Current issues in the 3rd sector

Even though Corona Virus Pandemic brought additional challenges to the third sector, we are still facing problems that existed even before the pandemic happened.

We are going to analyse the current issues and talk about all the issues that the third sector has been facing during the past few years.

According to various researches, the majority of third sector organisations (90%) have experienced some kind of negative impact as a result of the pandemic and these will be felt in the time to come.

Financial challenges

After the start of the pandemic, the third sector has seen a loss of income and they are threatened to their financial viability in the years to come. The measures taken to slow the spread of the virus, unfortunately led to closing offices and the traditional way of fundraising had to change and even stop on some occasions. Because of these reasons, the third sector does not expect to get back to the normal levels of fundraising even now when things are slowly going back to normal. Another problem is that TSO had to use the cash reserves so they could stay on their feet during the pandemic, but some of them did not have cash reserves to last more than 6 months, some even less then a month.

More than 90% of the TSO are concerned about finding sustainable, long term funding opportunities, and others are concerned about the fact that they have to find a new income stream. Grants and trusts are considered as the top source of new income, also individual fundraising, community fundraising, philanthropy, trading, and statutory funding.

Due to the way TSO reaches out to people and fundraises, innovation became an essential part, leading to an increase of usage of technology. Because of these reasons young people, graduates will be a crucial help to drive this wave of change forwards.

Increase in demand

Throughout the pandemic, third sector organisations saw a surge in demand for their services, which many predict to continue as society and the economy recover.

COVID-19 harmed people's health, mental health, and livelihoods, prompting more people than ever to turn to organisations for assistance and support, and they are still

reliant on it as they try to get back to normal. It's no wonder that many charities are failing to meet the rising demand for their services, especially given the increased financial pressures that third-sector organisations are facing.

Volunteer retention

People tried to help members of their community wherever they could when the pandemic first broke out. Thousands of people joined up to volunteer in various roles and keeping these numbers up will be a challenge for the sector as the country returns to some semblance of normalcy.

On the other hand, some TSOs have had difficulties recruiting volunteers, since a lot of the volunteers have backed off due to the risk of the CoronaVirus.

Equality diversity and inclusion

While the majority of businesses have strategies in place to tackle issues of equality, diversity, and inclusion in the workplace, owing to the epidemic and a shortage of resources, these initiatives have been postponed.

Limited financial resources, personnel capacity, lack of human resources skills, knowledge, and capacity, and a lack of equality, diversity, and inclusion knowledge or skills are the key challenges to their efforts to be more inclusive.

More social entrepreneurs, less social enterprises

Entrepreneurs are known to be active in their communities with community projects that range from the modest to the transformational ones. Charitable organisations and social enterprises are not often run by entrepreneurs.

Society should place a greater emphasis on those with entrepreneurial mindsets who see possibilities to do good and take action on them. Entrepreneurs are usually self-motivated people who get things done, and if anything goes wrong, they figure out how to fix it. They are persistent. We need to increase our capacity to recognize these people, understand what motivates them, and consider how they might be better supported.

Survival and sustainability

Although estimates differ, few would debate that the attrition for micro and small firms is greater than we would want. Many stay reliant on the owners, and, like community projects, they might become reliant on their founder - who is sometimes hesitant to "let go" and wants to develop a strong organisation.

