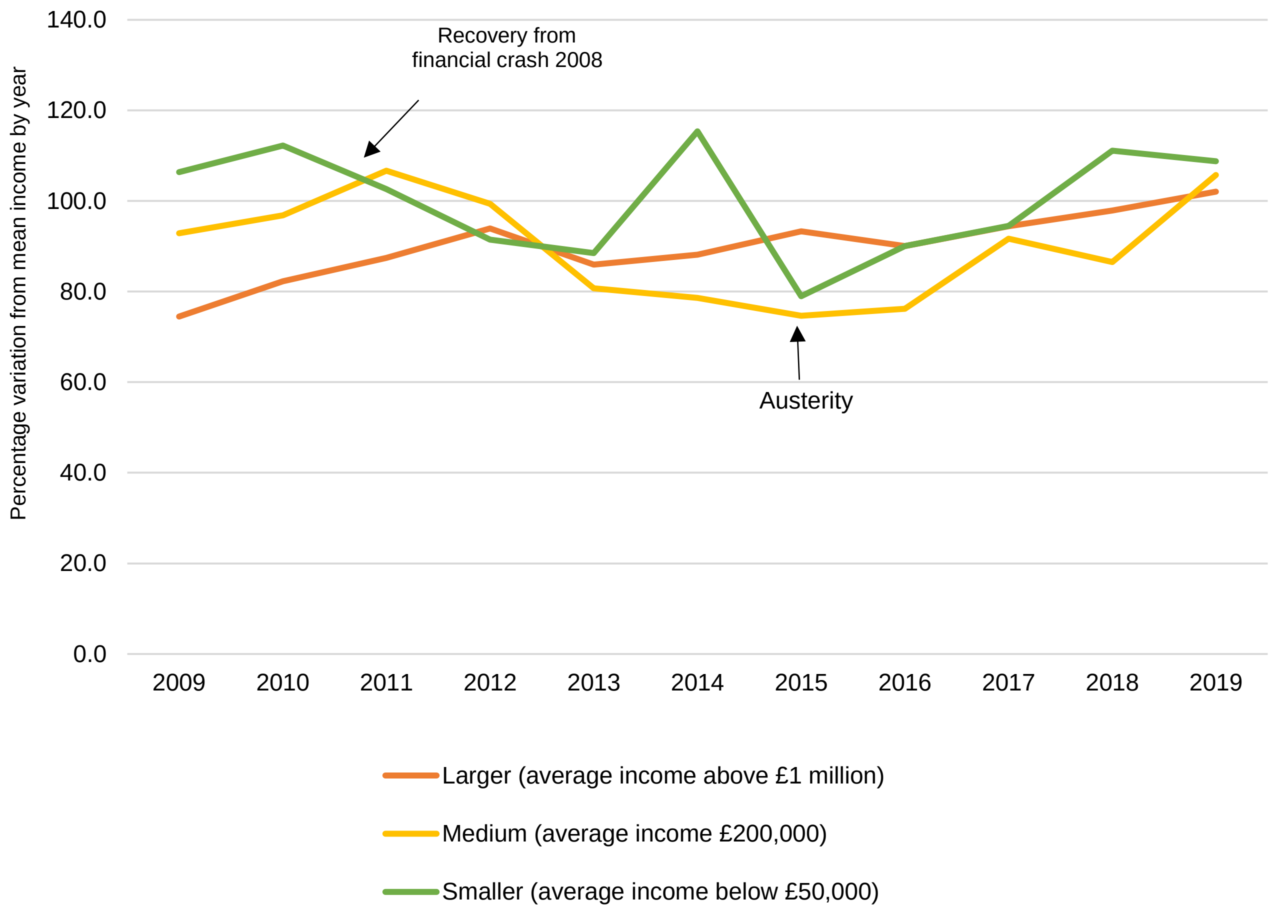


Figure 3.4(c) **Smaller sized TSOs, percentage variation from mean annual income** (adjusted for inflation)



When these data are aggregated by organisational size, as shown in Figure 3.5, a clearer impression is given of the 'general' situation of organisations. Smaller organisations, as would be expected, tend to have steeper swings in annual income. Larger organisations show steady increases in the percentage of income against the income mean. The finances of medium sized organisations, by contrast, ebb and flow. Percentage income increases seem to follow the recovery from the 2008 global financial crisis, but again dip during the period of austerity policies before rising again from 2019.

Figure 3.5 **Aggregated percentage variation from mean income 2009-2019 by TSO income categories** (adjusted for inflation)



Summary and next steps

The evidence presented in this section indicates that fluctuations in income are a more or less an 'endemic' feature of organisational life in the TSO50 sample. The analysis raises a further issue: how does the ability of TSOs to manage change effectively 'protect' them from significant financial uncertainties? The next two sections of the report will attempt to answer this question.

Section 4

Managing change

The previous section has shown that income fluctuation is a common feature of organisational life. But income instability does not affect all organisations in the same way.

- ***Small organisations*** which employ none or few staff are less reliant on financial resources than they are upon volunteers giving their time – they still need money to do things, but dependence is quite low.
- ***Medium sized organisations*** appear to be more vulnerable financially and can be exposed to significant risks if income fluctuations are rapid and unanticipated.
- ***Larger organisations*** are the most financially resilient because they have the skills, scale and assets to withstand the effects of short-term income fluctuation and have time to adjust to longer-term change.

To assess how TSOs change practices to tackle challenges, this study adopted an approach to 'scoring' each organisation against a set of standard criteria. This was achieved by devising an 'analytical framework of organisational effectiveness'.

This approach was developed for two reasons. Firstly, the volume of data available to us could lend itself to a simplistic process of 'quote hunting' to give the impression that we were presenting 'evidence' to support arguments. There was enough material in the data set to support almost any argument if this approach was taken. It was recognised that interpretation is liable to interference unless the biases of the interpreter are recognised and, as far as possible, set aside. Consequently, the option was taken of devising a more measured approach to make informed judgements on how TSOs were doing against a range of criteria.

Secondly, it was felt that a method needed to be created to counterbalance emotional involvement with and feelings of sympathy for respondents with the need to produce a robust and objective appreciation of sector dynamics. This last condition is hard to achieve. Some respondents were known to us before the study began (with whom we had worked with in different contexts), others became well known as the study progressed. Whether people were known before or since the study started, or whether we respected their work or liked them individually, a measure of 'social distance' had to be achieved by setting loyalties aside.

By separating 'feelings' about individuals from 'informed judgements' about how well their organisations worked it was possible to produce a set of standardised criteria to appraise all TSOs irrespective of size, practices or purpose. This 'bottom up' or 'grounded' approach to analysis involved devising a long list of organisational principles and practices which were incrementally reduced, through debate by the project team, until a list of 20 evenly weighted categories were agreed upon under four headings: *foresight, enterprise, capability* and *impact*. Each is defined as follows:

- ***Foresight****: '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'.*
- ***Enterprise***: *'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'*.

- ***Capability:*** *'the organisation's 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: trustees, employees and volunteers; its financial resources; its property; and its relationships with partners, funders and other key stakeholders'.*
- ***Impact***: '*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'*.

Under each heading, five sub-criteria were defined. To each area of practice a capability score was to be given from 1 (the lowest) to 5 (the highest). Scores were awarded in the context of an individual organisation's objectives and scale – rather than against 'gold standards' on what might constitute a 'perfect' organisation.

To help make sound judgments, binary opposites of 'strong' and 'weak' practice were devised. These are illustrated in Figure 4.1(a) to 4.1(d).[28]

Figure 4.1(a) **Features of organisational foresight**

Strengths in organisational practice	Weaknesses in organisational practice
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.	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.
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.	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.
Leaders are focused on longer term objectives: - leader(s) focus on its 'big picture' objectives; - plans its activities with its principal objectives in mind.	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.
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.	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.
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).	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.

[28] Originally published in Third Sector Trends (2013) *Walking a tightrope: balancing critical success factors in hard times,* Newcastle upon Tyne: Northern Rock Foundation.

Figure 4.1(b) **Features of organisational enterprise**

Strengths in organisational practice	Weaknesses in organisational practice
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.	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.
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.	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.
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.	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.
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.	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
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.	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.

Figure 4.1(c) **Features of organisational capability**

Strengths in organisational practice	Weaknesses in organisational practice
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.	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.
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.	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.

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.	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.
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.	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.
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.	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.

Figure 4.1(d) **Features of organisational impact**

Strengths in organisational practice	Weaknesses in organisational practice
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.	TSOs have 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.
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	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.
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.	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 strong, but misplaced, belief in their capability because they fail to assess or notice evidence about underperformance in the production of benefit.
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.	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.

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.	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. Few organisations have an instrumental or cynical attitude towards beneficiaries, but those which do, put organisational interests first and beneficiaries' interests second.

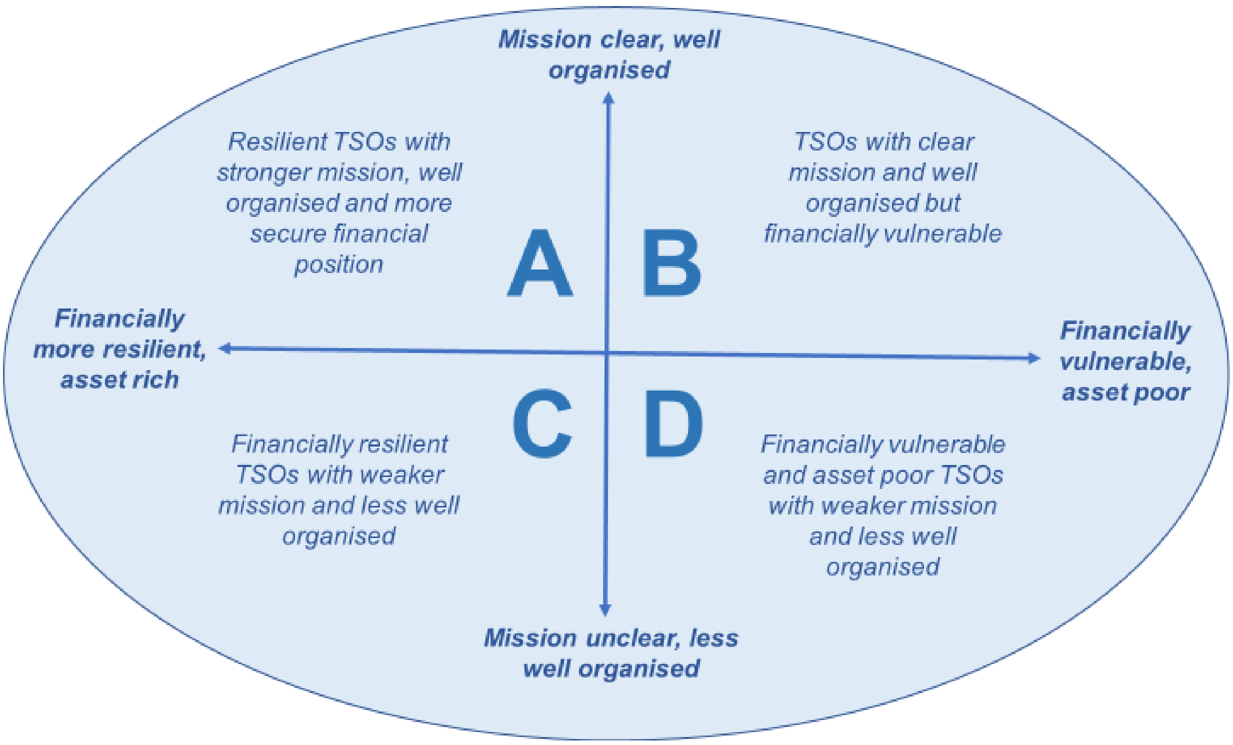
Once the process of scoring was complete, results were entered onto a spreadsheet to find out which were the strongest and weakest organisations by each criteria. The research objective was to determine, by the second and third rounds of the longitudinal research, whether organisational capability had improved, remained the same or deteriorated.

Defining what constituted an organisation in a strong position involved the development of a conceptual framework which examined the interaction between good leadership (management and governance) and organisational assets (ideas, people and financial resources).

What we were *not* doing was making a judgement on whether 'good organisational practice' necessarily protected organisations from the vagaries of change in the social market place. We expected that however well or poorly run an organisation was, elements of luck and chance would interfere with the equation.

Using this conceptual model, it is now possible to map the progress of TSOs over three phases of the research by looking at movement between four positions as shown in Figure 4.2.

Figure 4.2 **Placement of TSOs on two dimensions: financial resilience and capability/clarity of mission**



Figures 4.3 and 4.4 divide the sample of organisations into five categories:

- ***TSOs which maintain a higher level of capability and financial security***: There are 13 'Triple A' organisations which have maintained higher levels of capability and financial security throughout the study. Additionally, one organisation with 'Double A' scores changed sector and left the study in phase 3.
- ***TSOs which have become more capable and financially secure***: There are five organisations which have improved their situation through the life of the study – two of which attained an A classification by the third phase. Others remained less secure.
- ***TSOs which became less capable and financially secure***: thirteen organisations fall into this category. Two of which had strong capability but were financially insecure (Category B). Seven organisations with declining or lower levels of financial security and capability had closed by the end of the third phase of the research programme.
- ***TSOs which continued to operate with lower capability and financial security***: seven organisations has relatively low levels of capability and financial security throughout the study but managed to keep going. Additionally, one organisation had good capability but financial security changed sector in phase 2 of the study.

By the end of phase three, of the original 40 TSOs in North East England:

- 15 organisations were financially secure and well managed (A category).
- 7 TSOs were well managed but remained financially insecure (B category).
- 5 TSOs were financially secure but were less well managed (C category).
- 4 TSOs were financially insecure and less well managed (D category).
- 7 TSOs had closed and 2 had moved to the public sector.

Figure 4.3 **Capability and financial security TSOs in North East England**			
	Phase 1 2008-10	**Phase 2 2012-14**	**Phase 3 2016-18**
Larger sized TSOs (income above £1 million)	A	A	A
	A	A	A
	A	A	A
	A	A	A
	A	A	A
	A	A	A
	A	A	A
	B	B	A
	B	Changed sector	
	C	C	B
	D	A	B
	D	D	D
Medium sized TSOs (income £50,000 - £999,000 - average income £200,000)	A	A	A
	A	A	A
	A	A	A
	A	A	Changed sector
	A	B	B
	A	B	B
	A	C	B
	A	C	Closed
	B	A	A
	B	C	C
	D	D	B
	C	C	C
	C	D	C
	C	Closed	
	D	Closed	
	D	Closed	
Smaller sized TSOs (income below £50,000)	A	A	A
	A	A	A
	A	A	A
	B	B	C
	B	D	Closed
	C	C	B
	C	C	C
	C	C	D
	C	C	D
	C	C	Closed
	D	D	D
	D	Closed	

Figure 4.3 **Changing fortunes of TSOs 2009 to 2018**

Phase 1 2008-9	End of phase one 2010	Phase 2 2012-14	End of phase two 2014	Phase 3 2016-18	End of phase three 2018
Position A Resilient TSOs with strong mission, well organised and secure asset base	**18 TSOs**	13 TSOs had maintained their Position 2 had maintained organisational capability but had become financially vulnerable (Position B) 2 had lost sense of direction/organisation but retained assets (Position C) 1 TSO changed legal status and was no longer part of the Third Sector.	**16 TSOs**	13 TSOs maintained this Position throughout the programme. 1 TSO was re-incorporated into the public sector 1 TSO had moved from A to B after phase one and remained in Position A in phase three 1 TSO had moved to Position A after phase one, but financial security had subsided – moving to Position B	**15 TSOs**
Position B TSOs with a clear mission and well organised but vulnerable and asset poor	**6 TSOs**	1 TSO improved its financial security and moved to A 2 TSOs remained in this Position. 1 moved to Position C after losing sense of mission and capability 1 moved to Position D where the TSO remained well organised and clear in mission but where assets became increasingly vulnerable 1 changed sector	**4 TSOs**	1 TSOs improved their financial Position and moved to Position A 2 TSOs retained their capability but were still financially vulnerable so remained in Position B. 1 lost sense of direction and capability and moved to Position C.	**7 TSOs**
Position C Resilient asset-rich TSOs with weak mission and poorly organised	**9 TSOs**	7 TSOs remained in Position C with financial resilience but unclear mission and under-developed capability 1 TSOs became more financially vulnerable and moved to Position D 1 TSO faced a worsening financial Position and closed	**10 TSOs**	3 TSOs remained in Position C with low levels of capability or financial security 3 TSOs improved their capability but not asset base and moved to Position B 2 TSOs still lacked capability but their financial security declined - moved to Position D 2 TSOs closed	**5 TSOs**
Position D Vulnerable, asset poor TSOs which have weak mission and are poorly organised	**7 TSOs**	1 TSO improved its capability and financial situation and moved to Position A 3 TSOs remained in Position D with lower levels of capability and financial vulnerability 3 TSOs closed	**5 TSOs**	1 TSO which had improved its financial situation in the second phase became financially vulnerable again and moved to Position B 1 TSO improved its financial position but did not improve capability – moving to Position C 2 TSOs remained financially vulnerable and lacking capability – remaining in Position D 1 TSO closed	**4 TSOs**
Total TSOs	**40 TSOs**	35 TSOs remaining	**35 TSOs**	31 TSOs remaining	**31 TSOs**

Summary and next steps

The analysis presented in this section of the report indicates that many TSOs experience mixed fortunes. Only about a third of the sample maintained consistency in their capability to manage their organisations successfully and sustain a good measure of financial security. It is not yet clear whether there is a clear association between effective organisational capability in management and governance and financial security. The next section explores this issue.

