Influence of Public Policy on Small Social Enterprises:

Emerging Research and Opportunities

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A volume in the Advances in
Business Strategy and Competitive
Advantage (ABSCA) Book Series

IGI Global
DISSEMINATOR OF KNOWLEDGE

Published in the United States of America by
IGI Global
Business Science Reference (an imprint of IGI Global)
701 E. Chocolate Avenue
Hershey PA, USA 17033
Tel: 717-533-8845
Fax: 717-533-8661
E-mail: cust@igi-global.com
Web site: http://www.igi-global.com

Library of Congress Cataloging-in-Publication Data

Names: Maher, Chi, 1963- author.
Title: Influence of public policy on small social enterprises : emerging research and opportunities / by Chi Maher.
Description: Hershey : Business Science Reference, [2017]
Identifiers: LCCN 2017010711| ISBN 9781522527701 (hardcover) | ISBN 9781522527718 (ebook)
Subjects: LCSH: Great Britain--Economic policy--21st century. | Social entrepreneurship--Great Britain. | Nonprofit organizations--Planning--Great Britain.
Classification: LCC HC256.7 .M34 2017 | DDC 338.70941--dc23 LC record available at https://lccn.loc.gov/2017010711

This book is published in the IGI Global book series Advances in Business Strategy and Competitive Advantage (ABSCA) (ISSN: 2327-3429; eISSN: 2327-3437)

British Cataloguing in Publication Data
A Cataloguing in Publication record for this book is available from the British Library.

Chapter 1
Contextualising the Third Sector

ABSTRACT

This chapter defines the third sector, tracks the historical development and the contextual background of the sector and its governance arrangements. The history of the UK third sector dates back to the Act 1601, the Relief of the Poor, which offered relief to individuals who could not work, were cared for in alms houses or sent to work-houses (Murdock, 2006). Throughout the centuries, the sector continued to provide services for those that the state considered beyond its remit. With high unemployment and the reduction of welfare provision towards the end of the twentieth century the UK government developed polices to help third sector organisations to bid for contracts to deliver welfare, housing and community services. The chapter concludes with a discussion of academic perspectives on the existence of the sector and the distinctiveness between the third sector, private sector and public sector are explained.

INTRODUCTION

The third sector is a collective term used to describe those organisations which exist outside the public- and private-sector domains. However, there is a lack of definitional consensus of what organisations are classified as being third sector. To distinguish third-sector organisations from public-sector organisations, they are sometimes referred to as not-for-profit, non-statutory

DOI: 10.4018/978-1-5225-2770-1.ch001

or non-profit organisations (Van Til, 1988; Kendall, 2003). Some are referred to as non-governmental organisations (NGOs), a concept often used to refer to international third-sector organisations engaging in overseas development work, where it is important they are separate from the national government (Vakil, 1997; Martens, 2002).

The UK government defines the third sector as comprising of organisations that are 'nongovernmental; "value-driven" (concerned with purposes other than profit per se); principally reinvest surpluses to further those purposes' (HM Treasury, 2005, p. 17). The 'value-driven' characteristics means that it does not matter what third sector organisations values are or how they relate to the organisations' mission or purposes as long as these organisations are not profit oriented (and these values are shared with government).The literature suggests that the different terminology is associated with (1) an 'exogenous' approach to the definition of the sector in terms of its relationship with public and private sectors legal forms; (2) an 'endogenous' approach that views the sector by the core elements of 'voluntary action'. This approach was used by the international study of third-sector organisations developed at John Hopkins University in the USA (Salamon & Anheier, 1997).