People who are motivated by a personal cause overestimate the worth of their ideas and are another issue that threatens survival. Others fail to appreciate what it takes to make things happen, as well as their own commitment to follow through on their promises. Attrition is projected to become a bigger issue as the number of social entrepreneurs grows.
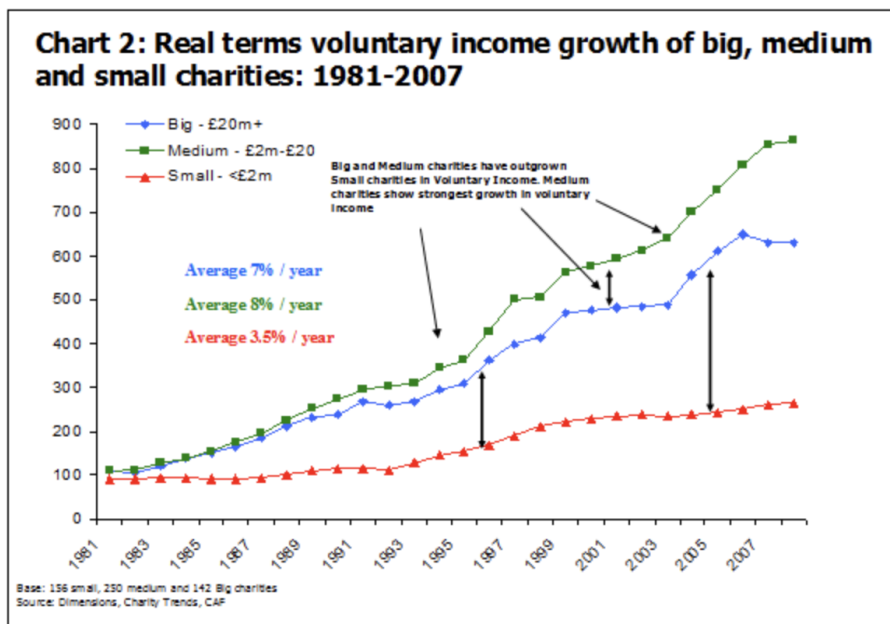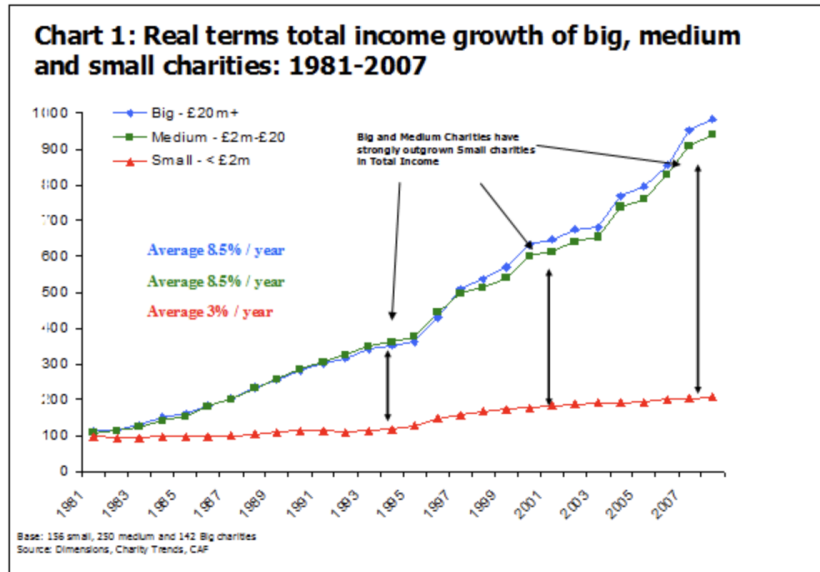
Expanding the message

Without a question, both conventional charities and social entrepreneurs are important, and we want them to grow. To do so, they must be businesslike and focused on a variety of revenue generating options rather than relying on grant funds and government contracts.

In addition, social entrepreneurship encourages all enterprises to be more socially and ecologically conscious. There's always something that can be done better. Are we paying enough attention to the social function of the for-profit sector as social companies become more popular? Is it reasonable to expect more from society?

Small charities struggle to keep up

Charts 1 & 2 below show the average total income and voluntary income growth rates of small (up to £2m), medium (£2-£10 million) and large (over £10 million) charities over the last 30 years. Contrary to popular convention it is not medium-sized organisations that struggle but small ones. The question that this data raises comes in two parts. Firstly, why does it happen? And secondly what can be done about it?

The difficulty that small charities have in growing is probably a bundle of factors. They can less afford to take risks because they don't have the reserves if things go wrong. They don't have the brand names that persuade people to give. The trustees probably are less comfortable with the type of professional fundraising that will raise income. Most sources of funding for small organisations are for restricted income, and so on.