Section 5

Capability and financial wellbeing

In Third Sector Trends analysis, care has always been taken not to associate 'income growth' with 'success'. This is because some well organised TSOs purposefully attempt to maintain about the same level of activity because this suits their overall mission.

Getting 'bigger', *per se*, does not mean that organisations get 'better'. On the contrary, sometimes TSOs grow in size quickly following, for example, the acquisition of a major grant or contract. But if this stretches them to the limit, the chances are that such growth cannot be sustained or the quality of their work will be compromised.

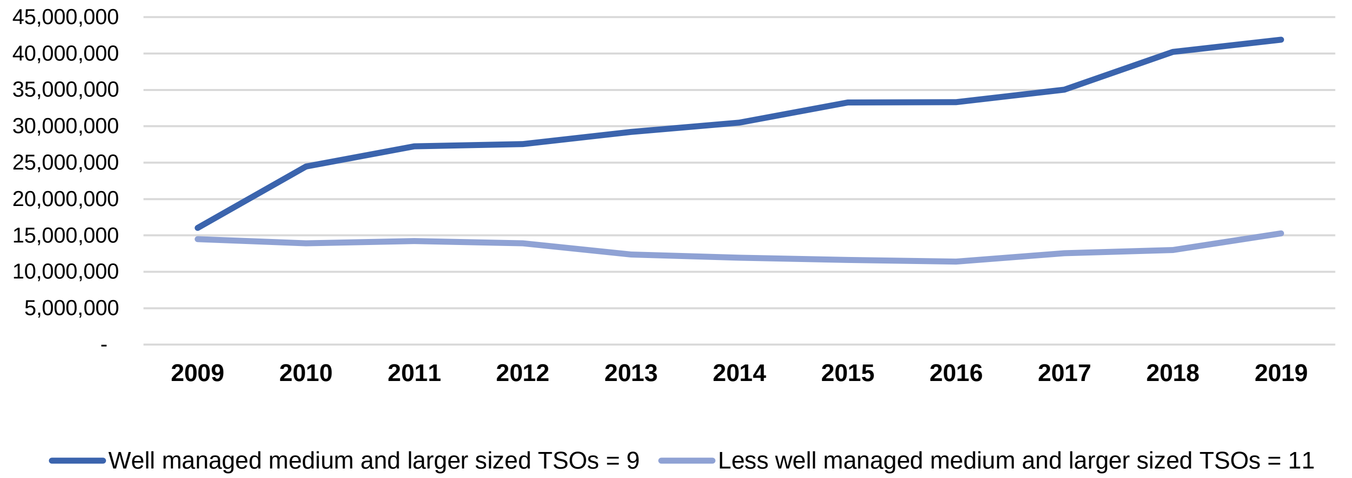
This section will explore whether there is a relationship between organisational capability in management and governance and financial security. It should be noted that national organisations have been excluded from the analysis because it is not possible to disaggregate financial data for their North East of England operations. Data from small organisations which do not employ any staff have been excluded because the criteria for defining financial success are substantively different.

The analysis must therefore be preceded by a strong caveat – that available data only refer to 20 organisations based in North East England for which complete financial data is available from 2009 to 2019. It cannot be claimed that findings from such a small sample can be generalised to all organisations of similar sizes. Instead, findings should be regarded as 'indicative'.

Figure 5.1 presents aggregated financial data for 20 TSOs in North East England. A comparison is drawn between those organisations which have been judged to be consistently well managed' with those which are considered to be 'less consistently well managed'. This does not mean that consistently well-managed organisations do not make mistakes from time to time, and nor should it be assumed that 'less consistently well managed' organisations do not manage things well some of the time.

The findings are quite clear cut. Less consistently well-managed organisations have, collectively, just about held onto the same amount of income during the period of study (around £15 million), while the consistently well-managed organisations have almost tripled their income (rising from just over £15 million to almost £45 million).

Figure 5.1 **Total annual income of medium and larger sized TSOs 2009-2019**
(adjusted for inflation)



A shortcoming of the above analysis is that the higher level incomes of larger organisations may skew findings. To account for this possibility, Figures 5.2(a) and 5.2(b) disaggregate larger organisations (with income above £1 million) from medium sized organisations (average income ~£200,000).

When comparing larger organisations (Figure 5.2(a)), it is clear that 'consistently well-managed organisations' are more likely to have experienced significant income growth (collectively from £15 million to about £35m). Less consistently well-managed organisations, by contrast have only just about sustained income levels at about £14 million between 2009 and 2019 (although it may be noted that this level of income dipped to about £10 million between 2014 and 2017).

Figure 5.2(a) **Total annual income of larger TSOs (income above £1m) 2009-2019** (adjusted for inflation)

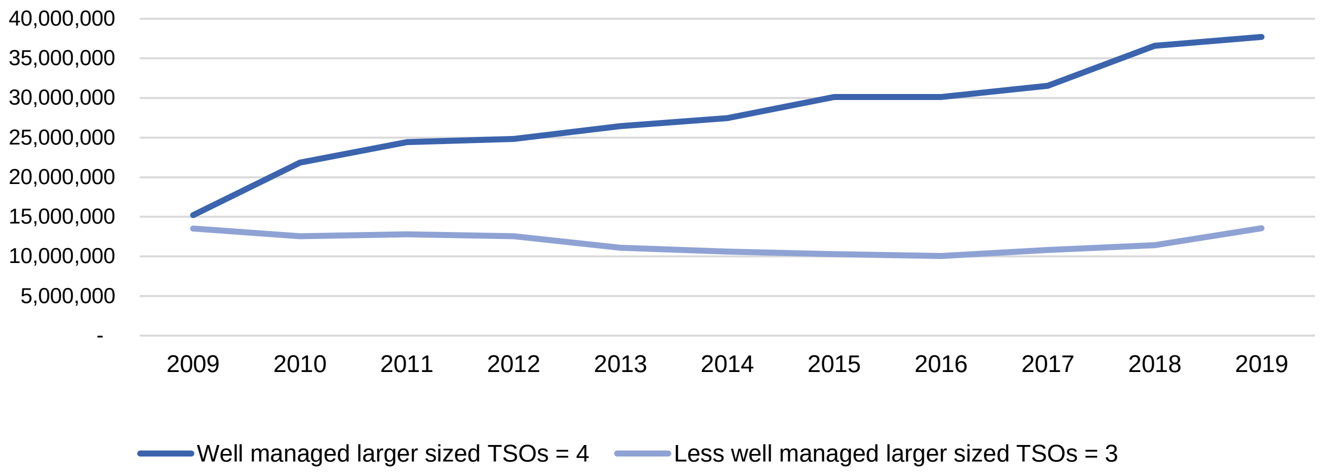
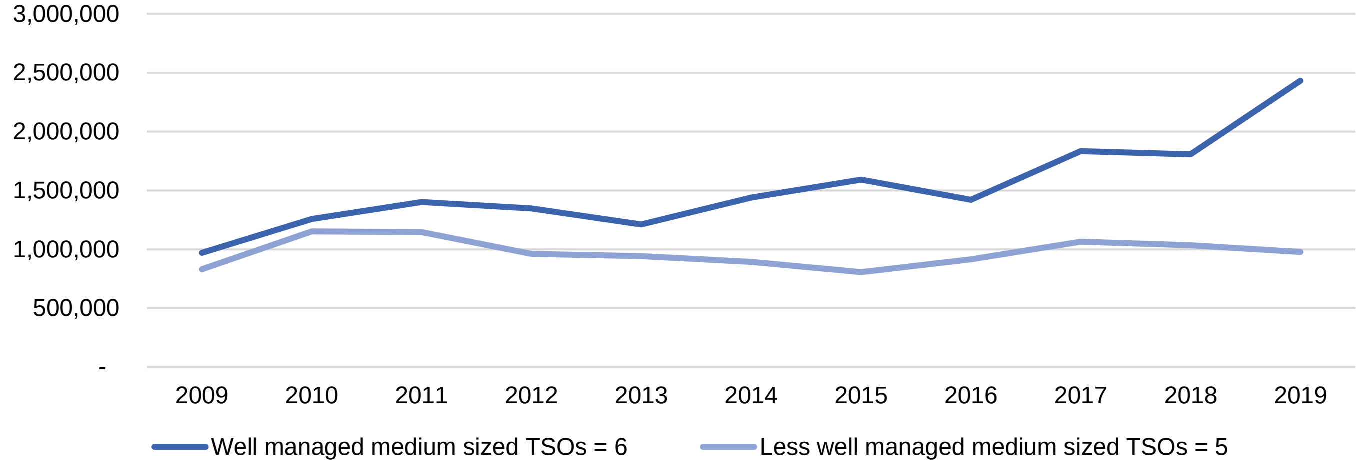


Figure 5.2(b) shows that well managed medium sized organisations are more financially resilient than their less well managed counterparts. Amongst the consistently well managed TSOs, overall income rose from 2009-2019, but there were some dips in this overall increase in 2013 and 2016. These could easily be accounted for by the end of large contracts or programme grants for one or more of the participating organisations rather than a signal of underlying financial insecurity.

Less well managed TSOs just about maintained income, but there was a dip in financial resources during the worst years of government austerity programmes. It cannot be confirmed with confidence that the two issues are related.

Figure 5.2(b) **Total income of medium sized organisations (average income ~£200,000) 2009-2019** (adjusted for inflation)



Summary and next steps

Given the small number of TSOs involved in the study, the above findings should be considered as ‘indicative’ rather than ‘conclusive’. Nevertheless, the analysis provides a useful way of demonstrating that there is a link between organisational effectiveness and financial resilience.

It has to be said, in summary, that this finding came as a surprise to me. From qualitative analysis of interview material and when looking at individual organisational financial profiles, I was coming to a view that it didn’t seem to matter so much if TSOs ‘muddled through’ in management terms rather than being consistently thorough and well organised.

It is reassuring that the above analysis shows that organisational capability in management and governance clearly does make a difference - especially so in larger organisations. This finding needs to be borne in mind in the remaining sections of the study which review the qualitative evidence on what factors shape organisational resilience and operational success in the long term.

It is not easy to contain analysis when so much rich qualitative data have been collected. The approach taken has been to ‘unwrap’ the material – starting with broad points in the early stages of the analysis and then deepening understanding as it progresses.

The analysis is divided into four sections on foresight, enterprise, capability and impact, each of which has five sub-sections. While findings have been presented to examine each of these aspects of organisational activity separately, it is clear that all aspects of activity are inter-related. The concluding chapter will bring together the main findings.

Sticking to the initial analytical framework, as defined in 2009, has been challenging because much more is known now about how TSOs anticipate and manage change. But using this framework, as initially devised, it is much easier to identify where aspects of organisational life are relatively similar and where there has been significant change.

Section 6

Foresight

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

Under the broad heading, foresight, five subheadings were defined. Each of these will be discussed in more detail with reference to findings from the four phases of study.

Knows what they are there to do and who they serve

- Does the organisation have a clear understanding of who its beneficiaries are?
- Does the organisation know how it can best serve its beneficiaries?

Plans on the basis of realistic appraisal of capability

- Does the organisation know how to assess opportunities?
- Does the organisation know what its capabilities are and match these with its ambitions?

Leaders are focused on longer term objectives

- Does the organisation's leader(s) focus on its 'big picture' objectives?
- Does the organisation plan its activities with its principal objectives in mind?

Governing body understands aims and supports plans

- Does the governing body have the right skills mix, energy and commitment to develop and support organisational objectives?
- Does the governing body work with 'one mind' once agreement has been reached on the organisation's objectives?

Would consider making hard decisions in response to challenges

- Does the organisation remain focused on its principal strategic objectives if faced with new opportunities or a crisis?
- Would the organisation contemplate radical action to ensure continued service to its beneficiaries (such as downsizing, merger, closing)?

6.1 Knows what they are there to do and who they serve

The first round of analysis of TSO50 research in 2009 demonstrated that nearly all organisations had a clear understanding of who their beneficiaries were. Meeting the needs of beneficiaries was at the core of organisational culture and shaped nearly all other aspects of organisational activity.

Subsequent rounds of study show that mission remained firm in a majority of organisations throughout the life of the project. But only rarely was it possible to meet the needs of beneficiaries in the same way – irrespective of the thematic purpose of organisations. Whether organisations were focused on the needs of *young people* in Tees Valley, *older people* in Northumberland, *arts, environment and heritage* in County Durham or *mental health* in Tyne and Wear, substantive shifts in approaches to practice were often necessary.

To sustain their activities, TSOs need the right configuration of resources to achieve their objectives. But organisations do not have complete control over the way they garner their energy. And so, plans – no matter how well conceived - could continually be buffeted by changes in the trading, funding and policy environment. Other factors, such as adjustments in the labour market, the availability of volunteers and the needs and desires of beneficiaries could also affect the way TSOs worked.

Perhaps it is better to ask how many TSOs would even recognise themselves fourteen years later as being the same organisation? Of the 31 remaining organisations in North East England, the honest answer is *all of them*.

In 2009 it was argued that organisational size, age, structure, legal form, and so on appeared to have little effect on the intensity of awareness of organisational mission. Small organisations with simple structures, little income and few or no employees were no less able to articulate their mission than large organisations which had complex structures, significant resources and many employees and volunteers. That finding seems to hold water.

By contrast, when we assessed whether the organisation knew *how* best to serve its beneficiaries in 2009, we recognised that the situation was complex. The disjuncture between *idealistic notions* of how beneficiaries needs could best be met in an *ideal situation*, set against the practicalities of achieving this with limited resources was as apparent in 2009 as it remains in 2022.

At the start of the study, we felt that those organisations which were under pressure to secure adequate *funding* to achieve their objectives, were less confident about their ability to meet their objectives. It now seems that this initial finding should be expressed in different way – that TSOs which have relatively secure *assets* are more able to withstand the consequences of change.

Money is an important element in the asset mix of organisations – and especially so amongst larger TSOs; but it is not the only, nor perhaps even the most important one. Assets should be defined broadly to include the ideas, skills, insight, energy, professionalism, commitment and determination of the people who lead organisations and the people who deliver their services.

Tangible assets, such as property can help stabilise financial security, while intangible assets including the ability to communicate the necessity and value of their mission to external stakeholders helps sustain activity.

The importance of money is not disputed, but it is argued now that its value is over-rated. Without access to these other assets, as defined above, money is not the answer to organisational problems – on the contrary, as will be discussed in subsequent sections, it can be the cause of them.

6.2 Plans on the basis of realistic appraisal of capability

In 2009 we found little evidence to suggest that organisation mission is *driven* by the external funding environment - but conceded that a lack of resources can have an impact on an organisation's long-term planning.

