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# Handbook of Research on Entrepreneurial Success and its Impact on Regional Development

Luísa Carvalho

*Universidade Aberta, Portugal & CEFAGE, Universidade de Évora, Portugal*

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# Chapter 12

## Public Policies Impact on Third Sector Social Enterprises in UK Regions

**Chi Maher**

*St Mary's University Twickenham, UK*

### **ABSTRACT**

*This chapter provides an important perspective on how public policies impact small third sector social enterprises in UK regions. There is limited research that has explored the how government policies are impacting on small regional drug and alcohol social enterprises. The research employed a multiple case study design (Stake, 2006; Yin, 2009).of eight small drug and alcohol third sector social enterprise organisations based in three UK regions (The East Midlands, The South East (including London) and Yorkshire and Humber). Semi-structured interviews were conducted Chief Executive Officers (CEOs) of these organisations to ascertain how government policy framework influences their service developments. The research finding contributes to the fairly limited empirical research investigating regional variations of third sector social enterprises. It advocates for changes in government regional funding polices help small third sector social enterprises to develop and sustain appropriate effective services where they are based – at the regional level.*

### **CONTEXTUAL BACKGROUND OF THE THIRD SECTOR**

The third sector originated in Egypt over 5000 years ago (Moulaert & Ailenei, 2005; Murdock, 2006). Third sector organisations were created in order to protect communities. In Anglo-Saxon times third sector organisations were found in the 9<sup>th</sup> and 11<sup>th</sup> century. Organisations such as, Association of workers were developed to provide

members with food and support when they fell sick (Defourny & Develtere, 1997, Moulaert & Ailenei, 2005; Murdock, 2006).The distinctiveness of the third sector from the public and private sectors was first conceptualised by Polanyi (1968) in his work entitled: 'Primitive, Archaic and Modern Economies'. According to Polanyi (1968), there are three integrations of economic circulation known as, market exchange, redistribution and reciprocity.

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Market exchange in 'primitive economies' entailed recognising a product as something that had an exchange value and involved the separation of buyer and seller. In modern economies the private sector undertakes the role of market exchange, as the private sector's mode of economic integration is that of the market. Redistribution in 'primitive economies' involved a third party in the centre between the supplier and the recipient. In modern economies the state assumes this role through the welfare system the mode of circulation involves contributions to the centre through taxation and payments out of it through social security benefits and pensions.

Reciprocity in 'primitive economies' entailed people producing goods and services for which they were best suited and then sharing them with those around them and others reciprocated. The objective is to produce and share, not for personal gain or profit. The third sector share some of these features, as it works on the principle of not-for-profit provision of services for the community (Polanyi, 1968). Birkhoelzer (1998) developed Polanyi's (1968) ideas by suggesting that the third sector is a form of collective self-organisation by citizens who start to produce self-help on local, regional, national and international levels (Kendall & Knapp, 1995; Evans, 2000, Kendall, 2003). Other authors also suggest that the third sector is distinct from the private and public sectors, because third sector organisations are flexible and responsive to individualised care. Third sector organisations tailor care to meet individual changing needs rather than providing a standardised service for all clients ('one service fits all' syndrome) (Lee, 1993; Kendall & Knapp, 1995; Marshall, 1997). These organisations encourage citizen participation in the delivery of community services that is otherwise minimised or denied in the public sector provision (Office of the third sector, 2006).

In the UK the history of third sector organisations dates back to the Act for the Relief of the Poor 1601. The law offered relief to people who could not work, so they could be cared for in almshouse

or poorhouse (Murdock, 2006). However, it was during the mid to the last 19<sup>th</sup> Century that third sector organisations were mostly established, inspired by schemes to improve the living conditions and education of the newly urbanised masses (Smith, 1979; Kendall, 2003; Evans, 2009; Mold, 2012). Despite the long history of the third sector's contributions to education, environmental, health, animal and social welfare services, there was a scarcity of empirical studies examining the role of the sector within the business, management, social and political science literature until the early 1980s (Kendall, 2003; Anheier, 2005; Alcock, 2010).

Academic interest in the sector has increased in the last three decades as the understanding of the socio-economic contributions of the sector to society has increased (Borzaga & Defourny, 2001; Vickers, 2010). For instance, neo-classical economists view the existence of the sector in terms of the market and the state failures (Weisbrod, 1988). Neo-classical economists suggest that the state has failed to fulfil the demand for public services and therefore third sector organisations emerge to fill the gaps (Halfpenny & Reid, 2002; Peattie and Morley, 2008; Hurrell et al., 2011).