Chart 1: Real terms total income growth of big, medium and small charities: 1981-2007

Big - £20m+
Medium - £2m-£20
Small - < £2m

Big and Medium Charities have strongly outgrown Small charities in Total Income

Average 8.5% / year
Average 8.5% / year
Average 3% / year

Base: 156 small, 290 medium and 142 Big charities
Source: Dimensions, Charity Trends, CAF

Chart 2: Real terms voluntary income growth of big, medium and small charities: 1981-2007

Big - £20m+
Medium - £2m-£20
Small - <£2m

Big and Medium charities have outgrown Small charities in Voluntary Income. Medium charities show strongest growth in voluntary income

Average 7% / year
Average 8% / year
Average 3.5% / year

Base: 156 small, 290 medium and 142 Big charities
Source: Dimensions, Charity Trends, CAF

As for the solution, these are even more guesswork as we have never researched this kind of issue, but one survey that nfpSynergy did a couple of years ago offers some clues. They asked smaller organisations how much unrestricted income they would trade if somebody had offered them a grant of £1 million in restricted income. In other words, how much more valuable was unrestricted income compared to restricted income? A substantial minority of organisations would have accepted £400k of unrestricted income instead of £1 million in restricted income. The higher the

percentage of restricted income that an organisation has, the less freedom it has to develop its unrestricted sources or to innovate and grow its brand.

Demonstrating impact

Ask yourself a simple question. Which charities are doing a good job or even a great job? When you have settled on a few chosen organisations ask yourself what evidence you have for that. And when you think of organisations doing a great job do you have specific facts and figures in your head or just a general warm rosy glow about them?

In the numerous sessions with live audiences where people have asked these questions, the responses are always the same. People name a breadth of organisations, but when you press them on how they know that organisations are doing a good job, they say that they hear about them a lot in the media or that their newsletters had some really good facts and figures. And when they are asked for a specific fact or result that underpins their belief that a particular charity does a good job, just about nobody can give one.

So if we want people to support charities with their money, time, goodwill or energy then we have to help charities get better at measuring and communicating their impact. Evidence of impact is our insurance policy against the crisis of trust and confidence by the public. Evidence of impact is also the thing that reassures people that a donation is well spent.

The public know very little about how modern charities work

If there is a striking feature of our public awareness tracking for charities it is that the public has very little idea about how modern charities work. For example:

- The public overestimate how much is spent on fundraising and administration. They believe an acceptable amount to spend on admin would be around 10% of income and around 20% for fundraising. They think what actually happens is that around 35% of income is spent on administration and around 35% on fundraising.

- The public has little idea who is paid and who is unpaid in charities. While they think that volunteers are unpaid, they are more likely to think that trustees are paid than fundraisers. A substantial minority think that presidents are paid while far less think that patrons are paid.

- Over half think that £60k is too much to pay a CEO while nearly a quarter think that £20k or less is sufficient for a CEO to be paid.

- Few members of the public realise how big modern charities are, nor their sources of funding. Some of the biggest medical charities are very likely to be thought to have high levels of government funding – while both in fact receive next to no government funding.

The list could go on and on. Again and again we see the public perception of charities is seen through a rose-coloured fog of ignorance. The public trust charities but that trust is based not on evidence but on warm feelings.

Where can charities do the best job in delivering public services?

The debate about the delivery of public services by charities is a mixture of ideology interspersed with occasional nuggets of evidence. The reality is that those who advocate more public service delivery and those who argue against it rarely hold evidence-based policies. Indeed they appear to have decided what they think and then search for the evidence to support it. This is a shame.

Charities have a role to play in the delivery of public services but not all public services. We need a better understanding of where the charity ethos and structure can deliver better value than the commercial or public sector ethos, and where it cannot.

It does nobody any good to have public services delivered by anybody other than those who can do it most effectively. As Deng Xiao Ping loved to say "It does not matter if the cat is black or white as long as it catches the mouse". We need to have a much better understanding of who can catch the mouse most effectively in public services.

How and when do infrastructure investments make a difference?

There has been substantial investment by the government and by the lottery bodies in developing the infrastructure for charities, social enterprises, community organisations and sports clubs. However the clarity about what works and what does not in developing the strengths of the sector is at best patchy.