Neither of these statements feel secure now. Firstly, while *mission* may not be driven by external factors, approaches to *practice* certainly can be in those organisations which rely heavily on income from grant or contract funding and even from self-generated income from trading.

And secondly, doubt must be cast on the principle or possibility of long-term planning in a fast-changing environment. In most well-managed organisations, planning focuses on the medium term – that is, the next three or four years. And when thinking ahead, they look carefully at the fit between their practice capability and prospective income streams.

Effective organisations were careful to manage expectations of their staff, even when substantial increases in income were achieved. As one CEO stated in 2012, 'the next three years we'll stay at this level, but after that, we have to be realistic and plan to return to the size we were before.' As it turned out, they continued to work at a larger scale – but never was it taken for granted.

One large organisation was ambitious about their long-term prospects in 2009, claiming that the scale of their operation would more than triple over the next ten years in response to the shift towards the procurement of public sector service-delivery contracts. They were wrong. Turmoil ensued as managers tried to tackle disputes with staff arising from broken promises about future security. And open conflict with the board led to resignations and suspensions of senior staff.

As we noted in 2009, TSOs which did not have a strong resource base, planning could be a precarious and sometimes almost pointless. One of the consequences of this is that planning is to an extent 'opportunity led' with high levels of dependence on maintaining existing, and responding to new external funding streams.

As one TSO admitted: 'I always say we're not funding led, but the reality is we probably are', and another stated: 'We try to have a business plan, we try not to chase funding, but we do have the ability to turn things around very quickly, so if funding does come our way then we can respond…' During the Covid pandemic, TSOs with such an outlook were unabashed about 'making hay while the sun shone'.

In a small number of organisations in our sample, even medium-term planning was neglected on the expectation that 'something will come along'. And more often than not, this is what happened. In one organisation, funding issues were rarely considered until the board recognised that 'the coffers are getting a bit low', but they were skilful in fielding grant applications which captured funders' imaginations when the need arose.

Muddling through can work, but only to a point. If there are doubts about staff belief in, capability at or commitment to deliver projects or services for which grants or contracts were won – problems generally emerged further down the line which could, if sufficiently severe, undermine the credibility of the organisation.

6.3 Leaders are focused on longer-term objectives

In 2009 we argued that to sustain or build upon the successes achieved for their beneficiaries, it was necessary to scan the horizon to anticipate risk and assess potential opportunities. By doing so, organisations had time to prepare for change rather than being overwhelmed by events. Effective leaders told us that they needed to bring into balance their organisational needs with those of the people they served: 'if we're not here,' as one CEO told us, 'we can't help.'

Assessing which way the wind is blowing in policy terms is not easy. In 2008 there was still much talk in policy circles about 'grant dependency'. The need for a shift towards 'professionalism' and a 'business-like' or 'socially enterprising' culture was vaunted together with demands for 'sector-readiness' to meet growing market demand to deliver public sector services under contract.

A great deal of investment was put into sector development so that organisations could grow, or work together in consortia to deliver services at scale. In medium and larger-sized organisations, everyone seemed to be saying that from an external funding perspective 'contracts are the only game in town.' This in turn led to a much greater emphasis in organisational strategy on increasing self-generated trading.

We now know that policy initiatives are generally framed in 'a moment in time'. And while policy makers like to give the impression that their strategies will work in a relatively stable or predictable environment - the reality is often different. Unanticipated change invariably interferes with policy makers ideal-world plans (for a brief account of these changes, see Section 1).

The effect of political, social, cultural and economic change on the working environment for sector leaders was a key topic in every round of interviews – but especially so in the most recent. There were some signs of 'war weariness' amongst organisational leaders – the Coronavirus pandemic had, many said, tested them to their limit.

Continual change made many organisational leaders feel 'battle hardened' in the sense that they had survived so much before but were still up for the fight of keeping going. In several of the most recent interviews, participants asked how many other TSOs had 'survived' from the initial sample of 40 in North East England. Few were surprised that only seven had closed.

Organisational longevity had been achieved, it was generally felt, against the odds. And somewhat ironically, the reason for survival often centred on TSO leaders' *purposeful avoidance* of framing their organisations' futures along the lines suggested by policy makers, think tanks and the like. Going the whole hog and shifting all activity into, for example, contracts or self-generated trading, was not just rare in the TSO50, it never happened.

And certainly, none of the organisations which employed staff had put 'all their eggs in one basket' in financial terms. While some had engaged more heavily in delivering, for example, public service contracts - they did not stop applying for grants or developing trading activities. None which survived had dared risk leaving themselves beholden to just one funder, or as a social enterprise to the perils of the market.

The recurrent emphasis on 'survival' in interviews by organisational leaders needs careful interpretation. It is true that running an organisation often feels to TSO leaders like a struggle against the odds – but the factors that drive leaders themselves are more complex.

At the fore of leaders' minds was the desire to help their beneficiaries and this was often underpinned by other factors such as loyalty to the organisation itself and to the people who volunteered and worked there. Many, although it sometimes took them a while to get around to admitting it, enjoyed the risks, challenges and excitement of winning contracts or grants. Admitting to ambition, as one respondent put it, ‘is a bit of a dirty word, not very, you know, “Third Sector”.’

Underlying these factors, something else drove leaders - which was captured by one participant in a single word ‘curiosity’. Most leaders were captivated by problem solving and this betrayed a fundamental belief that they were in a position to meet people’s needs in ways that others could not. Contrary to previously reported findings – the passion for innovation is much stronger than we initially thought (see Section 7.3).

Curious leaders were in a position to be innovative because they were in charge of autonomous organisations that both entitled and enabled them to be nimble and creative in their practice so as to meet their broader mission-focused objectives: ‘that’s what gets me out of bed in the morning,’ as one organisation leader said.

6.4 Governing body understands aims and supports plans

Preliminary analysis in 2009 on the role of governing bodies suggested a mixed picture on their efficacy. Efficacy was dependent upon a number of factors including, amongst other things: levels of commitment and involvement of trustees; the competence and skills mix of the governing body; and, with the exception of purely voluntary organisations, the strength of the productive relationship between governing body and chief officer.

Commitment and competence of governing bodies has certainly proven to be important in sustaining organisations’ long-term success – and the absence of these qualities has contributed greatly to those which have struggled or closed. But it is the relationship between the chief officer and the governing body (and most crucially, the chair) that seems to matter the most.

In one of the organisations, where the chief officer remained in post throughout the 14 years period of study, they had worked with six chairs over the years and could, without much prompting, rattle off how their relationship had worked with each. This was not uncommon in better run organisations, suggesting a good measure of ‘synergy’ between the board and chief officer. But undoubtedly, that synergy was nurtured primarily by a strong and competent chief officer with a clear vision of where the organisation was heading.

When that synergy was absent due to complacency or disinterest in the board, compounded by limitations in the skill, vision or professionalism of chief officers, disaster was often not far around the corner. Of the seven TSOs that closed during the study, in at least four cases this may have been averted had the board and chief officer worked together more openly, honestly and effectively.

For example, following the first phase of the study, one organisation got into hot water when the chief officer effectively bet the TSO’s financial reserves on winning a large contract which would secure it for the next three or four years. This was done without the board’s knowledge. The contract was not won. The organisation closed.

At the end of the third phase of the study, an organisation was removed from the Charity Commission register after years of financial inactivity. The former chief officer had struggled on without pay, grasping hopelessly at new opportunities for which the organisation had neither the credibility nor competence to pursue. The board, though some of its members were high-powered professionals, councillors or business executives, were disinterested and dispossessed.

In other cases boards with competent and committed chief officers who presented compelling plans for development, failed to take measured risks that may have strengthened the organisation. Instead, due to over-cautiousness or simply because the board were unable to grasp the implications of *not* taking a chance – the organisation lost out. In one case, a prime opportunity to buy a property which could have reduced the organisation's own rent costs and secure rental income from others was rejected: 'they're kicking themselves now,' the chief officer said, in the following round of the study in 2018.

The most effectively managed organisations' boards worked hard to sustain good relationships with their chief officer; ensure that board level skills were balanced; and. that membership was periodically refreshed and properly equipped for its role. Such boards were also effective in securing continuity when chief officers changed - those which were not, generally paid a price further down the line.

6.5 Consider making hard decisions in response to challenges

Throughout the study, organisations made difficult decisions to secure their future viability. Some decisions involved enacting promising new plans, others involved rejecting plans that were thought to be too risky or ill-conceived. With benefit of hindsight, it was clear to organisational leaders that sometimes they took the right decisions and sometimes they did not.

Even when good decisions were made for the right reasons, an element of luck shaped what happened next. For example, purchasing charity shops or running a café or community venue to bolster income could make a world of sense in some circumstances, only to produce problems later during the Covid pandemic when trading conditions worsened or fully closed down.

No organisation could be blamed for taking decisions which were upended by circumstances that simply could not have been predicted. But recovering from such a situation requires good decisions too – which in this stage of study, many organisations were struggling to do.

Those leaders who were best able to critically reflect on the quality of their own decision making tended to be more successful in sustaining momentum in their organisation than those which abrogated responsibility or brushed mistakes under the carpet. In less well-led organisations, there was a tendency to rely upon 'categorical fate' to account for problems which they had brought upon themselves – always able to find fault in others rather than in themselves.[29]

Decisions, when not fully thought through, could lead to serious problems. In one case, following the first phase of the study, an organisation chose to merge with a larger organisation. They trusted the other organisation at its word on the state of its finances and assets. Being trusting and perhaps too polite to get into the detail, skeletons soon started to emerge from the cupboards.

A radical plan to de-merge had been enacted by the third phase and the TSO had successfully got itself back onto its feet without too much reputational damage. But it had been a difficult process and arguably one which should never have happened. 'The trouble with due diligence' in the Third Sector, as one respondent told us early in the study, 'is that it's seen as being a bit rude.'

Serious upsets in organisations sometimes arose from well-intentioned decisions. One TSO, following the closure of a grant programme, chose to retrain staff to work on a new project rather than making them redundant. This led, ultimately, to a grievance being levelled at the chief officer and subsequently led to an industrial tribunal. The organisation recognised that it had to 'toughen up' in future, but

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[29] Katherine Newman has argued, in the context of a study downward social mobility, that 'categorical fate' is a defensive mechanism employed to retain self belief by blaming 'the system' or other individuals. Expressions such as 'my ideas were too good for them to recognise', for example, were used to account for being fired from corporations. See Newman, K. (1988) *Falling from grace: the experience of downward social mobility in the American middle class*, London: Collier Macmillan.

reluctantly so, feeling that the process had been manipulated unfairly against a good employer.

To suggest that difficult strategic decisions are led entirely by contingency would be misleading. Strategic thinking often involved making realistic appraisals about the capability and capacity of the organisation and then taking tough decisions on what needed to be done to improve its performance.

Sometimes this involved, as one chief officer put it, 'weeding out the dead wood'. Tackling issues such as poorly performing staff or persuading board members to resign can be difficult for all organisations, but especially so in smaller ones where structures are flatter and relationships more personal.

Similarly, equivocating over decisions to invest in the future could be costly. For example, some TSOs found it difficult to justify the expense of investing in their own development by setting up, for example, staff training budgets, buying or updating properties, investing in IT. Failure to do so could lead to missed opportunities to earn additional income or sustained the high costs of complex on-paper administrative processes.

Possibly the most difficult decision that organisations had to make is whether or not to close down once it had become clear that staying open was no longer possible or desirable. In most of the organisations which have closed, the decision was largely taken out of their own hands when the time came. There was no other option.

Some small organisations kept going largely because of the commitment of one or two people who felt burdened by their responsibilities but recognised that nobody else would take it on. It is gratifying that in most of these groups, others did pick up the reigns eventually. None of these smaller groups withered away, though some remain close to that point.

In the current phase of the study, one organisation has taken the decision to close, even though they know that their work continues to be valued and funders were still keen to back them. It seems like a shame, but it was recognised that the alternative of ‘limping on’ was a poor option. With reserves left in the bank, they plan instead to ‘go out with a bang’.

Section 7

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.'

Knows how to spot and assess opportunities

- Does the organisation have knowledge and a clear understanding of where opportunities might present themselves?
- Does the organisation have a mechanism to undertake successful opportunity appraisals?

Knows when to compete or cooperate with others

- Does the organisation know who its potential competitors or partners are and understand its relationship with them?
- Does the organisation have a clear understanding of its reasons for choosing to compete or cooperate?

Uses innovation to meet beneficiary needs

- Does the organisation employ innovative practice with the sole purpose of meeting the needs of its beneficiaries?
- Does the organisation know how to learn from its own and others' innovative practices?

Has an organisational culture which is responsive to change

- Does the organisation have the ability to marshal all its resources to address new challenges and opportunities?
- Does the organisation communicate with and successfully prepare its people for change?

Maintains useful relationships with stakeholders to help achieve aims

- Does the organisation maintain positive relationships with relevant external stakeholders?
- Does the organisation know which networking or relationship building opportunities to prioritise in order to pursue its objectives?

7.1 Knows how to spot and assess opportunities

In the first analytical report on the TSO50 we found little evidence to suggest that organisations were unaware of the opportunities that may be available to them. Organisational leaders were then, and still are continually scanning the horizon for new opportunities upon which they may capitalise. To a large extent, this process is 'owned' by the organisation in the sense that opportunities are spotted through the lens of the capability and mission of individual TSOs.

Stating the obvious, organisations which tackle issues surrounding specific areas of practice, for example, mental health, are assiduous in their scanning of opportunities in that discrete area of work. What was less obvious at the start of the study, was the way that organisations use their creative imagination to identify possibilities that sit *outside* their own arena of activity.

Aligning with new initiatives involved a wider appreciation of more general trends or 'fashions' in sector funding. Often such initiatives fell into line with current political and public concerns and by definition, tended to be influenced by 'sector narratives' on the way the wind was blowing with funding bodies.

It would not be possible to 'map' these fashion trends amongst funding bodies in a convincing way because there are too many participants in the social marketplace. Some trusts and foundations, for example, have stuck to their guns for decades on the personal, social, cultural or environmental issues they wish to tackle. Others work in a more open-minded way and respond to the proposals offered by TSOs or when perceptions of needs and priorities rise on the political agenda.[30]

In the earlier stages of the study, for example, there was strong emphasis on helping socially marginalised young people build skills and confidence so that they could secure successful life transitions. To some extent, this concern came in response to a 'moral panic' about cultures of worklessness which problematised the situation of young people who were not in employment, education or training (the so-called NEETs category).[31]

Sometimes events of national significance, such as the big city riots of 2011, could accentuate commitment to tackle key social problems.[32] For months afterwards, the presumed association between NEETs with crime and disorder dominated the headlines – so followed a wide range of funding streams for TSOs to tackle the problem.

During the study there have been many such fashion cycles surrounding issues such as community cohesion, equality and diversity, loneliness and social isolation, homelessness, poverty, food and fuel insecurity and so on. Had our study begun ten years later, we would undoubtedly have put a stronger emphasis on tackling poverty and would have had at least one food bank in the sample, but in 2008, though we may not have been hard pressed to find one, the issue was overlooked.[33]

[30] Third Sector Trends explored this issue in depth in a study of 25 funding organisations which made grants in North East England. See: Chapman, T. (2020) *The Strength of Weak Ties: How charitable trusts and foundations collectively contribute to civil society in North East England*, Newcastle upon Tyne: Community Foundation Serving Tyne & Wear and Northumberland. https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2020/02/CFTWN-Strength-of-Weak-Ties-Full-Report-February-2020.pdf.

[31] See: MacDonald, R. and Shildrick, T. (eds)(2015) *Young people, class and place*, London: Routledge.

[32] See Lammy, D. (2012) *Out of the ashes: Britain after the riots,* London: Random House.

[33] We were aware at the start of the study about charities, such as People's Kitchen in Newcastle, which provided meals for homeless people – but at that time food banks were rarely discussed and not on our radar. For a useful review of the history of foodbanks, with a specific focus in the North East, see: Hepworth, J., Atkinson-Phillips, A., Fisch, S. and Smith, G. (2019) 'I was not aware of hardship' Foodbank histories from North East England, *Public History Review*, 26(1), 1-25; and, Garthwaite, K. (2016) *Hunger Pains: Life Inside Foodbank Britain*, Bristol: Policy Press.