Interpretive sociologists suggest that the existence of the third sector is linked to stakeholder interest (Ben-Ner & Hoomissen, 1994), historical social and community needs factors (Halfpenny & Reid, 2002; Morris, 2000) and social welfare policy (Deakin, 2001; Bridge et al., 2009; Damm, 2012). This perspective suggests that the state largely supports and promotes the third sector because it contributes to the achievement of some aspect of its political mission to provide community needs led services. Political science academics acknowledge that the existence of the third sector is the realisation by past and present governments that the welfare state's capacity to meet modern social problems is limited (Kendall & Knapp, 1996; Westall, 2009). Thus, the third sector helps successive governments to achieve their objectives to develop the social economy.

Third sector management literature suggests that the sector exist because they can be flexible and effective due to their close engagement with grassroots communities (Williams, 2002; Kendall, 2003, Bruce, 2006; Harris, 2010). For example, the third sector puts people and community benefits above financial benefits. Some authors view third sector organisations as effective, because they target the unmet needs of local people which the public sector and/or private sector often do not provide (Knight & Robson 2007; Baines et al., 2011; The Kings Fund, 2011). They make a positive contribution to the regeneration of deprived areas by addressing gaps in public services, combating socio-economic exclusion and facilitating local democratic structures based on empowering individuals to make decisions at the local level (Morphet, 2008). They help to build citizenship (participation and membership in the community) by engaging citizens in the development of their communities. They offer a unique way of social organising, based on the values of 'independence' (freedom of association), altruism (concern for others) and community (collective action) (Kendall and Knapp, 1995, Baines et al., 2011). They have unique capabilities to energise local communities and build social capital, especially in the most vulnerable and disadvantaged communities.

The advocacy role of third sector organisations has helped enhance social inclusion. Social inclusion involves building shared values, reducing disparities in wealth and income and enabling communities to have a sense that they are finding mutually satisfactory solutions to these challenges (Kendall, 2003; Harris, 2010). The sector also plays a key role in tackling inequalities in access to health and social care; promoting social and economic inclusion of disadvantaged individuals and local communities (Hudson, 2009; MacMillan, 2009; Burt and Scholarios, 2011). There is evidence that the sector organisations provides numerous services that benefit the community and their client groups, such as, homeless people

drug and alcohol dependents who find it difficult to access health, social and employment services due to their difficulties which affects their ability to articulate their needs to statutory services officials (Department of Health, 2010). Another explanation for the development of the third sector is that the privatisation of public services rooted in the market-based philosophies of the UK Conservative Government (1979–1992) (Lewis, 1999; Anheier, 2000; Alcock, 2010; Dickinson et al., 2012). This led to the development and growth of new and existing third sector organisations. Privatisation brought about a shift from state responsibility for welfare provision to a mixed economy or pluralist welfare system (Leadbeater, 1997). A combination of this approach and pluralist provision of services led to a reduction in state responsibility, with an increased expectation of service provision from third sector organisations (Leadbeater, 1997; Williams, 2002; Bennett, 2008).

## **GOVERNMENT POLICY FRAMEWORK**

The government policy framework recognises the third sector organisations for its ability to engage with grassroots communities and to develop needs-led services that are not provided by public sector services (Halfpenny & Reid, 2002; Buckingham, 2009; Alcock & Kendall, 2011; Cooper et al., 2014). The realisation by the state that third sector organisations are increasingly providing community needs led health, education and welfare services; resulted in the UK governments developing policy frameworks based on commissioning services from third sector social enterprise organisations (Alcock & Kendall, 2011; Gojkovic et al., 2011; Dickinson et al., 2012) Most third sector social enterprise organisations have a mixture of income from the government and funding from, business sponsorships, trusts funding or organisations' internally generated income (for example, from charity shops, part

renting of their premises to other organisations, membership subscriptions (Aiken, 2006; Teasdale, 2010; NVCO, 2012).

The Conservative Government from 1979 to 1997 made explicit recommendations that the sector organisations should take a greater role in delivering public services which led to a significant increase in government funding to the sector for many years (Funding Commission, 2010; The Kings Fund, 2011). Government funding to the sector increased from £8bn in 2000/2001 to £12.8bn in 2007/8 (NVCO, 2011). The Government encouraged the sector organisations to bid for contracts to deliver welfare services (Lewis, 1999; Baines et al., 2011; Gojkovic et al., 2011). This led to the implementation of the 1990 National Health Service and Community Care Act in April 1993 which resulted in the reduction of grant funding to organisations in the sector and to the introduction of the use of formal contracts to govern funding flows to the third sector organisations (mostly from one year to three years) and has led to increased government regulation of third sector organisations through strict, measurable and binding performance targets set for contracts awarded (Plummer, 2009; Smerdon & Deakin, 2010; Mold & Berridge, 2010). Whilst the use of formal contracts to govern funding to the sector aims to promote accountability and reduce risk, it also focuses only on the direct outcomes for service users with little or no consideration for developing organisational long term infrastructure and career paths options that meets the needs of staff (Baines et al., 2011; Lee and Wilkins, 2011).