Government data from citizenship surveys shows that levels of volunteering have been flat in the past 10 years. This is despite hundreds of millions of pounds being invested in promoting volunteering.

If we want to develop the sector as a whole, we need to understand how we can make that investment in a way that will make a difference. One of the difficulties is that the bodies who are taking those funds are going to be the last ones who are likely to share any data that they may have on impact, unless it shows what they want it to show.

Over the last decade we have grown used to increasing investment by the government in the sector. We have grown used to the government solving problems with money

not ideas. We are now moving into an age of austerity and the money will at best be reduced and at worst disappear. So we need to be clearer about the need for new ideas to solve our challenges and not just money. That is not to say we won't need investment from the government but we may need to make it work much harder and demonstrate more impact than we have done in the past.

Leadership challenges

It was felt that third sector leadership was currently facing a number of challenges:

- Lack of independence: There was a concern that the third sector leaders were failing to speak up on issues of relevance to the sector and/or its beneficiaries due to a perceived risk of political alienation and/or retraction of funding.

- Lack of effective voice: There was a concern that the 'sector lacks effective voice', and particularly a voice that extends beyond individual vertical policy fields. In part this was felt to be due to perceived challenges associated with a lack of opportunities for the third sector to engage with the policy making process, and in part due to perceived challenges of uniting the sector.

- Lack of change: Some respondents felt that leadership within the sector had become stale. It had been dominated for too long by the same people, who had the same ideas. There was some concern that this lack of turnover, combined with the recent reduction in resources meant that vested interests had developed and were resulting in some leaders putting their organisation's interests first, or even their own personal interests, rather than the interests of the sector as a whole or beneficiaries. What was needed, it was suggested, was new people, with a new vision for the contribution of the sector, or for a different kind of society and how the third sector contributes to that. This argument, however, is held in contrast with concerns noted earlier about 'new' people parachuting into leadership positions.

- Lack of resource: A final key challenge identified as affecting leadership across the sector was a lack of capacity to undertake leadership activity, but also lack of investment in building leadership.

Exploring issues of policy influence

Casey's (2004) work on third sector participation in the policy process suggests that there exists a gap between the third sector, and the organisations that comprise it, and the opportunities afforded by the policy environment to influence policy making processes.

Since TSOs and their beneficiaries are in many cases profoundly affected by policy changes, and able to provide 'front line' evidence regarding their impacts, there is a need for some form of mediation, representation or voice that enables the third sector to 'speak into' the structures in which representation and policy work take place.

The demand for this form of leadership comes both from the sector itself, and from government agencies and the media, who rely on trusted intermediaries to manage their engagement with TSOs. Third sector leadership is not of course all about representation, or indeed policy influence. These are, however, important elements of it. Political opportunity structures - the dimensions of the political landscape which provide the context within which third sector leaders operate when interacting with policy processes - however, vary over time with changing government priorities and socio-economic conditions.

The characteristics of third sector organisations, and indeed the sector as a whole, also change over time, as does the network of actors involved in leadership roles. By way of understanding this situation, and of exploring the opportunities currently available for third sector leaders to engage with and exert influence on the policy process we draw on Casey's (2004) framework for considering third sector participation in the policy process. This enables us to consider a range of both external (political and socioeconomic environment; the policy in question) and internal (characteristics of TSOs; the network of actors) factors which operate together to affect the space for and effectiveness of third sector policy levers.

Characteristics of TSOs

Several aspects concerning the characteristics of third sector leadership organisations and frontline organisations were highlighted as creating challenges for policy influence. Pressure on financial resources had reduced capacity to do policy work; to engage with policy makers, and to rigorously underpin claims of legitimacy from both the perspective of leadership organisations having the resources to gather the views of their members or constituents in meaningful ways, and the resources of the frontline organisations to participate in such processes. This was particularly problematic within certain parts of the sector which were traditionally under-resourced, such as the BME sector. Financial pressures had also heightened issues of independence, reinforcing questions of the ability and willingness of leaders to speak out on issues that were in opposition to dominant policy discourse if their organisation was in receipt of statutory funding. Anxieties over being 'frozen out' and losing funding led to leaders, particularly at a local level, adopting a cautious approach. Indeed, one of the positives seen to have emerged from reduced statutory funding and horizontal support was that national leaders may now feel freer to overtly challenge government.