The United Kingdom HM Treasury (2005) definition would probably fit well with the definition used to describe the sector in the well-known Johns Hopkins University (Baltimore, USA) studies that quantified the sector size and structure, analysed its development prospects and evaluated its impact on society. The study was conducted with third-sector (non-profit) organisations in 36 countries across five continents. The study identified organisations that met the five key characteristics of non-profit organisations, as follows:

1. Organised, i.e., institutionalised to some extent. What is important is that the organisations have some institutional reality to them. Institutional reality can include some degree of internal organisational structure; relative persistence of goals, structure and activities; and meaningful organisational boundaries, that is, some recognised difference between members and non-members. What are excluded are purely ad hoc and temporary gatherings of people with no real structure or organisational identity.
2. Private. i.e. organisations those are institutionally separate from government. They are 'non-governmental' in the sense of being structurally separate from the instrumentalities of government. This does not mean that they may not receive significant government support or even that government officials cannot sit on their boards. What is

important from the point of view of this criterion is that the organisation has an institutional identity separate from that of the state, that it is not an instrumentality of any unit of government, whether national or local, and that it therefore does not exercise governmental authority.

3. Self-governing, i.e., equipped to control their own activities. To meet this criterion, organisations must be in a position to control their own activities to a significant extent. This implies that they must have their own internal governance procedures and enjoy a meaningful degree of autonomy.
4. Non-profit-distributing, i.e., not returning profits generated to their owners or directors. They may accumulate profits in a given year, but the profits must be ploughed back into the basic mission of the agency not distributed to the organisation's owners, members, founders or governing board. This differentiates non-profit organisations from characteristics of private-sector organisations.
5. Voluntary, i.e., involving some meaningful degree of voluntary participation. They must embody the concept of voluntarism to a meaningful extent. This involves two different, but related, considerations: first, the organisation must engage volunteers in its operations and management, either on its board or through the use of volunteer staff and voluntary contributions. Second, 'voluntary' also carries the meaning of 'non-compulsory'. 'Voluntary' implies that contributions of time (volunteering) and money (donations) as well as contributions in kind may not be required or enforced by law or otherwise be openly coerced (Salamon & Anheier, 1996, p. 4–5).

This definition has also been adopted by the UK's conception of the third sector (Kendall & Knapp, 1995; Kendall, 2003; Milbourne, 2013). Like all social phenomena, the UK third sector is in part a product of the historic public policy framework and its relationship with the state (Smith, Rochester and Hedley, 1995; Kendall, 2003).

HISTORIC PERSPECTIVES

The third sector originated in Egypt over 5,000 years ago (Moulaert & Ailenei, 2005; Murdock, 2006) in order to protect communities. In the UK, the history of the third sector 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 alms houses (Murdock, 2006; Hilton, Crowson, Mouhot, & McKay, 2012). The state had been engaged to a greater or less extent in poverty alleviation since the sixteenth century. It was at this time that the concept of the deserving and undeserving poor emerged; simultaneously the debate on the respective roles of the state and third-sector organisations began. The Poor Law enacted was in response to the issue of landless people and placed a legal requirement to help the poor on to the parishes, which at the time formed the basis for local administration (Moulaert & Ailenei, 2005). Annual spending on poor relief amounted to about me per cent of national income in the late seventeenth century and rose to about two per cent by the late eighteenth century (Innes, 2000).

During the eighteenth century, the focus moved from poverty alleviation through education and work programmes towards broader social issues such as maternal and child welfare. Moral instruction also became a defining theme, reflecting the state's concern over the potential for social and political upheaval. Some have suggested that it was at this time that the state began to view the third sector as an instrument of social control (Daunton, 1996; Harris, 2010).

By the end of the eighteenth century, the formation of friendly societies was recognised in Sir George Rose's Act (1793). Third-sector organisations provided a form of contingency fund to meet costs associated with illness, burial and old age (Salamon & Anheier, 1997). At the same time, non-philanthropic movements also began to emerge, including debating societies engaged in discussions of a range of social and economic issues. This period also saw the beginnings of international advocacy and lobbying campaigns (Teegen, Doh, & Vachani, 2004). During the eighteenth and nineteenth centuries the industrial revolution led to a rapid growth in population and migration from rural areas to cities, which began to place even greater strain on the state and third sector. The state proved unable to cope, leaving social provision for the poor to be provided by both national and local third-sector organisations (Harris, 2010).