The Labour Government from 1997 to 2010 encouraged partnerships to form between the third sector and government in order to frame policy and deliver services (Bennett, 2008; Harris 2010; Mold, 2012). In 1998 Labour government policies such as Compact (Cabinet Office, 2010; Alcock, 2010; Dickinson et al., 2012) influenced by the Deakin report (1996), that suggested that the state and the sector would develop a closer relationship

guided by 'Compact'. The Compact document sets out a framework agreement that outlines a shared vision, values and commitment by both the government and third sector organisations to work in partnership; and to build a positive relationship between the government and the sector in the development and delivery of public services by a commissioning process (Home Office, 1998; Zimmeck, 1989; Baines et al., 2011). The partnership culture between the government and the sector was designed to replace the 'contract culture'. Under the new contracting process, the sector organisations had to accept competitive tendering processes and deal with the pressure of balancing the needs of service users, demands of the funders (Mold & Berridge, 2010; Mold, 2012; Wardle, 2013). The partnership culture between the government and the third sector was designed to replace the 'contract culture':

*New Labour's insistence on modernisation was intended to promote more bottom up change via partnerships than the simple top down deregulation associated with contracting-out under the Conservatives... (Lewis 2005:122)*

The Home Secretary and representatives of the third sector signed the Compact document in 1998 (Home Office, 1998; National Audit Office, 2005; Cabinet Office, 2010). As a result an increasing number of third sector organisations engaged in commissioning and contracting with the government for the first time. This led directly to new and increased government funding, and in particular to drug treatment organisations in 1998. In the paper entitled, "Tackling drugs to build a better Britain" (Home Office, 1998), the government pledged that it would increase drug treatment funding to double drug treatment services (Department of Health, 1998; National Treatment Agency, 2001). Under the new contracting process, third sector drug and alcohol organisations had to accept competitive tendering processes and deal with the pressure of

balancing the needs of service users, demands of the funders (the National Health Service and Local authority's) and the needs of their staff (Mold & Berridge, 2010; Mold, 2012; Wardle, 2013).

The sector organisations had to accept greater scrutiny of their activities along with the demands of funders to deliver services which they regarded as 'value for money'. Organisations receiving funding from the government to deliver services must demonstrate outcome measures based on the cost effectiveness of their service provision and have a clear strategy for maximising income from other sources in order to reduce the need for government funding in the long-term (Munoz, 2009; Baines et al., 2011; Mills, 2012). Therefore, third sector organisations that seek to sustain themselves in the longer term must be responsive to the government demands and priorities, over which they have little control (Chew & Osborne, 2009; Smerdon & Deakin, 2010).

The government introduced further commissioning initiatives in 1999, the social Exclusion Unit was established within the Cabinet Office to improve access to finance through the Commissioning Development Finance Institutions (CDFI) with an agenda to increase community investment in geographical deprived regions. In 2000, the Government established a Social Investment Task Force to explore how the third sector, private sector and the Government could work together (SIF, 2010). The social Investment Task Force set up the Phoenix Fund in 2000, to provide start-up funding for social enterprises in disadvantaged regions. In 2002 the Department for Trade and Industry (DTI) produced the Social Enterprise Manifesto in 2002 entitled "Social Enterprise: A strategy for success". This cross-departmental policy set out a three year strategy to promote social enterprise activities and served as a policy framework for the UK (DTI, 2002). The DTI (2002:7) described social enterprises as:

*...businesses with primarily social objectives whose surpluses are principally reinvested for*

*that purpose, in the business or in the community, rather than being driven by the need to maximise profit for the shareholders or owners.*

The DTI (2002) added that third sector organisations classified as social enterprises must derive 50 per cent or more of their income from trading (involves the organisation providing products or services in return for payment). This policy document reflected the changing government strategy of the UK Labour government suggesting the development of a 'business model' of social enterprise that will enable these organisations to become involved in commercial activities, either directly or through 'trading arms' (for example, charity shops, internet or community cafes) to support their social and environmental aims (Smallbone & Lyon, 2005; Aiken, 2006; Teasdale, 2010). The government believes that by these organisations adopting a social enterprise 'business model', this allows social enterprise organisations to be more sustainable and financially independent.

However, Social Enterprise Coalition campaigned for a less restrictive definition of social enterprises that would include all third sector organisations which are nongovernmental with 50 per cent or more of their income from fees for providing services, research, contracts to provide services, membership subscriptions, trading activities, hire of facilities, fees for goods and trading to meet social goals and principally reinvest surpluses in the organisation or community (Office of Third Sector, 2006). This definition of social enterprises is generally accepted amongst UK third sector organisations (Ipsos MORI; 2009; Teasdale, 2010). Therefore, it can be argued that this resulted in the increase in third sector organisations that are defined as social enterprises in the UK.