The network of actors

The ability of leaders to use their 'social skill' in order unite the sector (or certain parts of it), to build coalitions and to rise above vested interests and create a common collective identity were identified as characteristics of good leadership, but also a challenge facing the sector. As Fligstein (2001) suggests, social skill matters less when there is little turbulence or external threat; at present it would seem it matters a great deal.

The diversity of the sector, and a 'lack of common identity' was felt to produce challenges in terms of creating a 'strategic unity' (Alcock, 2010), 'articulating common goals' and 'speaking with one voice'. Although this is not a new problem, a period of apparent unity (ibid), or at least relative stability, during New Labour's time in office was now questioned, as external threats to funding and to independence, for example, contributed to an unsettlement which resulted in individual leaders being accused of safeguarding their own or their organisation's position, rather than considering the best interest of the sector as a whole, or its beneficiaries. Failing to speak with one voice was recognised as a barrier to policy influence, and the strength of the network of third sector policy actors, and of individual leaders' abilities to bring the network together and to motivate cooperation across the network, was seen to be important to the sector's ability to influence policy. These different factors – external and internal – were operating together to affect the ability of third sector leaders to influence public policy. Most often they were currently seen to be combining in a way which meant that the third sector was less able to exert influence on policy making.

Exploring issues of legitimacy

Not only was the ability of third sector leaders to influence policy challenged, so too was their legitimacy in attempting to do so. The legitimacy of certain organisations and/or individuals in their role as representatives of the third sector within policy processes was questioned; with some respondents suggesting that they did not feel well represented, that the current policy-elite did not have the legitimacy to speak on their behalf, for a number of reasons including a lack of experience and grounding for those new to the sector, or a lack of ability to move beyond the vested interests of the well-established in order to truly represent the sector as a whole.

The ways in which leaders gain legitimacy as representatives of the third sector, particularly given the diversity of activities, forms and values embodied by organisations within it, is then a pressing question. Chaskin (2003, p. 178) suggests that legitimacy refers to 'the extent to which an organisation justly and properly speaks for and acts on behalf of …. its constituency'. Legitimacy is conferred on individuals or organisations by particular audiences according to their perceptions (Taylor and

Warburton, 2003). It is constructed out of an interaction between the attributes, processes and strategies of a given organisation (or indeed individual) and a given audience.

The ways in which legitimacy is assessed may vary depending on the audience (e.g. TSOs, policy makers, the public), nevertheless a number of key sources can be identified upon which claims to, and acceptance of, legitimacy are typically based. To frame our discussion of the ways in which claims for legitimacy were made we make use of Brown's analysis of the role of third sector organisations in the policy process, which identified four bases of legitimacy: legal, moral, political and technical. Legal legitimacy refers to compliance with relevant legal requirements, whereas moral legitimacy relates to an organisation's values and how these are reflected in what they do and how they do it. Political legitimacy involves 'democratic representativeness, participation, transparency and accountability to constituencies for which third sector organisations speak and act'. Technical legitimacy meanwhile is based on claims to expertise, competence or knowledge in a given field. Taylor and Warburton suggest that technical legitimacy was particularly important to the New Labour government, which emphasised quality of evidence, track record and ability to deliver when working with the third sector. Arguably part of the unsettlement of leadership across the sector has been a reconfiguration of the forms of legitimacy which those leaders claim and which are recognised as being important by a range of different stakeholders.

Indeed, only three of the four aspects of Brown's framework - political, moral and technical legitimacy are gonna be explained in this course.

Political legitimacy

For some leaders, representing a particular constituency was an important part of their remit and they felt this gave them a mandate to speak into policy debates. This was more likely to be the case in membership organisations and was achieved through mechanisms such as member surveys and other forms of consultation, including voting at AGMs.