Throughout the nineteenth century, the sector continued to provide services for those that the state considered beyond its remit. The 1834 UK Poor Law reforms highlighted the role of the third sector in dealing with the deserving poor, as opposed to the undeserving poor, rather than the state taking on this obligation. The nineteenth century saw a significant increase in the third sector's profile as 'a bulwark against poverty in areas as yet deemed inappropriate for state support, combining provision of resources with its quintessential advocacy role' (Salamon & Anheier, 1997, p. 251). The state had begun to provide financial support for the third sector's activities; the government and the third sector were viewed to be structurally interdependent. For example, the Poor Law Board developed a certification process for schools, refuges and reform houses, providing for both government inspection and grants. By the end of the nineteenth century, it is estimated that more than 200 third-sector organisations were in receipt of some form of state grant or assistance (Smith, 1995).

During that time, third-sector organisations were often created by the middle classes, and sought both to provide services and to campaign for reform. However, mutual aid organisations (savings, credit unions, funeral societies) were often set up by the working classes and became increasingly popular, being identified by the Royal Commission of 1871–4 as an emerging trend towards 'the working spirit of self-help' (Powell & Steinberg, 2006). This was reflected in other working-class organisations emerging at that time such as trade unions, co-operatives, building societies and housing associations. The sector also offered employment opportunities for approximately 500,000 women who worked 'continuously' third sector organisations, giving them a chance to break free from the patriarchal constraints of Victorian society (DiMaggio & Anheier, 1990; Powell & Steinberg, 2006).

By the 1900s, the partnership between the state and the third sector began to flourish. In 1904 the Guild of Help was set up and immediately began to promote relationships with the state. However, from 1905 to 1914, the expansion of the role of the state in the delivery of social welfare was driven by Liberal governments. The concept of an 'extension ladder', whereby the state provided a minimum threshold of welfare, to be topped up by the third sector, was established by the Minority Report (1909), under the Royal Commission on the Poor Laws and the Relief of Distress (Lewis, 1999; Morris, 2000).

In 1911 the government introduced the National Health and unemployment insurance under the 1911 Act. Parliament set levels for contribution and benefit levels, but schemes were managed by friendly societies and mutual organisations. The establishment of universal social insurance and welfare, emerging from the Beveridge Report (1942) had a dramatic impact upon the sector. In 1942 William Beveridge's report, 'Social Insurance and Allied Services' was published. The report recommended and explicitly advocated the value of the complementary and innovatory work of the third sector in providing additional social insurance schemes and services for the sick, aged, unemployed and others in need. A number of laws relating to family allowance, national health, employment, education and national insurance were passed between 1944 and 1948 (Lewis, 1999). The National Assistance Act of 1948 encouraged local authorities to work with third-sector organisations in providing care, particularly for older and disabled people (Lewis, 1994).

These placed the state at the centre of health and social care provision. Those organisations dealing with poverty relief and hospital provision were subsequently displaced, while several educational institutions were forced to either come under the state or set up as private organisations. This paved the way for the development of post-1945 welfare reform, and the subsequent relationship between the third sector and the state (Lewis, 1999; Morris, 2000).

The National Council of Social Service (now known as the National Council for Voluntary Organisations) was established (1919) to co-ordinate third-sector organisations' activities with councils of social service and rural development councils, and to facilitate better coordination with government. Throughout the 1920s and 1930s, state social provision and expenditure grew in the areas of housing, health and education; most of the services in these areas were provided through state-funded third-sector organisations (Billis & Glennerster, 1998; Harris, 2010).

During that period several third-sector organisations refused state funding and argued that there was a danger of losing independence through reliance on state funding (Lewis, 1999). However, several third sector organisations such as, the Red Cross and the Women's Institute flourished during the World War years and were the lead providers of many community services and advocates for social change (Billis & Glennerster, 1998).Other third-sector organisations such as the National Society for the Prevention of Cruelty to Children, the Royal National Institutes for Deaf People and of the Blind, and the National Association for Mental Health, provided specialist support for individuals whose needs were not met by the state (Knapp, 1996).