Between 1997 and 2010 the Labour Government's expansion of the third sector social enterprise policy agenda opened up new development funding streams for third sector social enterprise organisations to build capacity and to develop new services that enable them to sustain

a social enterprise business model. In 2002, the government funded the Adventure Capital Fund (ACF) to help develop the capacity and activities of social enterprise. Other funding streams that the sector organisations benefited from include: Future Builders (2004 -2006) Capacity Builders Funds (2006-2011) and Adventure Capital Fund (2008 - 2011). The Social Enterprise Investment Fund (SEIF) provided to support social enterprise organisations working with disadvantaged communities, such as, alcohol and drug dependants, brought structural improvements and business support that enabled social enterprises to expand (Department of Health, 2010).

The UK Coalition Government (2010–2015), has shown some commitment to the sector by continuing Social Enterprise Investment Fund, the Social Impact Bond and the Big Society Programme. The Big Society Programme which was introduced to stimulate growth at regional and community level convened new community rights:

- The Community Right to Bid –giving community groups the right to bid to buy community buildings and facilities;
- The Community Right to Challenge – giving voluntary and community groups, charities, parish councils and local authority staff the right to bid to run part or all of a local authority service if they think they can do it better;
- New Neighbourhood Planning measures which enable local communities to shape development by preparing neighbourhood plans which will then be put to local referenda;
- The Community Right to Build – allowing local communities the right to propose small scale community-led developments, again voted by local referenda;
- The Community Right to Reclaim Land – giving local communities the right to ask for underused land to be brought back into use (Lupton & Fitzgerald, 2015:14)

The government passed these rights into law in the Localism Act 2011, and came into effect in 2012. This is an example of the Coalition Government willingness to stimulate community activities including social enterprise development.

However, Civil Exchange (2013) audit of the Big Society Programme and found that the government policy on the sector has not all been positive. The sector is expected to loss about £6.6bn per annum by 2017-18 compared with 2010-2011 levels. Civil Exchange (2013:6) argued that the sector has been “left out in the cold”, and called for: “increased investment in building the social infrastructure” (Civil Exchange, 2013:44).

In 2014, the Public Accounts Committee reviewed Regional Developments and noted that most of the money designated for local growth had not made it to local projects just £400m of the £3,9bn allocated had done so by 2012/13 (Public Accounts Committee, 2014). Governments’ austerity programme, reduction in public sector funding are affecting several some third sector social enterprises as they face further financial challenges associated with the austerity programme (Kane, 2014; Jones et al., 2015).

Also the Coalition Government’s policy to move towards achieving economics of scale by commissioning fewer and larger contracts have had a significant effect on small third sector enterprises (Alcock & Kendall, 2011; The King’s Fund, 2011; Slocock, 2012). It makes it harder for these small enterprises to compete against larger third sector organisations and private sector organisations for contracts due to their limited organisational infrastructure and inability to invest in new projects (Baines et al., 2009; The King’s Fund, 2011).

## **METHODOLOGY**

This research employed a multiple case study design (Stake, 2006; Yin, 2009; Welch et al., 2010; Maher, 2013) of eight small drug and

alcohol organisations based in three UK regions (East Midlands, the South East (including London) and Yorkshire and Humber). Case study organisations were chosen, as far as it was possible, to be broadly representative of geographical variations identified by previous studies that have highlighted regional variations in UK third sector social enterprises activities (Amin et al. 2002; Hudson, 2009; Buckingham, et al., 2012). The exploratory nature of this research influenced the author's decision to choose a multiple case study design. Yin (2009) suggests that the advantages of multiple case study design are that analytic results concluded independently from two or three cases are more powerful and compelling and as a result the overall study is more robust. The case study organisations were established between 1991 and 2000. This confirms that they have been operating for over 10 years, so they are well established organisations. They provide services for a range of specific drugs and alcohol client groups. For instance, the women, young people and homeless people as target beneficiaries of their services. To be eligible for inclusion in this research, each organisation had to be independent and not part of a larger third sector social enterprise organisation. Each organisation also had to have less than 50 employees or have a turnover or balance sheet total that does not exceed 10m Euros (European Commission, 2003).

The case study organisations received over 50 per cent of their money from the Local Authorities (LAs), the National Health Service Trusts (NHSTs) and central government departments. The eight case study organisations also complemented the income they received from LAs, NHSTs and other government contracts with income derived from other activities such as membership subscriptions, trading subsidiaries such as, community cafés, training services and hiring of facilities. This indicates that these organisations were social enterprises in terms of the broader third sector definition of 'social enterprise' (Office of Third

Sector, 2006; Teasdale, 2010). A profile overview of the eight case study organisations is displayed in the Appendix.