While sticking to their mission (as discussed in Section 4), TSOs get caught up in the flow of funding fashions and have to think about how they can align their work accordingly. This should not be viewed as a 'cynical' or 'opportunistic' process, but a creative one which can sustain, enhance or refresh approaches to practice.

In all four of our thematic areas of analysis, *older people, culture, heritage and environment, young people* and *mental health*, for example, we have good examples of TSOs gaining funding to tackle issues surrounding the currently 'vogueish' issue of loneliness and social isolation.[34]

Failing to capitalise on current trends can be risky. In one case, an organisation was resolute in sticking to their approach to practice for a specific category of beneficiaries through the life of this study. But they have suffered financially as a consequence as the 'relevance' of their work was progressively perceived as a low priority by many funding bodies.

7.2 Knows when to compete or cooperate with others

Competition over money is as common as it is inevitable in a sector which is ambitious to achieve a great deal but where financial resources are finite. There can also be competition over people, such as accessing support from volunteers or winning demand from beneficiaries. Places too, can be a site of competition where TSOs compete to provide service coverage in spatial areas.

While there will always be pinch points when competition is at the fore between organisations, the evidence from this study suggests that cooperative relationships are the norm – although the form and strength of that cooperation varies depending upon circumstance.

In the first TSO50 report it was recognised that in a competitive social market, organisational leaders must assess when it was better for them strategically to compete with other organisations and when it was most beneficial for them to work cooperatively.

At that time we stated that we *'found quite a lot of interaction between organisations, but we often had to work hard to get them to recognise it.'* It seems obvious now that we were missing the point because we had been caught up in dominant narratives of the time about the 'essentiality' of effective partnership working to maximise social impact.[35]

The balance of evidence from all waves of TSO50 research indicates that most organisations are quite good at making the right decisions on when to compete or

[34] Research into the effects of loneliness and social isolation has revealed that there a wide range of linked negative effects. These include anxiety, depression, mortality and morbidity (such as increased cardiovascular disease). See: Cacioppo et al, (2006) 'Loneliness as a specific risk factor for depressive symptoms: cross-sectional and longitudinal analyses', *Psychology and Aging*, 21(1), 140-151). There have been several studies on the impact of loneliness and isolation in specific social groups, see for example: Hudson, D., Elek, S. and Campbell-Grossman, C. (2000) 'Depression, self-esteem, loneliness, and social support among adolescent mothers participating in the New Parents Project', *Adolescence*, 35 (13): 445-455; Coyle, C. and Dugan, E. (2012) 'Social isolation, loneliness and health among older adults', *Journal of aging and health*, 14(8), 1346-1363. Government has responded to rising public awareness to the issues of loneliness and isolation. *The Guardian* (2018) England to tackle loneliness crisis with £11.5m cash injection, 22nd December: https://www.theguardian.com/society/2018/dec/22/uk-to-tackle-loneliness-crisis-with-115m-cash-injection. Increased social awareness of this issue culminated in the government producing a strategic document and associated funding streams. See H.M. Government (2019) *A connected society: a strategy for tackling loneliness - laying the foundations for change*, Department for Digital, Culture, Media and Sport: A connected society: a strategy for tackling loneliness - GOV.UK (www.gov.uk).

[35] See Section 1 for further discussion.

cooperate. The intensity of that cooperation tends to vary on a case-by-case basis. Third Sector Trends research indicates that it is useful to draw distinctions between:[36]

- ***Contractual relationships:*** when TSOs work in consortia, partnership or autonomously by entering into contractual relationships with, for example, a public sector agency to deliver statutory services such as personal social care.
- ***Formal partnership relationships:*** where TSOs agree to sign up for and then contribute collectively to a clearly defined and usually time-limited programme of work – but without necessarily pooling resources or sharing funding.
- ***Complementary relationships:*** where TSOs work alongside each other semi-formally to achieve shared, broadly defined and longer-term objectives – but have the option of stepping-in or out of these relationships when desired.
- ***Autonomous working:*** where TSOs contribute towards overall social wellbeing on their own terms, but ensure that they operate as 'good neighbours' by respecting the working practices or spatial boundaries of other organisations.

Given the complex and multifaced nature of TSOs' inter-relationships, it is not surprising that most TSOs did not limit their cooperative working to just one of the above categories. But rather, and especially so if they were larger organisations, they entered into a wide variety of different relationships at the same time.

Cooperation is time consuming. TSO leaders found themselves more or less continually balancing a range of relationships with other organisations in their own sector and with organisations in the public and private sector. Usually, leaders worked hard to keep things running smoothly, but things could go wrong from time to time when competition was unavoidable.

Those TSOs which have closed since the study began were amongst the least effective in managing inter-organisational relationships. This could lead them to became embroiled in unproductive or counter-productive external relationships which damaged them financially and reputationally and also upset the internal social equilibrium of the organisation.

Sometimes organisational failure was the result of 'over-reaching' what they promised to deliver which soured relationships with public sector agencies and other TSOs. Wrangling over funding is the issue which causes the most trouble. And certainly this has produced some of the most 'electric' (but unpublishable) examples of how leaders manage inter-organisational conflicts.[37]

[36] These distinctions were developed in a consultative study on public sector and third sector interactions for the ESRC. See: Chapman, T., Mawson, J., Robinson, F. and Wistow, J. (2018) *How to work effectively with the Third Sector: a discussion paper for public sector organisations*, Durham: Institute for Local Governance. How to work effectively with the third sector - St Chad's College Durham (stchads.ac.uk).

[37] For a more detailed discussion of these issues, see: Chapman, T., Brown, J., Ford, C. and Baxter, E. (2010) 'Trouble with champions: local public sector – Third Sector partnerships and the future prospects for collaborative governance in the UK', *Policy Studies*, Vol. 30, No,6, pp. 613-630.

7.3 Uses innovation to meet beneficiary needs

Early in the study, we were neither convinced that TSOs were particularly innovative nor that they needed to be. The evidence at that time indicated that most organisations may have been 'innovative' when organisations were set up – by identifying needs that had been unmet and devising new ways to tackle issues. But once practice was established, it seemed to us that TSOs delivering their services in tried and tested ways was the right thing to do.

Often when reporting our evidence, we made the point that when people go to the dentist or get on a plane, the last thing they wanted was innovation. Professionalism and competence were desired - not experimentation. As one of our respondents told us in the first wave of the study, the only time they used innovation was on grant application forms to present what they normally do as 'new'.

But we were wrong about this. The problem with 'snap shot' studies of the Third Sector is that it is not possible to judge whether practice can continue unchanged. In longitudinal studies, by contrast, it is easier to observe what has changed and why that needed to happen. The evidence is now clear: innovation sits at the heart of Third Sector culture. It *drives* sector ambition and *shapes* sector practice in response to social change.

The Coronavirus crisis has heightened awareness of the ability of the Third Sector to be innovative when lockdowns and social distancing limited or ceased TSOs' prospects of carrying on as normal. Examples of innovative practice from research across the UK over the last two years have proliferated.[38] While public sector organisations struggled to adapt quickly, they recognised that TSOs had proven themselves to be nimble and responsive. This represents, as it were, a shot in the arm for the reputation of the Third Sector.

But it is clear from the evidence drawn from several preceding stages of this study that innovative practice is a well-established feature of organisational practice. To some extent this is shaped by contingency – when things happen that force change. But it is also driven by the sector's 'culture of curiosity' (see Section 4.3).

The pace of innovation during the Coronavirus pandemic was breath-taking as organisational leaders struggled to find new ways of keeping their services going or developing new ones in a crisis environment. Their efforts were undoubtedly helped by the willingness of funders such as government departments, local authorities and charitable trusts and foundations to set aside their usual procedural caution and provide unrestricted funds to get things done.

All of the organisational leaders included in the last phase of the study felt that they had been well served by funding organisations. They were relieved that worries about the financial problems they may have faced at the start of the first lockdown were unfounded. Most leaders articulated a peculiar mix of *elation* that that they had kept things going through the crisis and *exhaustion* over the effort it had taken to do so. Undoubtedly, for a number of them they saw this as an apt final chapter in their work for the organisation before they moved towards retirement.

Innovation as an end in itself has little real value unless it is conceived, directed and applied to improve something. For this to happen, the evidence indicates, innovation must be built around existing principles of good practice that TSOs have developed to meet the specific needs of their beneficiaries.

Innovation can manifest itself in several ways, such as 'market' and 'social' innovation - where TSOs 'produce consumers' by devising products or services which currently do not exist or are inadequately met. These consumers can be direct

[38] See: Rees, J., Macmillan, R., Dayson, C., Damm, C. and Bynner, C. (2022) *Covid-19 and the voluntary and community sector in the UK: responses, impacts and adaptation*, Bristol: Policy Press.

beneficiaries whose needs or desires are met more fully as a consequence. But savvy TSOs recognise that funding bodies can also be enticed to support new ways of delivering services when new constituencies of beneficiaries are identified.[39]

'Service innovation' can involve TSOs devising new methods of delivery or adding value to existing practices, products or services; by, for example, relieving the time care workers needed attend to clients by supplementing the service with volunteer led befriending. 'Collaborative innovation', similarly, involves the maximisation of social benefit from more or less formal partnership or complementary working relationships across a range of organisations with different skills and practices but shared social objectives.

Innovation is often needed to refresh approaches to delivering specified outcomes. In areas of activity such as promoting mental health or supporting young people's life transition, for example, energy is invested to devise novel approaches to achieve core objectives that appeal to beneficiaries. In recent years, there have been many innovative schemes to use, for example, gardening to improve health and wellbeing, build people's skills and confidence, tackle food insecurity, encourage social cohesion, pride in the community and, amongst other things, combat loneliness and isolation.

A point worth repeating is that to be effective, these innovations must be built upon existing principles and skills associated with professional practice. In that sense they are 'applications' of new innovations that can be used to secure support for beneficiaries based on tried and tested principles. The use of innovative and appealing 'short term' interventions or 'ephemeral events' can also keep things fresh, help to attract new beneficiaries or keep existing clients involved.

In this study, arts, heritage and environment, youth and mental health organisations seemed to be especially adept at using their imagination and creativity to refresh and enliven approaches to practice with projects or single events that enhanced the experiences of clients.

In some areas of activity, radical shifts in approaches to delivering practice, occur less often. Organisations which delivered, for example, personal social care services or residential accommodation for older people recognise that these must be provided in a more consistent way. But the way such work is delivered is largely determined by public sector commissioners and it is not, strictly speaking, Third Sector practice.

'Innovation' and 'continuity' in practice do not sit at either end of a spectrum. Instead they are, when things work well, intrinsically linked. When innovation does not work well, the evidence suggests, it is when an organisation tries to produce innovative practice in areas where it has limited capability or capacity.

In one organisation, which has now closed, radical innovation was attempted with the primary objective of securing the TSO's own survival. But the organisation had so little experience and understanding of the area of practice into which they intended to move, that the initiative failed.

One organisation in this study had a good reputation for its innovative work and could clearly articulate its impact for a constituency of beneficiaries with specific needs. However, the organisation collapsed because it lacked capability in other aspects of operations which ultimately made the case for closure overwhelming. Innovation, even when well practiced, does not protect organisations from collapse.

[39] As indicated in previous sections, innovative ideas can be 'imposed' upon the Third Sector by external stakeholders when think tanks and the like have persuaded funders them that they have devised a new way of doing things. There are many examples of this, such as the fairly recent claims that 'social impact bonds' can incentivise the production of social impact. Others include ideas such as the use of 'theories of change', 'social audit', 'social return on investment' and so on (see Section 7.5).

7.4 Has an organisational culture which is responsive to change

Few organisations in the public, private or Third Sector can expect to operate in the same way over long periods of time. So organisations need to develop a culture which is responsive to change. Change is produced by shifting beneficiary expectations and needs, by transformations in the way organisations can be funded, and in response to internal changes in the way that organisations operate.

As it was shown in the first TSO50 report, a few of the small organisations were able to operate in relatively continuous ways – this remained to be the case providing that demand for their service endured. Then as now, this was more easily achieved if there was limited competition in their area of activity and providing that they retained and renewed commitment from the people who volunteered to run the organisation. Some of these organisations, we expected, would run out of steam as their volunteers and beneficiaries became older – but most have proven to be surprisingly resilient.

Responsiveness to change is shaped to an extent by the size of organisations. Large TSOs are more complex organisations which take time to make significant shifts in strategic direction, but they generally have sufficient capacity and resources to weather storms. None of them have closed since the study began although some, as shown in Section 3, have been through turbulent times financially.

Longevity is certainly aided if larger TSOs have substantive assets such as property or endowments, the commitment of boards of trustees and the endurance of chief officers. But in some cases survival is more to do with being in an area where no other organisation 'has a flag in the sand' that can deliver services at scale. Quite badly managed organisations can sometimes survive – but this can have a damaging effect on organisational culture - where crises feel inevitable and reduce the potential to build momentum into practice.

Medium sized organisations more rarely had the resources to plan their response to changes in the external environment. Instead, they were subject to external forces and often found themselves 'bobbing around in the rapids', or in what felt like a constant 'battle for survival'. This can have a negative effect on organisational culture in the longer term where feelings of insecurity frame everything they do.

And yet, some organisations accommodate to this insecurity and adopt a 'muddling through' culture (see Section 4.2). By definition, in such organisations, planning is eschewed in favour of a strange mix of fatalism, optimism and opportunism.

7.5 Maintains useful relationships with stakeholders to achieve aims

TSOs can rarely afford not to keep their external stakeholders' interests in mind. Even organisations with substantive endowments or properties cannot sit back on their laurels. The leaders of most organisations, and especially medium-sized and larger TSOs worked hard to keep their external stakeholders on side to sustain existing arrangements or foster new ones. But the landscape within which these relationships were formed and nurtured has changed dramatically over the last fourteen years.

Private sector stakeholder relationships which were more or less 'invisible' to the leaders of TSOs in 2009 have become more prominent. Early in the study, there was general reticence about building relationships with businesses. Often the derogatory term 'suits' was used to refer to people in business. That does not seem to happen now. Instead, many organisations have built effective, mutually beneficial, relationships with businesses in their communities.[40]

Usually such relationships strike up by accident, not design. They tend to be informal, but can endure, based on in-kind support such as the receipt of goods (such as food from local shops), services (such as pro-bono support from professionals such as architects or lawyers) or facilities (including the use of space, digital technology or other facilities).

Sometimes, financial transfers are involved, but usually on a one-off basis, such as a donation to support a project or event. Employee volunteers from businesses were only rarely mentioned before the Coronavirus pandemic – when there was more activity for a while. This proved to be short-lived in most cases as people returned to work from being furloughed. While in-kind support or money from business did not constitute a major element to factor into TSOs' plans, it was now on the radar of many. That was not the case in 2009.

Relationships with public-sector organisations have changed dramatically since the abolition of major regional or sub-regional institutions which built and financially supported networking opportunities and partnership boards. In the early days of the study, the opportunities for networking, compared with now, were colossal (see Section 1).

The appeal of networking and getting a seat at the table in local partnerships was closely associated with the benefits to be gained from a wide range of funding streams associated with, for example, the *Neighbourhood Renewal Fund*. These days of 'bees around the honey pot' are long gone. And while this has not had a damaging effect on broad perceptions of relationships with public sector bodies according to Third Sector Trends survey data,[41] in practical terms, expectations have changed.

Another consequence of austerity policies is that fewer public sector officers are now employed to liaise with the Third Sector. Similarly, reductions in or cessation of local authority investment in local infrastructure organisations such as councils for voluntary service or voluntary development agencies limited potential for sector networking.