During the 1950s the government argued that the welfare state had eliminated poverty, except among some older people. Established third-sector organisations, such as the National Corporation for the Care of Old People (now the Centre for Policy on Ageing), Citizens' Advice Bureau, identified gaps in welfare provision and re-organised their activities to fill these gaps, during this period new third-sector organisations were formed to campaign for health, housing and social care improvements (Lewis, 1995; Hilton, Crowson, Mouhot, & McKay, 2012).

By the 1960s several international third sector development organisations were thriving, such as, Christian Aid, Save the Children, Oxfam, etc. The literature suggest that the growth of these organisations was a result of the push to provide education, health, social and community services that focused on the needs of vulnerable and disadvantaged groups (Smith, 1994; Lewis, 1995; Hilton et al., 2012).

By the 1970s, the state was regarded as increasingly inefficient in its ability to deliver health and social care needs to disadvantage groups. The concept of self-help re-emerged in response to issues such as inner cities' deterioration, disintegration and increasing inequalities in communities. As a result, the state increased funding for third-sector organisations. Organisations such as SHELTER, Child Poverty Action Group and Disablement Income Group were able to continue to deliver support services for disadvantaged groups (Smith, 1994).

The Wolfenden Committee Report (1978, p. 26) provided a considered answer to questions about the continued existence of the third sector: the sector 'can now best be seen in terms of the ways in which it complements, supplements, extends and influences the informal and statutory systems'. In other words, the third sector provides services where there are gaps in statutory service provision and identifies innovative ways of service delivery. It also has a campaigning role. It critically evaluates state services and delivers services that the state fails in some way to deliver, which demonstrates how to improve statutory service provision arrangements (Knight & Robson, 2007; Kendall, 2009; The Kings Fund, 2011).

In 1979/80 government grants increased to £293 million, from £93 million in 1987/8; (NVCO, 2009). This led to the beginning of the third sector's increasing dependence upon the state. High unemployment in the 1980s, and the 1990s, and the reduction of welfare provision by the UK government, led to the government's increasing interest in the third sector, to seek solutions for the rising unemployment numbers. Services provided by the sector to the community satisfy the needs neglected by the state in the context of a crisis of public finance (Bouchard et al., 2000).

A MOVE TOWARDS FORMAL CONTRACTUAL ARRANGEMENTS WITH THE THIRD SECTOR

Government interest in the third sector is not new – in 1978, one of the findings of the Wolfenden Committee Report was to stress the need for co-operation between the state and the third sector (Anheier, 2005). At the time, the several third-sector organisations in the UK had not been considered as a unified sector, and it was the report of the Wolfenden Committee that described the sector as a unified whole for the first time (Kendall, 2000). The long period of Conservative government (1979–97), was associated with ad hoc and piecemeal attention to the sector. The Conservative government policy was to restructure the economy by expanding the scope and scale of the private sector. Privatisation, attempts to restrain public expenditure and the general demonization of the public sector, led to the offloading of traditional public-sector functions to the private sector, and the introduction of quasi-markets in selected areas, such as health and social care (Bartlett & Le Grand, 1993).

The Labour government-in-waiting took stock of Conservative Party economic policy and embraced their enthusiasm for markets and the involvement of commercial organisations in some areas of health and social care delivery. Under the leadership of Tony Blair, the New Labour Party made numerous references to the third sector, in appreciation of its potential contribution to economy, the environment and society, began to appear (Kendall, 2000). Prior to the 1997 election, a review of the Labour Party's relations with the third sector led to the publication of *Building the Future Together* (Labour Party, 1997) in which a compact between the party and the third sector was proposed.

From 1998, the role of third-sector organisations in UK public service delivery and their relationship with the state were considered to be governed by the 'Compact' with government. The Compact had its origins in an independent review (Deakin Commission) of third-sector–state relations (during Margaret Thatcher's government 1979–97). The findings were welcomed by several third-sector organisations who had found contracting measures constraining (Lewis, 1994; Deakin, 1996). Craig et al. (1999) argues that the development of the compact primarily aim to involve the third sector with an active role of co-governance with the government and effective partnerships between local authorities and the third sector.