## **Data Collection**

Data were collected from the eight organisations' documents (such as, annual reports and accounts and activities) contained useful information regarding these organisation's sources of funding, contractual arrangements and income. Semi-structured interviews (Bryman and Bell, 2011; Gray, 2013) were conducted with eight CEOs of the eight case study organisations. The semi-structured interview approach allowed for flexibility with a preference for posing questions so the interview was more like a conversation whilst maintaining focus on identifying successes and challenges of public policies impact on small third sector social enterprises. The author started each interview with a general conversation about the purpose of the study and how it will benefit the sector. In doing so, the author created a space for the participants to share information and their experiences as openly as they wished. Interviews ranged from 48 to 74 minutes with an average of 65 minutes. Interview questions were structured around the following issues: funding policies (levels of activity), partnerships and joint working arrangements, commissioning activities (how these might be changing) and government policies or other arrangements outside the organisation's immediate control. The participants tended to give personal experiences of how government policies have influenced the activities of the organisation. When they did not give examples, the author asked them to think of a recent action or events to justify their statements. The author made every effort to test the reliability of evidence from CEO's interview responses by seeking corroborative information from other sources such as documented organisational evidence (such as, funding contract specifications and annual report

and accounts). Using multiple sources of evidence (as was employed in this research) enables the author to place more confidence in the chain of events in the research findings and increases the validity of the findings as the strengths of one source of evidence compensate for the limitations of the other evidence source (Miles & Huberman, 1994; Welch et al., 2010, Silverman, 2013).

The author also gave participants the opportunity to indicate any additional information that they considered relevant to the research. Participants were given the opportunity to indicate any additional information that they considered relevant to the research. In an effort to minimise inaccuracies in the interview data, the author digitally recorded the interviews (with the participant's permission) and transcribed verbatim without any attempt to correct grammar, but omitted 'ums' and 'errs'. The uses of acronyms by participants were written in full with [...] to demonstrate when the researcher has done so. The author also checked the transcripts before inviting each participant to confirm their transcript was an accurate representation of what they had said at the interview before starting the data analysis.

Non-verbal communication that could not be captured on the digital recordings such as, body language and gestures were recorded in fieldnotes. According to Patton (1990) and Miles and Huberman (1994), fieldnotes are an on-going, crucial part of collecting research data. In this research, they took the form of self-reminders about specific events during the interviews (such as participants nodding or laughing) and notes about personal reflections as well as reactions arising from and captured during the interviews. They constituted a written record of the development of the interviews and ideas which the researcher felt to be useful in subsequent interviews. The fieldnotes data include a brief description of the physical setting where each interview took place, nonverbal cues such as postures, facial expressions, gestures, feelings and any type of behaviour or actions that might have affected the interview. The author also noted

any areas that needed clarifications later during the interview or cross checking with other participants (Ghauri & Gronhaug, 2002, Sachdeva, 2009; Silverman, 2013). The fieldnotes were also a useful way of reflecting on each interview and on the present meaning and significance of the discussions.

Ethical considerations in business enterprise management research are paramount in order to avoid any risk to the physical, psychological, health and social well-being of the participants (Broom, 2006; Bobbie, 2007; Saunders et al., 2011). Therefore, before commencing the interviews, participants were informed in writing three weeks in advance about the purpose of the research, the interview time, and the duration of the interview. A signed informed consent form was obtained from each participant stating their willingness to participate in the research. Each participant was informed that they had the option to withdraw at any time from the research (Bobbie, 2007; Flick, 2007; Saunders et al., 2011).

To maintain anonymity, the names of neither the participants nor the names and addresses of participating organisations were mentioned. CEOs and organisations are identified by an alphabet letter. This was to ensure that readers could not identify the views of specific individuals. Also, ensuring that participants did not restrict their disclosure was an important consideration for the research and involved the assurance of confidentiality (Bryman, 2008; Blake, 2010; Silverman 2013).

In order to satisfy the research goal, the author followed Huberman and Miles' (1994) process of data analysis. After transcribing each interview, the author read and manually checked the data for accuracy. Computer-assisted qualitative data analysis software (CAQDAS) package NVivo 9 was employed to facilitate the data coding and clustering of themes (Bryman and Bell, 2015; Gravetter et al., 2015). Data were imported directly from a word processing package into NVivo 9 simultaneously analysing each interview

transcript. The author gave a short description to each code created (known as node in NVivo 9). The author used the emerging nodes to organise relevant data segments by assigning meaning to the descriptive information from the participant's responses. The data coding process is iterative and time consuming. Bryman and Bell (2011) suggest that it involves a process of constant comparison of codes as they emerge. Another challenge was to decide how much text should be coded in the nodes. In some instances, a few words were coded (e.g. government policies, funding, government cuts, new challenges, local and regional activities) and in other instances, an entire paragraph was coded. It also helped to provide a transparent data analysis process and a quick way of demonstrating who said what and when which in turn, provided a reliable general picture of the data. This helped to improve the rigour of the data analysis process by validating the author's own impressions of the data. It provided a disciplined structure to search and analyse data. The information verification process employed by during the data collection can be regarded as contributing to the methodological rigour of the research.