For some such organisations being able to cite the number of members that they represented was important: size matters in legitimacy claims. This use of participatory structures, most often through membership bodies, and the sense of direct accountability to members that these engendered, appeared to correspond most closely to what is widely termed 'political legitimacy'. However, this participation rarely amounted to democratic representation. One reason suggested for this was that there was usually a balance to be struck between offering representation and providing leadership, the latter of which may not necessarily involve advancing the majority view of members. The limited capacity and willingness of members – often frontline

voluntary organisations - to respond to policy consultations also made it difficult for those soliciting their views to gain a representative picture.

For others though, policy engagement was prioritised because it was recognised as crucial. Local voluntary organisations acknowledged that they needed other (often membership or infrastructure) organisations to influence policy on their behalf, but concerns that they were not always well-represented by these organisations in some cases sat in tension with their limited capacity to contribute to such debates. The limits to front-line organisations' participation were taken into account by leaders in different ways.

Technical legitimacy

Technical legitimacy has a number of components, including knowledge and experience. Some refer to the importance of research and evidence as means of informing contributions to policy debates, maximising the quality or robustness of what was said by leaders, and enabling them to challenge questionable claims with greater authority. This knowledge-based legitimacy was sometimes drawn on independently, and sometimes in conjunction with participatory mechanisms involving member organisations. However, it was perhaps most crucial for organisations who did not have a mandate based on membership. Track record was also important in terms of becoming a reliable and respected contributor to policy debates.

This included turning around requests for data or comment from the media and policy makers rapidly. Experience – particularly of activity 'on the ground' – was deemed by some to be an important source of legitimacy. Sometimes this was at a personal level, where an individual leader had experience of working in front-line organisations in local communities. In other cases, on the ground experiences were conveyed to third sector leaders by means of the participatory mechanisms associated with political legitimacy described above.

Conversely, concerns were raised about some leaders who had been granted positions of influence in key national organisations without having sufficient experience or understanding of the sector. Experience was seen both as an aspect of 'good' leadership and of technical legitimacy. A lack of experience, of technical legitimacy, was one of the key criticisms raised by some respondents to a number of individuals who they perceived to have 'parachuted' in to third sector leadership positions over recent years.

Moral legitimacy

Taylor and Warburton (2003) suggest that the third sector is 'a sector where, for many organisations the primary accountability requirement is to values'. Some leaders spoke directly about values as a source of legitimacy. There were, however, some exceptions. Some have stated that they were not seeking to be representative but had certain values that they stood for as an organisation, hence their legitimacy came from holding to these. Another leader expressed strong convictions about the importance of bringing grassroots level experience to bear on policy debates. Some pointed out that whilst frontline organisations want umbrella bodies to be responsive to their members, they also expect them to 'take a lead' on some issues. Arguably, this points towards a need for leadership based on values or principles. Indeed, values featured frequently when respondents spoke in general terms about what characterised good leadership in the third sector.

At a time when the sector's voice and ability to influence policy is of heightened importance, leadership of the third sector is facing a number of challenges. While there has been considerable stability in the small number of individuals and organisations who provide full horizontal leadership, beyond these few some of the traditional incumbents have been lost while other new players have entered the field. Organisations and individuals who dominated third sector leadership positions under the previous Labour administration have had to review and re-assert their claims of legitimacy and to find new ways of leveraging power and influence. Those new to the sector, or at least to leadership positions within it, have had to justify their positions and prove their worth. Leaders in any policy environment have to be politically astute and 'socially skilled' in motivating others to cooperate (Fligstein, 2001). Their ability to provide leadership and to influence policy also depends also on the political context in which they are operating and the status they are afforded within this. Recent changes within both of these internal and external sets of factors have affected third sector leadership in a number of different ways. Changes in political opportunity structures appear to have reduced the space available for third sector leaders to influence policy. An apparent move towards 'isolationist' and reactionary policy making in general, coupled with the dismantling of horizontal support for the third sector, have closed down some of the engagement structures previously available to third sector leaders. Meanwhile, the sector's ability to respond to the opportunities and challenges created by the current political context has also been challenged.

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