The Compact set out the agreement between government and the third sector to improve their relationship for mutual advantage and to mainstream the third sector into the government's policy agenda (Kendall, 2003). The agreement sets out shared commitments and guidelines for working between government and the third sector. To promote effective partnerships through the Compact between the third sector, government and the rest of the public sector that lead to benefits for individuals and communities. It defined how government and third-sector organisations should engage, and endorsed the fundamental importance of third-sector organisations to the well-being of society and their role in public policy creation and service delivery.

The Labour Government's Compact With the Third Sector (1998)

Principles:

- Independent and diverse third sector is fundamental to the well-being of society.
- In the development and delivery of public policy and services, the government and the sector have distinct but complementary roles.
- There is added value in working in partnership towards common aims and objectives.
- The government and sector have different forms of accountability but common values of commitment to integrity, objectivity, openness, honesty and leadership.

Government's Undertakings

- To recognise and support the third sector's independence.
- On funding *inter alia* common, transparent arrangements for agreeing and evaluating objectives … the use of long-term… funding to assist … stability.
- To consult the sector on issues which are likely to affect it.
- ·To promote mutually affective working relations.
- To review the operation of the *Compact* annually (Kendall, 2000, p. 2).

The UK Compact was internationally unique in emphasising its role in facilitating good relations between the state and third-sector involvement in public service delivery (White, 2006, p. 61), and as a response to a declining relationship between the third sector and state caused by the contracting-out of public services under the Conservative governments of 1979–97 (Kendall, 2000).

The Labour government aim was to build a positive relationship between the government and the third sector in the development and delivery of public services by a commissioning process (Home Office, 1998; Zimmeck, 2010; Baines et al., 2011): 'New Labour's insistence on modernisation was intended to promote more bottom-up change via partnerships than the simple top-down deregulation associated with contacting-out under the Conservatives' (Lewis, 2005, p. 122).

The Compact document sets out a framework agreement that outlines a shared vision, values and commitment by both the government and third sector. The promotion of partnership with the third sector in public services enables third-sector organisations to be discursively constituted as a natural participant in government policy as generic 'service delivery organisation[s]' (Cabinet Office, 2007, p. 5). In addition, in order to ensure accountability to government over the funding period. Contracts are said to offer the best mechanism for securing the government's risk (i.e. contracts mean that cost management must be borne by the service provider). Contracts are also used as a disciplinary mechanism over the wide range of relationships that exist under the term of 'partnership', between the sector organisations and commissioning authorities (HM Treasury, 2006a, pp. 25–26).

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. Under the new contracting process, third-sector organisations had to accept competitive tendering processes and deal with the pressure of balancing the needs of service users, the demands of the funders, stakeholders and the needs of their staff and managers to have career management strategies in place (Mold & Berridge, 2010; Mold, 2012; Wardle, 2013).

The Compact agreement was innovative in that it aimed to unify the government's policies relating to the third sector and draw the latter into its central policy agenda (Kendall, 2000). McLaughlin and Osborne (2003) argued that although Compact documents were excellently written, the main issue was the actual compact partnerships in practice were severely lacking in effectively addressing public services issues. In addition, the continuous lack of funding and poor relationships between local authorities and the third sector diminished the effectiveness and implementation of the compact at local level.

However, the 'Commission for the Compact' established April 2007, highlighted some evidence of good practice (such as the example in Table 1) in their annual reports.

The Commission was an independent was a Non-Departmental Public Body (NDPB) sponsored by the Office for Civil Society (a management unit in the Cabinet Office) responsible for overseeing and promoting use of the Compact. The Commission task was to increase the breadth and depth of the awareness, use and understanding of the Compact among public bodies. Also, to gather evidence of the impact of the Compact, and to ensure there