Interactions with public bodies have become more formalised in practical terms. 'Service level agreements' were still fairly common in 2009 but most have now been replaced formal contracts. Reorientation of procurement practices has often, in spite of legislation such as the Social Value Act,[42] put downward pressure on the financial value of public sector service delivery contracts.[43] While larger TSOs have sustained or increased their commitment to delivering services under contract, most medium-

[40] See: Chapman, T. (2021) *Going the extra mile: how businesses work with the local social sector*, London: Pro Bono Economics. https://www.stchads.ac.uk/research/research-news/going-the-extra-mile-how-business-supports-charities/

[41] In 2010, 91 per cent of TSOs in North East England and Cumbria felt that the work of their organisation was valued by the local public sector compared with 87 per cent in 2019. The percentage of TSOs which felt that they were well informed by the public sector about issues that affected them rose from 62 per cent to 69 per cent between 2010 and 2019. The percentage of TSOs which felt that the public sector involved them in developing and implementing policy on issues which affected them rose from 47 per cent in 2010 to 50 per cent in 2019. See: *Third Sector Trends in North East England 2020: a digest of findings*, Newcastle upon Tyne, Community Foundation serving Tyne & Wear and Northumberland. THIRD-SECTOR-TRENDS-IN-NORTH-EAST-ENGLAND-2020-1-1.pdf (communityfoundation.org.uk)

[42] The Public Services (Social Value) Act which came into force on 31 January 2013 requires public services commissioners to think about how they can also secure wider social, economic and environmental benefits for their area or stakeholders which may involve talking to local providers or members of the community to design better services and may lead to the development of new and innovative solutions to difficult problems. https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources.

[43] See: Chapman, T. and Gray, T. (2019) *Trading interactions amongst community businesses in Bradford, Hartlepool and Middlesbrough,* Bristol, Power to Change. Trading interactions amongst community businesses in Bradford, Hartlepool and Middlesbrough - St Chad's College Durham (stchads.ac.uk).

sized organisations withdrew from this field. Often, we were told, this was due to difficult experiences as sub-contractors to larger regional or national organisations.

At the start of this study, there was much talk in the sector and in wider policy circles about breaking the cycle of ‘dependence’ on grants. Self-reliance by developing trading activities was encouraged. By 2019, before the Coronavirus pandemic took hold, Third Sector Trends survey evidence indicated that commitment to self-generated trading had already softened substantially and that perceptions of the relative importance of grants had risen.

It is not surprising, therefore, that the impetus to build positive relationships with charitable trusts and foundations has risen on the agenda of organisational leaders. It is less about building ‘personal’ relationships with funding bodies, as they can be hard to forge, than positioning organisations well to impress grant makers. In this sense, promoting the reputation of organisations via supportive and influential advocates, through social media, websites, print media and so on appears to have become more of a priority.

Section 8

Capability

Organisational capability is defined in this study 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.'

Staff, volunteers and trustees are properly prepared to perform their roles

- Does the organisation employ effective strategies to inform and train its staff to undertake their roles successfully?
- Does the organisation understand how to motivate its staff to maximise their potential?

Is appropriately 'professional' in approach to practice

- Does the organisation approach its work in such a way as to win the confidence of its beneficiaries, funders and other key stakeholders?
- Does the organisation know how to deal with trustees, employees and volunteers who could or do undermine their professionalism?

Can work effectively with other organisations

- Does the organisation prioritise the maintenance of effective and productive relationships with the TSOs with which it works?
- Does the organisation know when and how to adapt its own practice preferences in order successfully to work with other organisations?

Plans and manages finances effectively

- Does the organisation have the appropriate skills and systems in place to plan and manage its finances and budgets successfully?
- Does the organisation plan its use of financial resources successfully to maximise its impact on serving beneficiaries?

Understands and implements relevant procedures and practices

- Does the organisation have sufficient knowledge and understanding of its statutory responsibilities (e.g. safeguarding, health and safety)?
- Does the organisation have (or have access to) appropriate systems and processes to manage its responsibilities?

8.1 Staff, trustees and volunteers are properly prepared to perform their roles

Qualitative evidence shows that most TSOs give serious consideration to their responsibilities in preparing staff successfully to undertake their roles. This has not changed significantly through the life of the study – until the Coronavirus pandemic intervened.

In the first two rounds of the study, it was commonplace to find that recruitment of employees into the sector in most areas of activity was quite easy. Furthermore, there was strong evidence to demonstrate that levels of staff retention were high in nearly all organisations. While further evidence is needed from the next round of the Third Sector Trends survey in 2022, it seems to be the case that staff recruitment and retention problems have increased a good deal which may undermine aspects of organisational capability.

Even before Coronavirus, emerging evidence indicated that recruitment and retention was getting more difficult but the pandemic appears to have accelerated staffing problems. All of the chief officers interviewed in 2022 reported serious difficulties in appointing new members of staff.

The difficulties ran across the board from service delivery personal, especially so in the field of personal and social care, to the appointment of senior staff. Numbers of applications for jobs were low, and sometimes there were none at all. In one larger organisation, it had been necessary to make three attempts to employ a finance manager before the appointment was secured.

Staff retention has also become a problem for most employing organisations. Several TSOs furloughed staff during the pandemic. It was not uncommon for staff to return for, perhaps a month, and then declare their intention to leave the organisation. In other cases staff had not been furloughed but had worked from home. When asked to come back into work, many had been reticent about doing so. This sometimes resulted in inter-personal difficulties with staff who had returned to the workplace.

A desire to work fewer days also seems to have become more common. This can stretch organisations when unexpected demands come their way. The desire for a shorter working week was not limited to service delivery staff, administrators, technicians or supervisory staff. Several chief officers had themselves become accustomed to working from home. Having reflected on the kind of life they wanted to lead, some asked their boards to allow them to work on a fractional contract.

Staff retention was also threatened by current buoyancy in the job market. In one organisation the chief officer reported that several senior staff had left or were in the process of leaving to take up jobs in the public sector – primarily in local authorities or the health sector. Their motivations to do so were clear, better remuneration and perceptions of a less pressured environment.

While departing staff may well find that the grass may not be as green as expected in their new jobs, they were able to join better pension schemes and have better job security and more generous severance arrangements than can generally be achieved in the Third Sector.

Several chief officers talked about ‘sector culture’ in the past tense, indicating that something had changed – that social commitment had taken second place to individual fulfilment. In one organisation, for example, the chief officer was perplexed by the emergence of staff disciplinary issues ranging from poor time keeping and absenteeism to low levels of motivation and disruptive behaviour. ‘I can do it, you know,’ one chief officer said, ‘get them in and talk to them about it – put a plan in place to get them back on track. But we’ve never had to do this before – and to be honest I just don’t really understand what’s changed.’

In the third and current phases of the project, many of the interviewees were considering retirement or had already made the decision to leave. In six of the remaining 31 organisations of the TSO50 in North East England, interviews were not possible in 2022 because the chief officer had already left – most within the previous year.

8.2 Is appropriately professional in approach to practice

In the first TSO50 report, little evidence was produced to suggest that organisations were ‘unprofessional’ or ‘amateurish’ in their approach to practice. One of the reasons for this was the ability of organisations to attract and retain skilled and highly motivated members of staff. The latest set of interviews indicates that larger and medium sized TSOs are under pressure at the moment when recruiting and retaining staff (see previous section).

This does not seem to have had significant impact on their professionalism. One factor which has strengthened professionalism is a general improvement in the quality of relationships between boards of trustees and senior officers during the third and fourth phases of the study.

At the start of the study, boards of trustees tended to be composed of a hotch-potch of members – many with few relevant skills and several with only limited commitment to invest in organisational wellbeing. Too often, board members had been there for ‘donkeys years’ and had long-since failed to make a positive contribution – if they ever had done so. This meant that committed board members, and especially chairs, were put under more pressure to fulfil vital roles.

As the study progressed, and this is perhaps associated with the growing legal responsibilities of trustees, there was a drive in a majority of larger and medium sized organisations to ‘professionalise’ their boards. This often involved a difficult process of building stronger and more focused boards; but once this had been achieved it improved the quality of interactions between boards and chief officers in most cases.

Many of the larger TSOs in the study instigated development days for boards in the second and third phases of the study. Often associated with formulating procedures in line with statutory requirements, these events helped to protect the organisation (and trustees) from risk.

The current round of interviews with TSOs indicate that trustee commitment has not been undermined by the Coronavirus pandemic.[44] In some ways, relationships have been strengthened because trustees needed to play a more active and creative role to secure operations in a challenging environment.

Trustees supported chief officers when it became necessary at short notice to transform approaches to service delivery and adopt new practices through the use of digital technology. Whether these ‘energised’ relationships will be short-lived cannot be known at this stage.

[44] In the latest round of the study, it should be noted that organisations which were known to have less committed boards (evidenced from previous rounds of the study) were less likely to respond to invitations to take part. It remains to be seen how these organisations, which tend to ‘muddle through’ crises, will emerge from the pandemic. But as noted previously, evidence from 360Giving shows that these organisations actively pursued funding opportunities at this time and secured substantive rewards for their efforts.

8.3 Can work effectively with other organisations

In instances where they need to, TSOs can work effectively with organisations in the private sector and public sector as indicated in Section 5.5 and can see the benefit of working in complementary or collaborative ways.

Relationships amongst TSOs are generally positive too. But situations can arise which make this a good deal more difficult. Direct competition with other organisations (see Section 5.3) to win major service delivery contracts or programme grants, for instance, can sometimes sour relationships in the longer term if it is felt that another organisation has encroached on their territory.

As one chief officer said in the most recent round of interviews after losing a contract to another large regional organisation: ‘I mean, don’t get me wrong, they do some pretty decent work, but…’ In this case, the behaviour of the other organisation was viewed as ‘predatory’ and that the consequence was to undermine existing good practice.

To argue that conflicts produced by competition is limited to the Third Sector would, of course, be a mistake. Private sector businesses often find themselves locked in competition which can damage relationships as is the case within local authorities where inter-departmental rivalries sour relationships – just as can be the case when local authorities compete with each other to win government grant funding.

Open displays of animosity tended to be short lived, but ‘lessons learned’ could embed suspicion of working with or alongside organisations in future. And with North East England being a small region, such stories travel freely – meaning that the reputations for ‘dodgy practice’ can stick.

Another aspect of inter-organisational working that strained relationships was the experience of delivering public services in partnerships under contract. Often, medium sized or small TSOs which had been co-signatories of bids led by a bigger organisation complained that promises had been left unfulfilled (that all the resources that they had been promised had not been forthcoming or, that their involvement was purely tokenistic – that they had been used as ‘bid candy’).

When it was decided that complete ‘anonymity’ of the organisations involved in this study must be protected, it was anticipated that there may be instances where respondents may express views, such as these, about other organisations in the same sample. From an analytical perspective, this has allowed us to look at the same issue from both sides of the coin.

When engaged in complex partnership arrangements, a common gripe amongst leaders of larger organisations (which usually held the overall contract) was that small or medium sized organisations had let them down, by failing, for example, to deliver what they had promised at the right quality, or that they argued continuously about what was expected from them.

In early phases of the study it was commonplace to hear smaller or medium sized organisations claiming that they were ‘forced’ into contracts because it was ‘the only game in town’. But they were not forced, they had *decided* to do so as autonomous organisations.

Third Sector Trends survey evidence in North East England demonstrates that between 2010 and 2019 that interest in formal contractual partnership working has declined – especially amongst medium sized organisations (very few small TSOs had ever been interested). It would be a mistake, though, to assert that a growing disinclination to work collaboratively is *due to* ‘bad blood’ between TSOs.

Instead, the principal problem seems to be that the value of contracts offered by local public and health sector organisations has progressively been squeezed by austerity policies. Even when an organisation takes full responsibility for the delivery of a contract, the finances tend to be tight. The added costs of working in partnership or consortia can make such work uneconomic – or at best, 'more trouble than they're worth.'

Formally contracted partnership relationships can be difficult. But not always. Similarly sized and practice oriented organisations can often work well together – especially so when their operations are in distinct and separate geographical locations. Some of the larger organisations in the TSO50 are good at this kind of work, often working on contracts that run across regions or nations.

8.4 Plans and manages finances effectively

When this study began, we were too preoccupied as researchers with money as the primary 'driver' of sector activity. That should not be surprising because policy debates and media stories about Third Sector activity tend to be driven by large or major TSOs which need to secure significant finance to sustain their activities. But as Third Sector Trends analysis of sector structure in the North East of England has shown,[45] over two thirds of the organisations in the Third Sector have low reliance on finance to fuel their activity because they have none or few employees – it is volunteers who provide the bulk of their energy.

Small organisations with limited financial dependencies still need to make sure their accounts are straight and that they can plan realistically. The evidence strongly suggest that most do so. Similarly, we find that medium and larger organisations are adept at following the appropriate procedures and practices associated with financial accounting. This aspect of handling money does not seem to be much of a problem.

But there is a problem with planning finances effectively. And the problem is deep rooted because, as shown in Sections 2 and 3 of this report, there is continual turbulence in sector finances at the organisational level.

In the short term, most TSOs are good at managing finances… they know what their current needs are and generally plan well so that they are in a position to meet them – even if this involves drawing upon their reserves. Those which were not good at this tended to be locked into perpetual funding crises – until, perhaps predictably, some were forced to close.

One organisation in the TSO50 came close to closure in the middle of the study. The depth of their financial crisis seemed to be beyond resolution. Now they are thriving. In the worst of times, this organisation did not panic – though its chief officer lost a lot of sleep. They decided to ride out the storm in the belief that things could come right in the end. They did so because they felt that their organisation, the only one of its kind in the area, was indispensable.

To survive, its full-time staff all agreed to reduce their contracts initially to four days a week, and then as things got worse, three. An option would have been to make one or more members of staff redundant – but if they had done so, the organisations expertise and reputation would be undermined. In short, they would have become even more exposed to closure.

The reason for their almost certain demise was, firstly, the loss of funding from local public sector bodies during the depths of government austerity measures and secondly the loss of a block grant from a government quango.

For several years they survived on a hand-to-mouth basis - drawing on grant funding and limited earnings from self-generated trading activities. Suddenly, renewed government interest in investment in place appeared on the radar. That, together with

[45] See: *Third Sector Trends in North East England 2020*, *ibid*.

their successful trading activity has changed their fortunes and for the next five years (a long time in the financial life of a TSO) they are secure.

This story explains how well-run organisations work. They have a strong mission and social purpose which they do not want to abandon (see sub-section 1.1). They plan in the medium term and accommodate their plans to what might happen next on the simple expectation that they do not know and *cannot* know what the long-term situation will be.

But not all organisations think it through this carefully. Most of those organisations which closed were caught unawares by longer-term risk or excessive medium-term optimism. But some have survived regardless by muddling through and using their ability to align with new funding streams. Most of them seem to have done well, financially, during the Coronavirus pandemic.[46]

8.5 Understands and implements relevant procedures and practices

Throughout the life of this study, the evidence indicated that larger and medium sized TSOs understand and implement relevant procedures and practices. There is little evidence to suggest lack of awareness of what is expected from them nor reluctance to align with statutory requirements or those imposed by professional bodies.

But what about small organisations, which are led and run solely by volunteers? Small organisations do not need to comply with formal requirements to the same extent as their larger counterparts. When they do need to, (in relation to, for example, charity commission submissions, safeguarding, health and safety, food handling, etc.) there is no evidence to indicate that they fail to do so – although they sometimes need support from local infrastructure organisations on how to achieve compliance.

As organisations, the work of small TSOs is arranged less formally and interactions are more personal. From an observational and analytical point of view, this presents a problem, because it is hard to penetrate the subtleties and nuances of organisational dynamics.

Conventional sociological analysis of organisational behaviour tends to focus upon bigger institutions with complex hierarchies, resources, systems and procedures to make sense of strategies, culture, practices and impact. Such analytical approaches do not *ignore* the people who inhabit the organisation, but their behaviours are studied in the *context* of organisational structure.

Small TSOs may be relatively simple from an organisational perspective – because they do not need to develop complex structures, systems and procedures. Nevertheless, the *dynamics* of small groups are complex because it is necessary to agree and then maintain social equilibrium to ensure that people voluntarily play their part.

When an organisation is led and run entirely by volunteers, a delicate balance must be struck to keep things going smoothly and to minimise the risk of upset. A 'negotiated order' develops where people accept responsibilities for and authority over certain tasks.[47] The process of negotiation can be subtle. Usually it remains unwritten and often it is unspoken. Organisations like these are generally quite good

[46] For this research report, data on the receipt of grants from 2009 to 2021 were extracted from 360Giving and analysed. This provided insights about the response of individual TSOs to the challenges created by the Coronavirus pandemic. The evidence clearly demonstrated that less well-managed organisations, as defined by our methodology, were the most active in taking advantage of new grant funding opportunities.