## **Findings**

The research explored the successes and challenges of public policies impact on small social enterprises in three UK regions (The East Midlands, The South East (including London) and Yorkshire and Humber) and found that there are variations of how these policies influence organisational activities and developments. The case study organisations have a long history of public service delivery; however some of the policies for procurement and commissioning services are making it difficult for small social enterprises to develop and expand service provision. Currently these organisations's operation is challenged by the pressures of recession and the government austerity programme.

Overall, the picture appears to be considerable volatility on a region by region basis with some organisations reporting some success in gaining funding and others reporting facing short-term funding regime difficulties. Two CEOs, reported:

*In the past we have had three years contracts. Nowadays it is common to have contracts for six or nine months. I'm applying for another one [a funding contract] to start 1st September the project is to be completed by 31st of March next year. The commissioning landscape is fairly unstable. (CEO: Organisation: F: East Midlands Region).*

*We have only had yearly funding. There is talk at Local Authority, Health, Well-being and PHE level of moving our contracts to a three yearly funding contract ... when that happens it will help us to plan future developments. At present things are very difficult... we are in negotiations with commissioners, but we told to prepare for cuts ... anything between 10% and 30%. (CEO Organisation: H: Yorkshire and Humber Region)*

The evidence suggests that the short-term nature of the government funding available to small third sector social enterprise organisations makes it difficult for these organisations to make decisions in advance about services development and put contingency plan in operation to help them survive in the difficult months and years ahead. Unnecessary re-tendering of contracts on a yearly cycle is expensive in terms of resources and can lead to major disruption of frontline services for services users. In cases where services provided are running well with good outcomes, commissioners should consider longer term contracts in line with contract arrangements they have with public sector organisations. It is vital that the sectors' contracts arrangements are improved in line with the theory outlined in the Treasury's Guidance to Funders' document of 2006. This will allow services to be commissioned on longer-term cycle.

## **Public Policies Impact on Third Sector Social Enterprises in UK Regions**

Further evidence on how government policy on the tendering process is directly affecting the small social enterprises can be found in evidence given by other the case study organisation's CEOs:

*The big recent development has been around the competitive tendering commissioning. There is more and more competitive tendering with a short time turn around. This disadvantages us, as we don't have the infrastructure to develop a credible bid in a very short time frame. For an organisation of our size, the only realistic way of doing that is by going in as a subcontractor with a larger organisation. Small providers like us are pretty much forced into partnerships to enable us to successfully win contracts. (CEO Organisation: G: Yorkshire and Humber Region)*

This was echoed by another CEO:

*The recommissioning went out to competitive tender. The commissioners asked for tender to come from consortia and we went in as part of a consortium. If we are successful, it will be all change; we will be funded by the lead organisation. This is a challenge for small organisations that don't have infrastructure in place for competitive tendering. (CEO Organisation: A: Yorkshire and Humber Region)*

Most of the case study organisations reported that they are having to work with other organisations to create efficiencies and reduce their contract management costs, often replacing a number of individual services contracts with a single arrangement that could include sub-contracting arrangements with other providers. The increasing competitive environment, in which small social enterprises find themselves, has made it more difficult, complex and restrictive processes that favour larger organisations. Some CEOs acknowledged the need to make economics of scale but warned

that one of the consequences could be reduction in service providers' diversity. Small organisations were felt to be particularly disadvantaged in the process.

Furthermore, the government policy to cut total public spending over five years from April 2011 and the policy to eliminate the UK's structural deficit; means a reduction of up to 40% in central government funding (Bozio et al, 2011). The consequences have major implications for the provision and delivery of local and regional interventions to tackle drug and alcohol issues in communities. There is much concern that the impact of the austerity programme under the Coalition government, has threaten the income base of these organisations as they rely significantly on public contracts. There is no doubt that the continuous reduction in public funding or lack of commissioning services may lead to some organisations to close. The evidence supports the Public Accounts Committee review of Regional Developments funding that found that most of the money designated for local growth had not made it to local projects just £400m of the £3,9bn allocated had done so by 2012/13 (Public Accounts Committee, 2014). This delay is severely affecting some small social enterprises opportunities for development and growth.