Table 1. The funding and support process in Hertfordshire

Hertfordshire County Council (HCC) conducted a Best Value review of their funding relationship with the third sector organisations and worked with the Hertfordshire Compact Group on the development of a county-wide Compact. Changes included: • HCC now publish a funding prospectus which outlines funds available from the various council departments; • Third sector organisations fill in a common application form; • There are named fund managers for each of the funding departments; and • Hertfordshire External Resources Network (HERN) has been set up with HCC support to provide funding advice and information to third sector organisations. HERN brings together fund managers from the county, district and borough authorities as well as external trusts, other public sector sources and CVS funding advisors. Bringing funding mechanisms together via the new streamlined process has aided consistency and helped the council to be more accountable, ensuring that it funds activities based on identified priorities. Greater provision of information through HERN has helped to strengthen smaller organisations and is helping to promote greater stability in the sector through more diverse funding. It is hoped that in future there may also be scope for earlier funding decisions (and, where appropriate, longer term funding arrangements) as local authorities receive three Year settlements. HCC also stressed the importance of looking to the future and not using the past as an excuse to avoid change. For further information contact: Andrew Burt at andrew.burt@hertscc.gov.uk

is a growing body of knowledge on the Compact that contributes towards improved consultation, design of policy and programmes, and change of practice. On 14 October 2010, the Government published the results of its Public Bodies Review. The Commission was one of the NDPBs which the Review earmarked for closure. The responsibility for oversight of the Compact is now shared between the Office for Civil Society (based at the Cabinet Office) and Compact Voice.

In 2010 the Coalition Government initiated Compact Voice to re-enforce their pledge to work in partnership with the third sector. Compact Voice is an agreement aims to ensure that the Government and the sector work effectively in partnership to achieve common goals and outcomes for the benefit of communities:

Improving and delivering better, more responsive public services can only be done with the help of the sector; and empowering communities can only work where the skills, enthusiasm and commitment of the sector is harnessed. (Cameron, 2010, p. 1)

The commitments stated in the ‘Compact Voice’ aim to set the foundation for a productive relationship between the Government and the third sector. Local areas were encouraged to follow the principles in Compact Voice document to ensure empowered and sustainable communities. A summary of undertakings for the Government are:

- Respect and uphold the independence of the sector to deliver their mission, including their right to campaign, regardless of any relationship, financial or otherwise, which may exist.
- Ensure that third sector organisations are supported and resourced in a reasonable and fair manner where they are helping the Government fulfil its aims.
- Ensure that the Government collectively (through the Cabinet Office) recognises the need to resource national and local support in order to assist third sector organisations with their capacity and capability to deliver positive outcomes.
- Ensure greater transparency by making data and information more accessible, helping the third sector to challenge existing provision of services, access new markets and hold government to account.
- Involve third sector organisations from the earliest possible stage to design policies, programmes and services. Ensure those likely to have a view are involved from the start and remove barriers that may prevent organisations contributing.
- Give early notice of forthcoming consultations, where possible, allowing enough time for third sector organisations to involve their service users, beneficiaries, members, volunteers and trustees in preparing responses.
- Assess the implications for the sector of new policies, legislation and guidance, aiming to reduce the bureaucratic burden, particularly on small organisations.
- Ensure that third sector organisations have a greater role and more opportunities in delivering public services by opening up new markets in accordance with wider public service reform measures and reforming the commissioning environment in existing markets.
- Consider a wide range of ways to fund or resource third sector organisations, including grants, contracts, loan finance, and use of premises and so on. Work to remove barriers that may prevent third sector organisations accessing government funding, thereby enabling smaller organisations to become involved in delivering services where they are best placed to achieve the desired outcomes.
- Commit to multi-year funding where appropriate and where it adds value for money. The funding term should reflect the time it will take to deliver the outcome.