[47] The concept of a 'negotiated order' was developed by Anselm Strauss. And while this concept is not limited to behaviour in small organisations, it is particularly powerful in this context. For a useful review of these ideas see: Maines, D. and Charlton, J. (1985). 'Negotiated Order Approach to the Analysis of Social Organization', *Studies in Symbolic Interaction, Supplement* 1, 271–308.

at monitoring and rectifying ‘inappropriate’ behaviour – using non-verbal cues, whispering and jokes to bring people back into line.

Sensitivity and diplomacy are required too, so members of groups often employ ‘polite inattention’ to accommodate people’s foibles and eccentricities so as to ensure that people sustain their commitment and enthusiasm.[48] This can produce an inherent conservatism into the way things are done – so as not to ‘upset the apple cart’ and produce animosity that may undermine the cohesion of the group.[49]

Keeping things in balance can be hard work in small organisations and groups. The process of accommodating newcomers or losing existing members can, for example, be unsettling and disconcerting – especially if newcomers have big or strange ideas about change. Similarly, given the personal characteristics of interactions in small organisations, it is often difficult to work with or even accept the legitimacy of other groups which work in similar areas of interest. Competition can be rife.

In the TSO50, the smallest organisations tended to work well and in continuous ways until ‘pinch-points’ threatened to upset the equilibrium. The biggest threat we regularly came across was the process of passing on the responsibilities for aspects of work from one person to the next. Often, the person who had by accident or design assumed responsibility to keep aspects of the organisation going (such as being the chair, secretary or treasurer) often found the position burdensome – and remarkably difficult to abandon if nobody else showed willing.

What we have learned about the complexities of small organisations does not, of course, just apply to them. Medium sized and even the biggest TSOs still have a strong ‘personal dimension’. No matter how well structured they are, they do not run like clockwork because people are adept at putting spanners into the works.

People in organisations can be ‘troublesome’ in many ways, some work too hard and expect everyone to follow, some are workshy and make the working lives of others more difficult. Some people are full of ideas, energy and enthusiasm, some just want to keep things going more or less as they always have.

And so, while we have found few examples of difficulties when organisations must comply with expectations about procedures – the examples of complexities produced by people are innumerable. This is why all organisations are fundamentally different while also, somewhat paradoxically, being remarkably similar.

[48] Erving Goffman’s well-known work on ‘civil’ or ‘polite inattention’ reveals how people notice behavioural eccentricities or take note of minor infractions but choose to avoid embarrassment or side-step responsibility for rectification. For a useful overview of Goffman’s work, see Burns, T. (1992) *Erving Goffman*, London: Routledge; and Smith, G. (ed)(1999) *Goffman and social organisation: studies in a sociological legacy*, London: Routledge.

[49] This finding was spotted in a related observational study of just 14 small groups where ‘consultants’ were brought in to change the way the organisation did things so that the organisation could become more ‘capable’, ‘effective’ and ‘grow’. Even with skilful and careful handling by consultants, most of the organisations changed little at the end of the process. These small changes could be beneficial, though hard won. See: Chapman, T. (2019) *The social process of supporting small charities*, London, Lloyds Bank Foundation England and Wales. The-Social-Process-of-Supporting-Small-Charities-March-2019.pdf (stchads.ac.uk). The immediate reaction to consultants was resistance along the lines that consultants lacked appropriate expertise or, when asked to do something like a SWOT analysis, that ‘we don’t have time for these little things’. Things went so slowly, often in a back and forth direction, because consultants had interfered with the ‘negotiated order’ which operated in the small organisation.

Section 9

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.

Communicates role and impact successfully to relevant audiences

- Does the organisation adopt and maintain appropriate media to communicate its purpose, activity and successes?
- Does the organisation prioritise the resource it commits to its communications strategy to maximise organisational benefit?

Beneficiaries are appropriately involved in shaping organisation's activities and development

- Does the organisation ensure that it maintains awareness of its beneficiaries' changing needs?
- Does the organisation ensure that beneficiaries have an appropriate role to play in shaping the organisation's strategic mission?

Benefit to users is assessed and considered

- Does the organisation adopt appropriate methods to record, monitor and report upon its impact?
- Does the organisation act upon its intelligence on user impact to maximise the benefits to the people who use its services?

Makes a positive contribution to the Third Sector

- Does the organisation make a positive contribution to its own 'community of interest' within the Third Sector?
- Does the organisation make a positive contribution to raising the esteem, impact and reputation of the Third Sector in wider terms?

Seeks to maximise impact on social well-being

- Does the organisation have sufficient knowledge and understanding of its ability and potential to contribute to social well-being?
- Is the organisation driven primarily by its purpose to serve its beneficiaries?

9.1 Communicates role and impact successfully to relevant audiences

In the first TSO50 report, published in 2009, it was noted that most organisations in the sample felt that they were well respected in the field within which they worked and also in the areas where they operated. Most felt that that such recognition depended upon the quality of their practice – but they knew that they had to tell their story successfully too. At this time, there were many networking opportunities to communicate their successes (see Section 5.5) and many TSOs were keen to get stories into the local press when they achieved something special.

Then, as now, communicating the right message to funding bodies about the impact of their services was a priority. Focusing on attracting beneficiaries was important too. In some street-facing organisations, for example, much thought was given to the way the organisation presented itself to show that they were approachable and inclusive. Even in relatively small organisations, some TSOs ensured that they had well organised reception areas, and worked hard to meet and greet clients and visitors in a welcoming and professional way.

Impression management was often considered to be a key element of success. Larger organisations in the sample usually invested heavily over the years to sustain these positive images. They were often imaginative and resourceful to meet the substantial costs of renovation or modification of interiors and exteriors. This was especially valuable in those organisations which rented space to other TSOs or businesses.

During the lifetime of the study, a small number of organisations accessed new premises via community asset transfer programmes or on peppercorn rents offered by the local authority – which in one case was set to transform the TSOs prospects. It is hardly surprising that a strong focus on design in this outward facing organisation became a serious issue. But, then as now, not all organisations invested time, energy and funding in this way. Some offices were functional but not flashy. Others had an incongruous mix of well-designed websites and promotional material, but unwelcoming, shabby and disorganised office space.

While we observed the environment over which TSOs had control, within the limitations of their resources, we made no judgements as to whether such factors affected the quality of services offered, the general professionalism of the organisation, or the organisational impact. As the research progressed it became apparent that drawing an association between the 'image' the organisation presented of itself to the outside world, and the quality of its practice could not easily be made.

Externally, in the early stages of the study, TSOs used many approaches to raise their profile, ranging from parking their liveried vehicles in public places, the delivery of mail shots, regular newsletters and pamphlets, issuing of press releases, organisation of celebratory or campaigning events and the development of quite sophisticated websites. This was easier for national organisations or those which were federated to a national body where economies of scale made it easier to access high-quality design and print services and the maintenance of carefully configured and attractive websites.

Websites in the early stages of the study were often quite underdeveloped with poor navigation. Some TSOs were peculiarly secretive about the people who were running the organisation and contact information was obscure. This remains to be the case in several organisations where access to the names, emails or phone numbers of officers or trustees is unavailable and contact is only possible via an uninviting automated contact page. It is surprising when this is the case on websites with the most advanced navigation and most sophisticated design.

The ownership of smartphones and the regular use of social media has grown dramatically during the life of the study as platforms such as *twitter, Instagram* and *Facebook* have become popular. The extent to which organisations in the TSO50 have adopted social media to promote their activities and their image varies a good deal.

One large regional organisation has, since joining twitter, produced over 4,000 tweets under its institutional account. While another TSO of similar size mustered only about 1,000 (its last communication being posted more than a year since this report was written). Others were tremendously active in producing e-newsletters, initially on paper and subsequently distributed digitally via email - but eschewed the use of social media – in one case producing fewer than 25 tweets in ten years.

It is not possible to make a judgement on the extent to which the proficient use of websites and social media help TSOs to communicate their stories successfully in the relatively small sample of organisations in the TSO50. In the 2022 Third Sector Trends survey, quantitative evidence will be collected to assess levels of usage which can then be analysed against other criteria of organisational success.

An impression is gained, nevertheless, that if websites and social media are to be used at all, it is better to keep them up to date. When news stories are ancient and organisational tweets sparce, it can give an *impression* of a moribund organisation - even if that is not true.

9.2 Beneficiaries are appropriately involved in shaping organisations' activities and development

When this study began there was much debate in policy circles, locally and nationally, about the importance of taking into account 'community voices' and to 'empower' local people to have a say in the way that local services were focused and managed.[50]

At this time, the Third Sector was often credited by government for its ability to connect with communities which were 'hard to reach', 'hard to hear' and 'hard to help' by public sector bodies. Narratives about the value of user involvement have never gone away, but they have intensified in recent years and have, more recently, elicited a policy shift back towards community voice, empowerment and self-reliance.[51]

In the initial stages of this research, beneficiaries were more likely to be active in organisational governance than is the case now. As shown in Section 4.4, there has been a drift towards the professionalisation of boards which may have loosened the direct link with beneficiary engagement. Early in the study, a few organisations set up a separate community panel to provide feedback and ideas, but most of these seem to have withered away.

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[50] Contemporary debates and policy developments from 1997 to 2010 were heavily influenced by New Labour government thinking on community empowerment. For a useful review of the academic and policy literature, see: Imrie, R. and Raco, M. (eds) (2003), *Urban renaissance? New Labour, community and urban policy,* Bristol: Policy Press; Mayo, M., Blake, G., Diamond, J., Foot, J., Gidley, B., Shukra, K., & Yamit, M. (2009). 'Community empowerment and community cohesion: parallel agendas for community building in England?', *Journal of Social Intervention: Theory and Practice*, 18(1), 23-43; and, Foley, P., & Martin, S. (2000). 'A new deal for the community? Public participation in regeneration and local service delivery', *Policy & Politics*, *28*(4), 479-492.

[51] The most recent policy statements from government on 'local voice' are included in the *Levelling* up White Paper. Levelling Up the United Kingdom - GOV.UK (www.gov.uk). Other organisations have invested heavily in research on how to engage local people. See for example the contributions of *Power to Change*, Power to Change - Better places through community business; *Local Trust,* Trusting Local People | Transforming & Improving Lives | Local Trust; and *Locality,* Locality.

As researchers, we were aware how difficult it could be to secure meaningful community engagement and involvement at community level.[52] So we decided to keep an open mind on the issue of beneficiary engagement – reserving judgements about when involvement of service users was necessary and beneficial.

We also felt that that expertise and professional judgement in practice should be considered as a valuable aspect of Third Sector activity and that, at least in some circumstances, it ought to take priority over user preferences. That stated, we retained a measure of scepticism about the intentionality of TSOs which positioned themselves as 'knowing what's best' for communities and when trying to encourage or impose 'behavioural change'.

In the early stages of the study, it was clear that most organisations retained a high level of 'self-awareness' of the changing needs of their beneficiaries. This, we found, was not as hard to do as is sometimes thought. Organisations which were helping beneficiaries to tackle issues *were* 'close to' the people with whom they were involved and were able to offer support on the basis of individual needs.

Institutional barriers to engagement were few and far between – people in need were not turned away. And while this could put TSOs under real pressure - they were proficient, within the limits of their resources and powers, at attending to the difficult issues people faced. 'Going the extra mile' for beneficiaries it seems, is a deeply embedded principal in Third Sector culture.

Being there to help out, does not mean that TSOs could not form a clear view on the way that they supported people – and sometimes in ways which ran contrary to their clients' preferences. At times decisions needed to be made to limit the scope of clients to do things that may, ultimately, do them harm.

Not all Third Sector activity focuses on tackling crisis or dealing with deeply-seated problems that individuals face. Often, the purpose of organisational activity is oriented toward aspects of personal development of having fun (such as educational, creative and recreational activities). In those usually smaller organisations which exist to serve the interest of their own members (who generally also run the organisation) it is clear that user-engagement is self-regulating: systems are rarely needed to monitor or appraise activity (see Section 6.5).

And when TSOs serve or facilitate opportunities for such activities, there is a widespread belief that footfall provides the evidence they need as to whether they are getting things right or not. If the service is not required and valued – then people will not come.

There is a danger that organisations can become complacent about user expectations and experiences if people's opinions are uninvited and the value of provision is left unexplored. There is a risk, for example, that provision may limit the options of users if organisations hold on to beneficiaries for too long instead of encouraging them to move on to new opportunities.

Similarly, if the same beneficiaries move seamlessly from one grant-funded project to another, provision may become 'exclusive' rather than 'inclusive'. Judging the value of the work of an organisation on the basis that 'people keep coming back for more' looks unconvincing from this perspective. Assessing benefit to users is a thorny issue, as the next section shows.

[52] See Robinson, F., Shaw, K. and Davidson, G. (2006) 'On the side of the Angels': community involvement in the governance of neighbourhood renewal', *Local Economy*, 20(1), 13-26.

9.3 Benefit to users is assessed and considered

As shown in the previous section, the evidence indicates that TSOs feel that benefit to users is generally assessed and considered in 'appropriate' ways. When the approach taken is informal and deemed to be successful, that is usually because organisations believe that they are close to their communities of place or interest. Indeed, many locally rooted TSOs describe themselves as being 'in', 'of' and 'for' their communities.

Aware that many TSOs, and especially smaller organisations, would be disinterested in assessing impact before the study began, we developed two questions to examine the issue. '*Does the organisation adopt appropriate methods to record, monitor and report upon its impact?'* and '*Does the organisation act upon its intelligence on user impact to maximise the benefits to the people who use its services?'*

By using the term 'appropriate' we avoided the risk of imposing uniform approaches on monitoring, evaluation and impact. Even using broadly-based models on 'standards of evidence'[53] seemed too ambitious given that size, purpose and practices of organisations in the sample varied.[54]

Third Sector Trends research has shown that formal monitoring and evaluation is often neither possible nor necessary. Most sector funding (as defined by the *volume* of grants rather than *financial value* of grants) does not carry with it an obligation to undertake complex evaluation.

From a practical point of view, funding bodies recognise that the cost would often be greater than the value of the grant. Furthermore, the attribution of impact would be more or less impossible to compute given the 'intangible' value of the work undertaken by many organisations. Consequently, most funders which provide smaller grants ask, at most, for TSOs to submit a critical commentary on what they have achieved with their award.

Many smaller organisations in the TSO50 could not see the relevance of questions surrounding the assessment of impact. At best, most referred to anecdotal evidence, such as: [we get] 'lovely letters and cards' and 'they keep coming back for more', 'we know if they're not happy because they ring up and tell us.' But when making judgments about how organisations assessed the quality of their practice in our framework of organisational effectiveness, we were looking for evidence to show that organisations were able to critically reflect on the quality of their work - rather than glibly stating 'we know we're good.'

Medium sized and larger TSOs were more likely to assess and reflect upon the benefit of what they achieved for their clients. But this is generally done in a piecemeal way – often involving little more than counting service users. Only exceptionally is monitoring, evaluation and impact assessment continuously applied to the work of medium sized TSOs. This tends to happen only when they are playing a part in larger projects, such as major grant programmes or in the delivering public services under contract.

The largest organisations in the TSO50 were more familiar with the language of evaluation and impact assessment. Often though, the application of methodologies to

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[53] See, for example, the *Standards of evidence framework* promoted by NESTA: Nesta's Standards of Evidence | Nesta

[54] Early in the Third Sector Trends study, a critical examination of options for impact assessment was undertaken. This was bolstered by new evidence on TSOs' take up of a wide range of methodologies to monitor and evaluate their practice in the first wave of the Third Sector Trends survey in 2010. Whilst we were critical of approaches to measure impact in a standardised way by research agencies and think tanks, this did not mean that we felt that TSOs should be complacent about understanding the value of work they were doing. See: Chapman, T., Bell, V. and Robinson, F. (2011) *Measuring Impact: easy to say, hard to do: a think-piece to stimulate debate from the Third Sector Trends Study*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper.

do so were engineered by funding organisations and sometimes undertaken by independent research organisations which are commissioned to do this task.