There were contrary reports of successful development and expansion of services due to government policies in some UK regions. Changes in government policies brought about some success and positive experience for some small social enterprise. For instance, one of the case study organisations' CEO based in London and the South East reported:

*It's not all doom and gloom ... we are diversifying our income streams and working with other providers like ourselves ... so things are alright. (CEO Organisation: C: London and South East Region)*

Another organisation's CEO based in the South East region reported:

*It's been a very good year ... a very successful and positive year for us. We received some capacity building support and that helped us to prepare for the last commissioning round. Our bid was successful and we have recently expanded our services. (CEO Organisation: E: South East Region)*

The above evidence suggests that some organisations in London and South East region have benefited from changes in government policies. Organisation 'E' CEO remarked that his organisation after a successful competitive tendering process was awarded a new government contract which led to changes to the organisation's services specification. As a result, the organisation's community sports project expanded the outreach services to four localities in the South East region. These comments suggest that the government changes to tendering policies are positive for some organisations with the capabilities to pursue a competitive tendering process. This suggests that having a strong commercial awareness, understand the economic realities of operating a competitive market while maintaining a clients' needs-led approach can contribute to success of a small social enterprise organisations.

A major issue that came through very clearly is the enormous variability in the case study organisation's situation and experience in different regions. In terms of partnership, structural arrangements; and the level of funding. In addition, government austerity measures, competitive tendering policies and regional funding policies affecting some regions more than others.

## **CONCLUSION**

Social enterprises have a long history of providing local and regional services due to their close engagement with grassroots communities (Kendall,

2003; Harris, 2010). These organisations are often valued by both the state and service users because of the distinctive approaches and values they bring to the provision of public services. However, the increasingly competitive environment in which small social enterprises are working brought about by changes in public policies, particularly competitive tendering process have brought about success for some small social enterprises who gained new funding that enabled their organisations to expand and develop new services.

There is clear evidence that changes in public policies have had some negative effect on services development and delivery overall, with core services, outreach, training and employment support and counselling services all showing a net deterioration. Although the sector's important contribution to the economy was mentioned in the Big Society and Localism agendas documents yet, it did not protect it from cuts associated with the austerity programme. Majority of the case study organisations were going through re-tendering or contract renegotiation. Some organisations have become especially vulnerable due to the restrictive regulation of the commissioning process. For some organisations their ability and skills to gain contracts from this process has an important influence on their success.

The research particularly reveals that regional variations in UK third sector funding is a factor which is challenging for some social enterprises in the East Midlands, Yorkshire and Humber regions; while organisations in the South East region (including London) reported some growth and successes in developing new services. This finding is consistent with previous third sector social enterprise research (Amin et al. 2002; Hudson, 2009; Buckingham, et al., 2012) that indicates variations in third sector regional services and funding and their impact on social enterprises in UK regions.

The research also revealed that the UK Coalition Government (2010 – 2015) reduction in public spending to the sector has led to small social

enterprises with limited organisational capacity unable to compete with larger third sector organisations and the private sector organisations for government contracts (Lee, 2003; Bruce & Chew, 2011; The Kings Fund, 2011, Maher, 2015). The tendering process has enabled large organisations to turn around bids in a very short time scale. This disadvantages these organisations who are often good at delivering services but do not have the infrastructure to develop a tender document in a very short time frame. This was found to be challenging for small social enterprises and has created considerable financial uncertainty which is limiting their ability develop services (The Kings Fund, 2011, NVCO, 2012, Maher, 2015). As a result of the growing competition small social enterprises are regularly forced out from main contractor to sub-contractor.

The government 'Big Society' programme (Lupton and Fitzgerald, 2015) is not always in accord with what is happening in practice for most small social enterprises that are struggling to survive. These organisations often have grassroots knowledge and intelligence (Burt and Scholarios, 2011; Maher 2015) that is invaluable in developing services and supporting community's needs. If the government wants these organisations to successfully flourish and survive, it will have to develop policies which actually address small social enterprise needs and the needs of the community where it is based – at regional level.

The research contributes to the fairly limited empirical research investigating regional variations of third sector social enterprises. It advocates for changes in government regional funding policies that will help small social enterprise organisations to gain longer-term funding to develop appropriate and effective community needs services. There are significant implications for the improvement of policy and practice of the development of regional small third sector social enterprises.

## **The Implications for Practice**

The research findings have raised important issues for policy and practice. The case studies suggest that the success of small social enterprise organisations depends in part on how much contracts are devolved regionally from Central Government for them to apply. Also small social enterprises ability and skills to gain contracts from competitive tendering, particularly, when many of these organisations face competition from larger third sector organisation and private sector organisations.

Policy makers should examine how these changes and partnership arrangements are affecting small social enterprises and the changing relations and dynamics between the small enterprises who were contractors in their own right that are becoming sub-contractors of larger organisations and private sector organisations. How these organisations collaborate and work together in practice is of central importance.

Emerging through the evidence is a clear view that central to success of small third sector social enterprises is the need for support such as mentoring, training and capacity building for these organisations to prepare them to be ready to compete. Building capabilities is a positional process of business management to improve these organisations' position in a competitive environment.