- Ensure well managed and transparent application and tendering processes, which are proportionate to the desired objectives and outcomes of programmes.
- Agree with the third sector how outcomes, including the social, environmental or economic value, will be monitored before a contract or funding agreement is made.
- Recognise that when third sector organisations apply for a grant they can include appropriate and relevant overheads, including the costs associated with training and volunteer involvement.
- Ensure that monitoring and reporting is relevant and proportionate to the nature and size of the opportunity. Be clear about what information is being asked for, and why and how it will be used.
- Ensure that the widest possible range of organisations can be involved in the provision of services through appropriate funding and financing models, for example, payment in advance of expenditure should be considered on a case by case basis where this represents value for money.
- Ensure all bodies distributing funds on the Government's behalf adhere to the commitments in this Compact. This includes the relationship between prime contractors and their supply chains. Demonstrate how funding arrangements and financial support can allow smaller and specialist providers to play a greater part.
- Where there are restrictions or changes to future resources, discuss with third sector organisations the potential implications as early as possible, give organisations the opportunity to respond, and consider the response fully, respecting sector expertise, before making a final decision.
- Give a minimum of three months' notice in writing when changing or ending a funding relationship or other support, apart from in exceptional circumstances, and provide a clear rationale for why the decision has been taken.
- Acknowledge that third sector organisations representing specific disadvantaged or under-represented group(s) can help promote social and community cohesion and should have equal access to state funding (Compact Voice, 2010, pp. 5-8).

The 2010 Compact Voice is an agreement between the UK Government and third sector organisations in England; however, where the UK Government has responsibility for funding third sector services provided in Northern

Ireland, Scotland or Wales, it pledged to honour the commitments made in this Compact (Compact Voice, 2017). The importance of partnerships between the government and third-sector organisations, and recognition that third sector organisations could deliver local, regional and national innovative services on behalf of government, has been debated and evidenced from economists to third sector management perspectives.

ACADEMIC PERSPECTIVES

Academic interest in the sector has increased in the last four decades as understanding of the contributions by the sector to society has increased (Borzaga & Defourny, 2001; Vickers, 2010). From a social and economic perspective, the value added of social enterprises stems from their engagement with the production of goods and services, social integration, health, education and environmental issues. They contribute to social cohesion, to the accumulation of social capital, and to sustainable development at the local, national and international levels and, most significantly, to poverty reduction (Aiken, 2007; Borzaga, Galera, & Nogales, 2008). Furthermore, they empower citizens economically and socially in an on-going process requiring human and financial resources and an enabling public policy framework that calls for policy innovation. Through these activities, the sector organisations are contributing to a framework for sustainable well-being (Laville, Lévesque, & Mendel, 2005; Borzaga & Tortia, 2007; Powell, 2007; Galera, 2008) for disadvantaged and vulnerable members of our community. Several authors suggest that third-sector organisations are part of a 'new welfare mix' in which both governments and citizens collaborate and co-design new forms of health, social and environmental services (Ascoli & Ranci, 2002; Evers & Laville, 2004; Pestoff & Brandsen, 2006).

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 & Morley, 2008; Hurrel et al., 2011). But critical sociologists and political scientists have pointed out that the role of the state has not diminished, but transformed (Martin, 2002, p. 130; Harvey, 2005). The state is successively reducing welfare provision, actively securing the conditions for the expansion markets and ensuring overall competitiveness of 'its' territory within a global economy.

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 (Morris, 2000; Halfpenny & Reid, 2002) 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 demonstrates the realisation by several UK 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.

Another explanation for the development of the third sector is that the privatisation of public services was rooted in the market-based philosophies of the UK Conservative government (1979–92) (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). Kramer (1981) focused on the individual agency approach and argues that third-sector organisations have considerable discretion in their use of resources. Their unique functions are: (a) specialisation in a problem, a group of people or a method of intervention; (b) advocacy; (c) consumerism and other forms of volunteerism; and (d) service provision, which is seen as their most pervasive and distinctive functions.

Third-sector management literature suggests that the sector exists because it can be flexible and effective due to its 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 that 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 & Knapp, 1995; Baines et al., 2011; Maher, 2017b).

Third-sector organisations often represent and advocate the concerns of their communities with a view to changing public policy, educating the broader public and influencing the behaviour of society at large. 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 local communities to have the sense that they are facing shared challenges and finding mutually satisfactory solutions (Kendall, 2003; Harris, 2010).