Less well managed medium or larger organisations were generally less committed to the principal of investing time and energy in assessing their approach to practice or their social impact – although they complied to expectations if required as a condition of funding. Interestingly, these organisations also tended to be less enthusiastic about investing in staff development and training above and beyond statutory requirements. Their interest in assessing the quality of their work and its impact was, at best, hit and miss.

Many of the larger TSOs took the issue of assessing the quality of their work more seriously. They were the most likely to align themselves with formal quality marks, such as *Investors in People* or *ISO* certification. This was most common in TSOs which were part of or federated to national bodies. These organisations recognised an operational incentive for doing so: having the right quality badge was often important when bidding for funding – and sometimes it was a requirement.

Some of the larger regional TSOs involved in this project decided to develop their own approaches to monitoring, evaluation and impact assessment. The intensity and quality of that work varied, depending upon their motivation to do so. In some cases, research, evaluation and impact assessment was commissioned largely for reputational reasons – so that the organisation could demonstrate to potential funders that their work was efficacious. But underscoring these intentions was a more fundamental interest in learning from experience and trying to improve upon approaches to practice.

Only two of the larger regional TSOs in the sample engaged in formal organisation-wide social audits. These exercises were expensive and time consuming but were worthwhile because they affirmed the value of the organisations' commitment to producing good quality work by being a 'learning organisation'. But neither TSO did this more than once during the life of the study.

9.4 Makes a positive contribution to the Third Sector

In this aspect of organisational activity, two questions were in the fore of our minds at the start of the study. We asked ourselves, firstly, if the organisation *made a positive contribution to its own 'community of interest' within the Third Sector* and secondly, *if the organisation made a positive contribution to raising the esteem, impact and reputation of the Third Sector in wider terms.*

We adopted a 'grounded' perspective when exploring these issues: exploring the issues that organisations prioritised rather than imposing an agenda of our own. Invariably, discussions centred on the maintenance or enhancement of 'sector culture'. This was not easy, though, because people in the Third Sector struggle to agree about the identity of their sector or even where its boundaries lay.[55]

When talking about their own sector culture, participants in the study often found it much easier to say why their sector was *different* from the public sector, the private sector and private life. This finding has strongly influenced the way that the study has

[55] Evidence was captured on attitudes on sector identity and boundaries in a series of 'foresight panels' which were established in the first phase of the study. See: 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,* Newcastle: Northern Rock Foundation. Forearmed with Foresight Report (communityfoundation.org.uk)

proceeded in analytical terms with both quantitative survey data and qualitative material.[56]

In comparison with the private sector, organisations in the TSO50 generally positioned their sector as being less competitive and that its members eschew a cut-throat attitude towards pursuing profitability – even if they engaged in trading seriously. As noted in Section 7.5, it was common earlier in the study for participants to adopt derogatory terms when referring to the culture of the private sector, they did so to indicate that people in their own sector culture shared more socially focused values.

When pressed, participants often found it hard to express how these values manifested themselves in concrete terms, though some aspects of sector culture were often voiced such as being less competitive, more inclusive, better at working in partnership, and so on.

As this report indicates, there are occasions when organisations in the Third Sector find partnership working a challenge, that TSOs can and do get caught up in intense competition, and sometimes that relationships with beneficiaries can be quite exclusive. But just because these things happen some of the time does not undermine sector belief that organisations generally work in complementary ways to achieve social benefit.

When distinguishing themselves from the public sector, TSOs tended to emphasise the importance of their autonomy, freedom from unnecessary bureaucracy, their agility when responding to new challenges and their innovative approach to practice. Many of the organisational leaders in the TSO50 had, at some point in their careers, worked in the public sector. The skills and experiences they had picked up during that time were often employed effectively in their current jobs.

Some aspects of public sector organisational culture, they were often pleased to have left behind. At root, this seemed to centre upon their preference to run their organisations autonomously rather than being constrained by internal hierarchies or be at the mercy of governmental or local political whims. Being autonomous gave them the opportunity to run an organisation which could be more creative, agile and responsive. The desire to be so, seems to sit at the heart of sector culture.

Leaders of TSOs often demarcated ‘sector culture’ from the relentless pursuit of personal advantage that can characterise the private lives of individuals and households. Third sector narratives surrounding altruism, though often quite muted, run deep. Participants often felt proud to have championed social issues and set a course of action to tackle problems that the state or business had not recognised, neglected or created.

The necessity of setting aside aspects of personal advantage in order to pursue collectively owned social objectives was often alluded to – though in many different ways. Perhaps the most common, though, was by making reference to relatively low levels of remuneration compared with the private sector and more limited job security and pension benefits than in the public sector.

Whether these comparisons with other sectors are fair - cannot be answered here. But the evidence strongly suggests that perceptions of sector distinctiveness helped to consolidate and strengthen belief in the existence of a Third Sector culture. From the first to last phase of the research, there is no convincing evidence to suggest a significant change in position in these core values.

That stated, some participants who had stayed with the study from the start felt, in the latest stage, that sector culture had been diluted to some extent. Several TSO

[56] The approach taken is strongly influenced by the diagrammatical representation of the third sector developed by Evers and Laville, where civil society sits at the centre of a triangle bordered on each side by the state, private sector and private life. See: Evers, A. and Laville, J. (eds)(2004) *The third sector in Europe*, Cheltenham: Edward Elgar.

leaders argued that either the sector had become less cohesive and/or that individual organisations had become more insular.

This change in mood was certainly stronger amongst interviewees who participated in the post-coronavirus stage of the study – though most conceded that this may be a temporary glitch which was precipitated by lockdowns and social distancing. That stated, in the third phase of the study which came before the pandemic, there was already a strong feeling that more limited sector interaction had increased levels of organisational insularity.

While this may be so, it is worth remembering that in the first phase of the study, the same interviewees argued that the volume of networking opportunities and partnership activities that existed then put *too much* pressure upon their time at the expense of their own organisations' interests (see Sections 5.5, 7.5 and 8.3).

Perhaps it is safest to conclude that the organisational leaders we have worked with over the years have become more *selective* when choosing to participate in collective activities. Newer leaders, energised by new opportunities to develop their skills and networks, may see things differently.

9.5 Seeks to maximise impact on social well-being

At the start of the study we wanted to consider whether, firstly, '*organisations had sufficient knowledge and understanding of their ability and potential to contribute to social well-being?*' And secondly, we wanted to know if '*organisations were driven primarily by their desire to serve the interests of their beneficiaries*'.

After fourteen years of study, these questions can be answered simply. It is absolutely clear that the organisations remaining in the TSO50 do their level best to contribute to social well-being with the resources they have at hand. But they do so by 'playing their part' within the context of a wide array of participants in the private, public and Third Sector. They do this in conjunction with others by working collaboratively or in formal partnerships, or they do so in 'complementary' or 'good-neighbourly' ways. Often, and especially in larger organisations, they do all these things at the same time.

Leaders of TSOs tend to be quite humble in this respect. They say that they do their best in the prevailing circumstances. There is little evidence to suggest that leaders 'over claim' what they achieve. Furthermore, there is no doubt that nearly all of the leaders of TSOs in this study are driven primarily by a defined purpose to serve beneficiaries.

Only one of the remaining 31 TSOs could be described as falling short in this respect – where the interest of the organisation itself and the people who are paid to run it, seem to take priority over the interests of beneficiaries (although that is not to argue that their work is not valued by those who take part).

There is a lot to be said for simply accepting that TSOs do their best with the energy they have at their disposal to contribute to social wellbeing. And certainly, many funding organisations are content to invest their trust in TSOs to get on with the job with minimal interference.[57]

But the political wind, at a national level, is not blowing in this direction – and nor has it ever been since the study began. Instead, there have been waves and waves of debate about how to assess the impact of the Third Sector, each led by or resulting in the development of methodologies to assess impact ranging from fairly simple cost-benefit analyses to complex social return on investment calculations. At practice or programme level, similarly, methodologies have been created to assess impact

[57] See: Third Sector Trends (2020) *The strength of weak ties*, *ibid*.

and outcomes of spend such as the use of 'theories of change' or, more recently, 'social investment' (see Section 7.3).

While these technical exercises may have some value if executed sensibly and in the right context, the problem is that they focus on the work of individual organisations or, at best, at a programme level when several organisations are involved – often from across the third, public and private sectors. Consequently, they can say little about the 'general' contribution of the Third Sector to social wellbeing.

At national level there have recently been calls for the construction of methodologies to assess 'whole-sector' value.[58] This has led to demands for the generation of standardised 'metrics' to assemble statistical evidence to demonstrate the value the sector produces now and to estimate how much *more* value could be produced if the Third Sector was incentivised and sufficiently resourced to do so.

The TSO50 study has produced evidence and gained understanding on the way that individual organisations contribute to social wellbeing at a general level. It also demonstrates that the 'attribution' of social benefit created by individual organisations is hard to measure. Instead, a better way to look at the issue it is to recognise that, collectively, organisations make a broadly beneficial contribution to the wellbeing of the areas within which they work.

It may be fair to say, as people often do, that in value terms 'the whole value of the sector impact is worth more than the sum of the parts.' Inevitably, some commentators take this more literally than others and want to calculate and compare value production with other industrial sectors – as if impact was a tangible commodity with a constant value.

Third Sector Trends reports have taken a firm view on this issue – stating that it is never going to possible to 'measure' the value produced by the sector as a whole – but it is possible to make informed judgements about how that value accumulates through the many direct and indirect interactions that constitute sector activity.[59] Explaining how this can be done is beyond the scope of this discussion. So it is better to close with a simple line – that it may well be hard to measure, with precision, the impact of the Third Sector when it is there, but it would be easy to assess the loss of that value if it was gone.

[58] See, for example, Haldane, A. (2019) *The Third Sector and the fourth industrial revolution,* Pro Bono Economics Annual Lecture, Royal Society, London: https://www.probonoeconomics.com/news/andy-haldanes-full-speech-from-the-pro-bono-economics-10th-anniversary-lecture

[59] Third Sector Trends data have been used, in conjunction with national register data, to show how much energy the sector has at its disposal, where it focuses its activities and make informed judgements on how much impact it achieved. See: The difference the third sector makes - St Chad's College Durham (stchads.ac.uk); The contribution of the VCSE sector to health and wellbeing in Humber, Coast and Vale - St Chad's College Durham (stchads.ac.uk), and, Voluntary sector dynamics in Cornwall and Isles of Scilly - St Chad's College Durham (stchads.ac.uk)

Section 10
Conclusion

This is a long report. It could have been a great deal longer. Analysing and interpreting a mountain of data from a project that has been running for nearly fifteen years has been a challenge. Conceived in 2008, the project has followed the fortunes of fifty Third Sector organisations (TSOs) of all shapes and sizes through a period of rapid and tumultuous social, political and economic change.

We did not have to wait long until the first major event came along. Just as the work began the world was engulfed in an economic crisis – caused by sub-prime lending. Somewhat ironically, Northern Rock Bank was its first casualty in the United Kingdom. Ultimately, this led to the closure of the Northern Rock Foundation which commissioned the Third Sector Trends programme. A change in government came soon after, initially promising a new drive to build a 'Big Society' but delivered almost a decade of austerity that decimated the budgets of local authorities in North East England.

Then came the campaigns for and against Brexit, which distracted the country and government from practically everything else. Certainly, the Big Society agenda was quietly shelved. When Brexit was finally agreed and the UK departed from the European Union in 2020 there were serious worries about how economy and society would get back on its feet. Any hopes for a post-Brexit period of calm and certainty were soon knocked back by the emergence of the Coronavirus pandemic which hit the country hard in early 2020 and has transformed the social landscape for over two years.

Just as we emerge from Covid-19, the country is descending into the worst cost of living crisis in three decades as inflation soars. And yet, of the original 50 TSOs which agreed to take part in the study, 41 are still operating – many of which are thriving. This report has attempted to explore the secrets of their longevity through turbulent times.

10.1 *What counts as 'success'?*

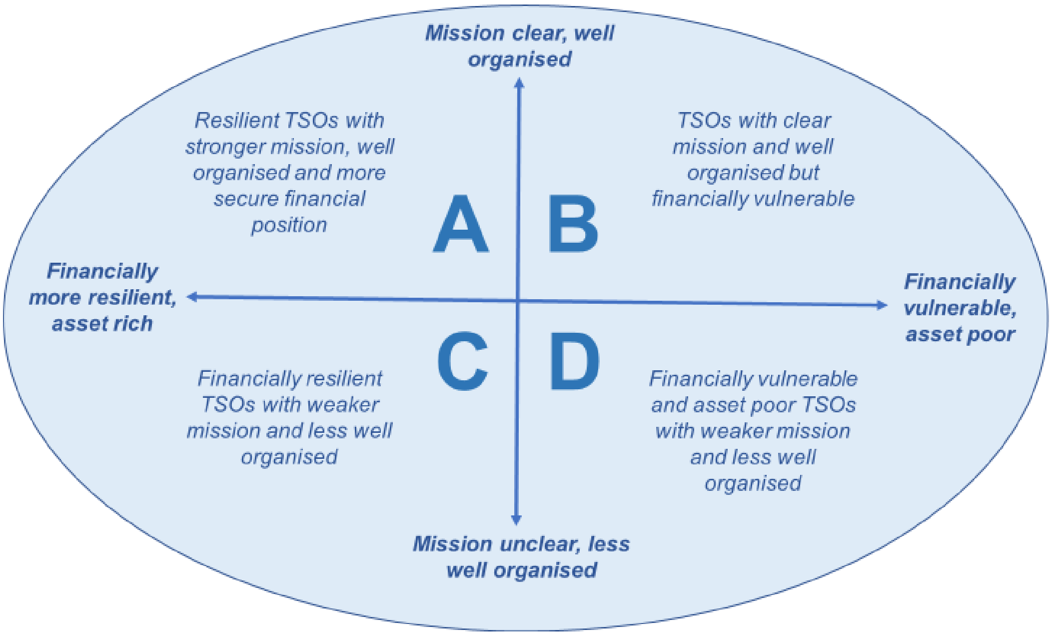
From the start, we faced a methodological problem: how to identify 'critical success factors' in the context of a fast-changing world? Fred Robinson and myself, as co-directors of the research, quickly came to a view that this was not the right question because notions of 'success' lay in the eye of the beholder. Furthermore, we found that organisations adopted a variety of approaches to dealing with opportunities and challenges that came their way.

Some were fastidious in their preparations for what they believed might be coming next. Others threw caution to the wind. And apart from the seven that closed, many managed to keep going, as they always had done, on the assumption that 'something will come along' to get them out of hot water.

To look at the relationship between effective organisational management and long term sustainability, an analytical framework was developed to focus on four things. The ***foresight*** of organisations to anticipate and plan for change. Their sense of ***enterprise*** and how they weighed up the opportunity costs of making decisions. Their appreciation of their own organisations' ***capability*** and how they factored this into their decision making. And finally, we looked at the ***impact*** they made and how they assessed whether they were achieving what they wanted.

Informed judgements were made about how organisations were doing in each of these domains set against their overall mission. Then we added it all together to form a view of what kind of organisation we were dealing with on two inter-related dimensions: whether they had a clear mission and were well organised, and whether they were financially resilient and sufficiently asset rich to keep going (see Figure 10.1).