Policy makers should take into consideration the difficulties small social enterprise organisations are experiences when tendering for contracts. There is a need to support and strengthen the capacity of small social enterprises by helping them to develop the necessary contract procurement skills that will enable them to gain access to public services contracts. Policy makers should also think of ways to enhance small social enterprise organisation's infrastructure to support their

growth. For instance, by promoting partnering and consortium arrangements among organisations to help them to exchange ideas, promote good practice and bid for contracts together rather than competing against each other. The onus is also on the larger social enterprise organisations to facilitate smaller organisations development by providing infrastructural support to aid business support processes.

The government should implement bootstrapping reforms in UK regions with limited financial resources and propose rules for action to support small social enterprises to continue to develop needs-led services for the benefit of their communities. Considerable work needs to be done to reinstate a more supportive relationship of the sector with the state and not negate the contributions small social enterprises make to regional communities, such as, creating a more socially cohesive society and advocating for the vulnerable and marginalised members of society.

The government should review the sector funding policies. For instance, funding should be for periods longer than three years as this will help small social enterprises to develop longer term income generation strategies. This in turn will help these organisations to develop successful and sustainable services.

### **Recommendations for Future Research**

The findings demonstrate variations and impact of public policies on small third sector social enterprises in three UK regions. The findings presented in this chapter provide a basis for future research; these findings could be replicated in broader samples in other regions. This requires larger sample size, which may allow the researcher to identify further results (Ghuri & Gronhaug, 2002; Field, 2009). Expanding the research to other cohorts (homeless, return-to-work, young

people services) might help to understand how public policy and third sector social enterprise contextual factors in other cohorts' needs provide challenges or lead to success of organisational developments

Another suggestion here is that in-depth exploratory research across all UK regions is needed to identify small social enterprises organisational capabilities, their readiness to develop partnership arrangements. The aim would be to understand, from a grounded and bottom-up perspective, the experiences, challenges facing these organisations as they seek to succeed and survive (see the Appendix). It would also demonstrate the long-term consequences of inequalities in regional funding and provide evidence of the impact of austerity measures on service providers, service users and local communities in marginalized regions.

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## **APPENDIX: EIGHT CASE STUDY ORGANIZATIONS**

### **Case Study A Summary**

Based in the East Midlands to provide a drop-in service, evening and weekend support services for homeless drug users, one-to-one and group counselling services information and advice for drug and alcohol using adults. The organisation has an income of around £500.000 per annum. The organisation's income comes from contracts, training and Charitable funding.

### **Case Study B Summary**

Based in the South East to provide advice service, day care, counselling, and community cafe and support for drug users and their families. The organisation has an income of around £1.3 million per annum. The organisation's income comes from contracts, corporate philanthropy, philanthropic donations and rental of its premises to other organisations and to local groups for events.

### **Case Study C Summary**

Based in the South East region to provide open access drop-in facilities that provide information and advice, one-to-one and group counselling service, day programme, support service, training and employment support programmes for users and their families. The organisation has a turnover of around £800.000 per annum. The organisation's income comes from contracts, training the National Lottery Funds and charitable trusts and corporate philanthropy.

### **Case Study D Summary**

Based in the South East region to provide Open access drop-in facilities that provide information and advice, one-to-one and group counselling service, day programme, support services and outreach services. The organisation has an income of around 850k per annum. The organisation's income comes from contracts, membership subscriptions, Charitable Trusts funding and philanthropic donations.

### **Case Study E Summary**

Based in the South East to provide support for drug and alcohol users and their families to reduce social isolation, one-to-one and group counselling service for all service users, advocacy service for service users, women only drop-in therapy sessions and literacy and numeracy training courses. The organisation has an income of around £920.000 per annum. The organisation's income comes from contracts, earned income from its charitable Trusts, legacies and philanthropic donations.

### **Case Study F Summary**

Based in the East Midlands. Services provided information and advice for drug and alcohol users, their families, partners and friends, one-to-one and group counselling for drug and alcohol users, complementary therapies for all service users, drop-in service at weekends. The organisation has income around £320.000 per annum. The organisation's income comes from contracts, counselling services provided for members of the public, philanthropic donations and from Charitable Trusts.

### **Case Study G Summary**

Based in Yorkshire and Humber region to provide, information and advice for drug users. Complementary therapies for all service users and health awareness training for all drug and alcohol users. The organisation has income around £250.000 per annum. The organisation's income comes from contracts, charity shop, Charitable Trusts and philanthropic donations.

### **Case Study H Summary**

Services provided include: information and advice, one-to-one support for drug users experiencing mental health difficulties, day care service for drug and alcohol users and their families, training on management of drug and alcohol using clients within primary care settings. The organisation has income around £300.000 per annum. The organisation's income comes from contracts and Charitable Trusts and corporate philanthropy.