The growth of the third sector can be thus explained by distinctive organisational capabilities in terms of specialist knowledge and skills for dealing with the disadvantaged and excluded; greater flexibility to tailor services to individual needs; independence of state structures, which may be perceived negatively and resisted by some societal groups; and trust-based relationships built on long-standing ties with the individuals and communities they serve (HM Treasury, 2002). These capabilities mean that third-sector organisations have the potential to contribute to designing, as well as delivering, public services. Post war structural changes in the UK economy have favoured a growing third sector. The decline in production and manufacturing and growth in services during the post war years led to problems of structural unemployment and regional disparities, which has created new opportunities for the sector. Third-sector organisations supply services such as assisting employment, education, health, social care, housing and environmental matters. Most services are labour intensive, rather than capital intensive and most third-sector organisations are able to draw on a pool of volunteer labour. Furthermore, Amin et al. (2002) have identified the collapse in Fordism, the crisis of the welfare state and the demise of full employment as being critical to the rise of the sector.

Third-sector organisations provide opportunities which are a reflection of deep-rooted societal values that foster and sustain individual altruism. The numbers of individuals volunteering in these organisations are increasing year on year (NVCO, 2015). Hence the growth of the third sector may be associated with the rising tide of volunteering.

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 & Scholarios, 2011).

In addition to this, the third sector provides a collective voice for particular groups or communities, such as drug and alcohol dependants and individuals affected by mental health difficulties, who find it difficult to access mainstream statutory services due to their difficulties, which affect their ability to articulate their needs to statutory services officials (Department of Health, 2010; NTA, 2012). A study by the National Consumer Council that focused on user experiences of services provided by the third sector supports this perspective. The study concluded that 'the third sector delivery is distinctive in employment services [return to work support services], where the third sector tends to provide a highly personalised and responsive service to a defined client group' (Hopkins, 2007, p. 79).

There is evidence that the third sector provides numerous services that benefit their client groups. The government policy framework also recognises the third sector 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; Maher, 2015a). It is also possible that a simple explanation for the continued existence of the third sector is that the third sector plays a role in creating employment for people and generating social capital (Kendall, 2003; Knight & Robson, 2007; Damm, 2012).

THE THIRD SECTOR'S DISTINCTIVENESS FROM THE PUBLIC SECTOR AND THE PRIVATE SECTOR

The distinctiveness of the third sector from the public and private sectors was first conceptualised by Polanyi (1968) in his work titled *Primitive, Archaic and Modern Economies*. According to Polanyi (1968), there are three integrations of economic circulation, known as market exchange, redistribution and reciprocity. 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, and 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, which others reciprocated. There was an unspoken agreement. The objective is to produce and mutually share, not for personal gain or profit. The motivation to produce and share was not personal profit but fear of social contempt, ostracism, and loss of social standing. The third sector shares 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).

The key dimensions of this apparent distinctiveness were, and are, that third-sector organisations are independent, not hidebound by bureaucracy like the state, and therefore able to be innovative. They are close to service users, and thus especially able to respond to their needs, generating trust from ‘hard-to-reach’ social groups (HM Treasury, 2002; Treasury, 2005; Cabinet Office, 2006).

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). Third-sector organisations encourage citizen participation in the delivery of community services that are otherwise minimised or denied in public-sector provision (Office of the Third Sector, 2006).

This chapter defines the nature, characteristics of the third sector and the historic development of the sector. Factors related to the growth of the sector including partnerships arrangements between the sector and the state, government policies directed at strengthening the role of the sector organisations to deliver public services and their social and economic impacts were discussed. This was followed by a review of relevant policy documents, political literature, historic development of the sector to illustrate the need for cooperation between the sector and the state to improve the economic performance of the sector (DTI, 2002); to enhance its economic impact (HM

Treasury and Cabinet Office, 2006); and especially, to improve its delivery of public services (HM Treasury, 2002). The distinctiveness of the sector from the private and public sector as conceptualised by Polanyi (1968) and other academic perspectives were explained (Weisbrod, 1988; Leadbeater, 1997; Deakin, 2001). The contribution of the sector to build social capital, reduce social exclusion and activities to public policy framework that calls for policy innovation were discussed.

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