Figure 10.1 **Relationship between organisational management and resilience**

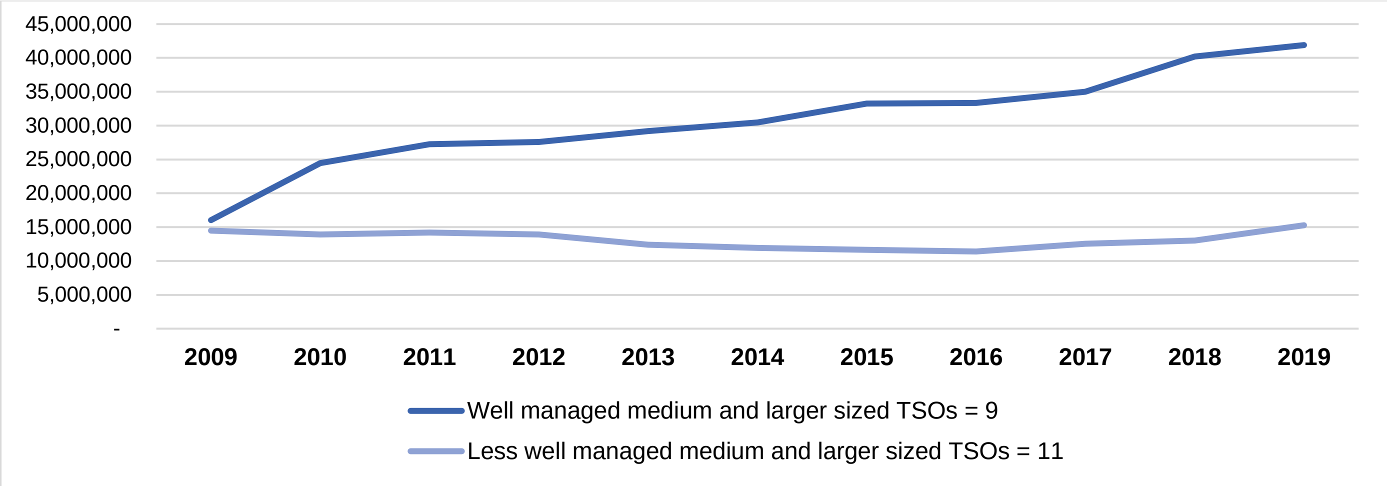


We placed organisations in one of the quarters of this framework each time the study was repeated. The aim was to find out which organisations were prospering and which were struggling. Some organisations were capable throughout the life of the project – which led to the consistent allocation of an A score (hereafter, referred to as 'triple A'). All of these organisations are still going strong in 2022.

Others became stronger and better managed as time went on. Some continually faltered but somehow or other kept going. By 2019, some fell into an irreversible decline and ultimately closed – and others by this third phase of the study appeared to be hanging by a thread but were all still operating in 2022.

Putting scores in boxes helped clarify in our own minds what the evidence we have collected meant. And Figure 10.2 tells an interesting story. Those organisations which we judged to be well run tend to have done better, if financial issues are taken as a loose proxy for 'success', than those which were haphazard in their approach to management and planning.

Figure 10.2 **Relationship between organisational planning and financial sustainability** (adjusted for inflation)



Increasing income is a useful indicator of the strength of *foresight, capability, enterprise* and *impact* of these better managed organisations. But money is not the answer to all organisational problems – it can be the cause of them. Winning a big grant or contract for an organisation which its people self-evidently do not have the interest, belief, capability, purpose and motivation to deliver invariably does more harm than good.

10.2 *Endemic uncertainty about organisational finances*

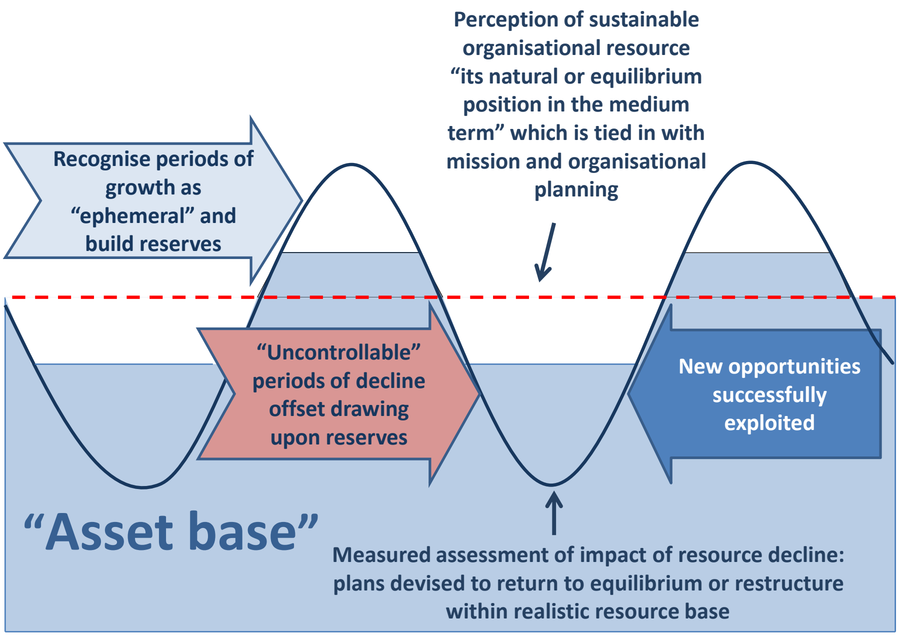
Financial analysis of the fortunes of organisations throughout the life of this study has revealed that, taken as a whole, there has been a general upward trend in the organisations' aggregate income. Beneath the surface, when looking at individual organisational financial profiles, there is constant turbulence. This means that even the 'triple A' organisations have little immunity from financial ups and downs. But these well-managed organisations have been more effective at steering a course through choppy waters.

Less well-managed organisations, when the going is good financially, often make mistakes. This is usually because leaders became over-confident in the belief that that this is the 'new normal' or that they would continue to grow at pace. Errors of judgement about longer-term potential can compound future problems by, for example, making erroneous promises about long-term job security to the people who work for them.

Well-managed organisations take calculated risks. They learn hard lessons from previous experiences which makes them better able to foresee potential problems. And so, when the money flows in, they don't lose their heads. Instead, they think about the level of activity they can afford to sustain. If current levels of income are not thought to be sustainable – they carefully manage the expectations of their staff and they save for rainy days.

This means that when things go wrong, such as failure to win contracts or grants (which invariably happens in a competitive social market place) they don't panic and make risky decisions that could get them into even more trouble. Knowing what their 'operational levels' of resource and capacity are in the medium term is a crucial characteristic of the 'triple A' organisations (see Figure 10.3).

Figure 10.3 **Effective responses to income turbulence**[60]



At the start of this project, we were of the view that organisations should engage in long-term strategic planning to ensure that they knew where they were heading and could hold their course. As the above analysis indicates, we were wrong about this. There is simply too much going on that cannot be anticipated to plan strategically in the long term. It is better to keep eyes fixed on the near horizon than to reach for the stars. This does not mean, though, that the best managed organisations do not hold to a broader long-term mission.

10.3 *Preserving autonomy*

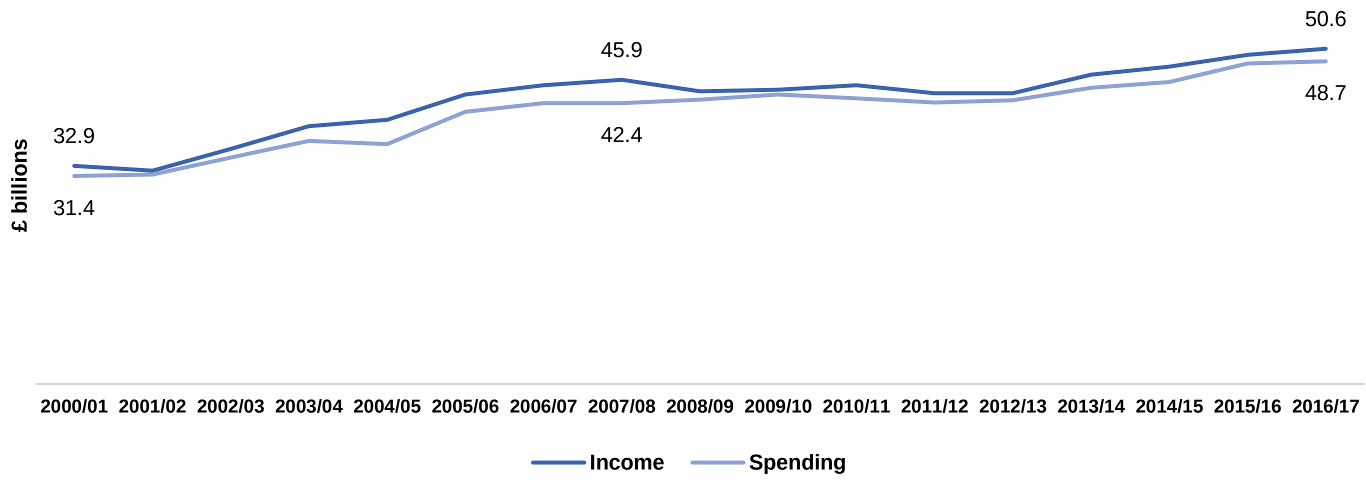
Third sector organisations enjoy considerable autonomy. This is partly because they are less vulnerable than, for example, public sector bodies to interference from local and national politicians who can undermine aspects of organisational practice at a stroke. Similarly, they are less exposed to the perils of the marketplace than private sector businesses because TSOs rarely borrow money and are at lower risk of foreclosure by financial institutions.

Third Sector organisations may not always 'enjoy' their longevity, given the financial ups and downs they continually face - but they tend to be quite good at keeping their spending within limits which reduces the risk of closure. As the *NCVO Civil Society Almanac 2021* shows,[61] aggregate sector expenditure has never exceeded sector income in the last 20 years (see Figure 10.4).

[60] First published in Chapman, T. and Robinson, F. (2013) *On the money: how does the way third sector organisations think about money affect the way they work?* Newcastle upon Tyne: Northern Rock Foundation.

[61] NCVO UK Civil Society Almanac, https://www.ncvo.org.uk/policy-and-research/funding (data downloaded June 22nd, 2022).

Figure 10.4 **Third Sector income and expenditure**
(Source: NCVO Almanac 2019, £bns: adjusted for inflation)



In an unpredictable operating environment, keeping things in balance in the long term is a tricky process. The approach most TSOs take is purposefully to avoid 'keeping all their eggs in one basket'. By diversifying sources of income, organisational leaders counter the risk of losing substantial funding from a single source. Probably the most successful of which also have property assets which limit overheads such as rents and provide a source of regular income by letting space. Even when organisations have a diverse portfolio of income sources from grants, contracts, trading, subscriptions, gifts and donations, investments and so on – it is unusual for them to maintain consistency.

The inherent financial uncertainties that leaders must manage tends to reinforce their determination to protect organisational autonomy. This is why most TSOs are pretty cautious about yielding control over aspects of their activities by working in formal partnerships or consortia to win larger sums of money from contracts or programme grants. And so, while this study shows that organisational leaders are generally quite good neighbours to one another – they can be suspicious about formalising ties that may ultimately constrain their freedom: and especially so if they perceive dangers of financial or reputational damage.

As the research has progressed, organisational leaders have become less enamoured by the prospect of working in formal partnership and consortia. Government austerity policies have been a contributory factor. Cost margins have been driven down to such an extent that participation in joint bids for contracts often no longer make financial sense. We have heard many stories of organisational leaders being stuck in fraught meetings for hours and hours arguing about how to deliver a good service at knock-down prices.

But this does not signal a general loss of willingness of organisations to work towards a common purpose. It is important, therefore, not to adopt a jaundiced view of sector relationships by becoming distracted by the circulation of a few horror stories that represent, essentially, the exception not the rule. That stated, there is no room for complacency.

As evidence from this project has shown, organisational leaders should not succumb to assurances that 'sector culture' necessarily limits the need to check things out before formalising interactions. Even if due diligence is regarded as being 'a bit rude', well-managed TSOs should not be embarrassed to delve into the fine detail so that they can make sound judgements about the risks associated with formal partnership working. And in their turn, they know that they must be willing to open themselves to scrutiny.

10.4 *Refreshing practice while holding to mission*

After the first phase of the study, we recognised that when organisations were set up, they needed to be innovative because they had entered new territory where approaches to practice must be developed and tested. As organisations matured, change tended to be more incremental – unless a major event, such as the Coronavirus pandemic forced immediate action.

For the most part, we found a sector that used its skills and understanding to continuously, reliably and effectively produce strong social outcomes. One of our interviewees grasped this nettle when they told us that ‘the only time when we’re innovative is when we’re filling in grant applications to say what we normally do is new.’

That is still a fair point. Effecting continuous good practice is a feature of the terrific contribution that third sector organisations can make to individuals, communities and wider society. What we failed to appreciate was that the ownership of underlying principles of good practice does not mean that approaches to provision are set in aspic. It is unlikely that we could have reached this conclusion had this not been a longitudinal project.

What we have seen, in response to social changes that have occurred during the life of the study, is that organisations need to continually refresh approaches to practice. Of late, it has not just been a question of refreshing practice but up-ending it.

The Coronavirus pandemic presented fundamental challenges to the ‘normal way’ of doing things. There was no time to hang about, practice had to change immediately. Nearly all the organisations involved in this project did so. It was a process that produced a mix of emotions amongst organisational leaders ranging from fear and anxiety to excitement and exhilaration.

In the latest round of interviews, it became clear that the pandemic had turned many aspects of organisational practice upside down. There was a need to adapt quickly. But this process has led organisations to ‘reframe’ many aspects of practice in the longer term. In this sense, the pandemic had helped ‘crystalise’ solutions which had been sitting in the waiting room for some while before the pandemic came along.

Being ‘pushed out of our comfort zone’ could be a positive thing because it made organisations re-think aspects of their ‘usual’ practices. Many recognised that some aspects of their standard practices neither worked especially well nor fully achieved what was intended. Habits are quite hard to shift in an organisation once everyone has become used to them.

Breaking the mould has upset the equilibrium in many organisations. Unwritten rules and unstated expectations have suddenly become open for renegotiation as priorities shifted, practices changed and pecking orders were upset. This has led, amongst people at all levels of organisations, to a lot of soul searching about what they want from their working lives.

So it is not surprising, in this context, that quite a lot of people in the organisations studied have asked to continue working from home, work fewer hours or have taken the decision to retire or leave to do something different. These changes are producing real disturbance in the social dynamics of organisations.

Not all organisations are willing to make this journey. One has decided that it is time to bring things to a close. Many are invigorated by change and feel that it has reaffirmed their commitment to mission. Others yearn to get ‘back to normal’ but know that this may no longer be an option – especially when new people are coming in who want to make their mark.

Change forces people in organisations to reconfigure the way they do things in innovative ways – this can be exciting and refreshing for some but disconcerting and threatening for others. The point is that the imperative to innovate is not something that is always chosen - as management guides so often pretend; instead it is forced upon the organisation. And in this context, it is the quality of the organisational leaders' ability to draw upon and marshal the ideas, energy and enthusiasm of its people to effect change that counts – and to be prepared to manage the consequences of decisions when people feel that their noses have been put out of joint.

10.5 *Leaving the organisation in safe hands*

This project has shown that well managed third sector organisations have staying power. That staying power is underpinned by the ability of leaders to steer a straight course through troubled waters.

A lot of the academic and popular literature on leadership in the Third Sector, especially from the United States, tends to concentrate on 'driven' socially entrepreneurial leaders whose vision carries the organisational forward. Sometimes, in such accounts, the focus is so closely associated with the leader's personal charisma that the organisation itself is regarded as an 'embodiment' of that person. This has led some observers to take a view that many organisations become so dependent on these heroic leaders that they risk folding once they depart.

In this study we have worked with many inspirational leaders. But we found no examples of 'psychological ownership' which is often presumed to be a defining feature of 'founders syndrome'. Instead, we encountered sensible people who took their responsibilities seriously but remained quite humble about their own position in the grand scheme of things.

Instead of positioning themselves as *the* driving force, in one organisation we have studied, its leader described their stewardship role as 'caretaking'. Caretaking was defined in a dynamic sense – involving a process of nurturing the organisation's core assets of ideas, capabilities and energy. Caretaking, in this sense, is about keeping things in balance – and taking full responsibility for that role – which sometimes means making hard decisions that may upset and disappoint people but sustains, in the medium term, organisational drive and momentum.

It also involves recognising when the time has come to move on and let the organisation take its course. Throughout the study we have asked about succession strategies. In the best managed organisations this has been taken seriously - often years before the current leader decided it was time to go. This is hardly surprising because, after investing so much energy in their organisations' project, it is never easy to walk away.

Many of the leaders we have been talking to have passed on the baton and some are engaging with that process now. Preparing well for the transition is important. So that when someone else takes hold of the reins they can take care of the organisation their way.

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