northern rock foundation
Third Sector Trends Study

Taking the Temperature:

How are third sector organisations doing?

Fred Robinson (St. Chad's College, Durham University)
Victoria Bell (Social Futures Institute, Teesside University)
Tony Chapman (St. Chad's College, Durham University)
Emma Dunkerley (St. Chad's College, Durham University)
Ian Zass-Ogilvie (St. Chad's College, Durham University)
Peter van der Graaf (Social Futures Institute, Teesside University)

**St Chad's College
DURHAM
UNIVERSITY**

Teesside
University

September 2012

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1 Introduction

The aim of the Northern Rock Third Sector Trends Study is to understand the structure and dynamics of the Third Sector in North East England and Cumbria.

The study has a number of different components. Our colleagues at Southampton University, in association with NCVO and Guidestar, have undertaken detailed statistical work on the sector. Alongside that, we have conducted interviews with infrastructure organisations and key informants from across the sector, and have done two major survey exercises. The first of these comprises an in-depth qualitative survey of 50 Third Sector Organisations (the 'TS050') and the second is a questionnaire based survey, to which just over 1000 organisations responded in the first phase (the 'TSO1000'). The Third Sector Trends Study has been designed as a longitudinal study, so both these exercises are being repeated in order to track change over time.

This report is one of three reports presenting findings from the TS050 work now that the second phase of that has been completed. The other reports on the TS050 offer a conceptually-driven analysis of how organisations respond to change and the characteristics of organisations. This report is more impressionistic: it aims to give a flavour of what people said, what they were thinking about, and how organisations see themselves and their situation. We have tried to capture the mood of the Third Sector: more broadly, 'take its temperature'.

2 The TS050

The TS050 is made up of a sample of 50 Third Sector Organisations from different parts of the North East and Cumbria.[1] We sought to identify samples of 10 organisations in each of the five sub-regions, and in each of these sub-regional samples we focused on a particular beneficiary theme, as follows:

- County Durham: arts, heritage and environmental organisations

- Cumbria: organisations working in predominantly rural areas

- Northumberland: organisations working with older people

- Tees Valley: organisations working with young people

- Tyne and Wear: mental health organisations

In addition, in each of these sub-regional samples we selected large, medium and small organisations; we therefore included branches of national organisations and also some small community organisations entirely reliant on volunteers.

The first phase of the TS050 interviews took place in 2009, and the second phase was conducted between November 2011 and April 2012. The interviews were wide-ranging; we had a checklist of topics but wanted a 'natural' conversation that covered the issues that mattered to our respondents. We wanted them to share with us their sense of what their organisations do, why and how they do it, and what helps and hinders them.

The interviewees were the 'leading lights' of these organisations, predominantly the chief officer in the larger organisations and the chair or an active volunteer in the smallest organisations. Fortunately we were able to achieve a good deal of continuity. The majority of the cases involved the same interviewer and interviewee in the second phase as in the first. Consequently, when we returned for these second phase interviews we were able to have a real sense of the journey that respondents had taken

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[1] For a more detailed discussion of methodology in this part of the Third Sector Trends Study and for details on the analysis of the first phase of work, see: Chapman, T., Robinson, F., Brown, J., Crow, R., Bell, V. and Bailey, E. (2010) *What makes third sector organisations tick? Interactions of foresight, enterprise, capability and impact'*, Newcastle upon Tyne: Northern Rock Foundation.

since we last saw them. These interviews gave us some revealing
impressions of people, their organisations and the sector as a whole.

3 Overview: better than expected

One can easily get the impression from the media that the Third Sector is in deep trouble. There is a lot of worry and gloom. Organisations are said to be struggling to survive: they are being hit hard by cuts in funding and are having to deal with rising demand for their services. Moreover, things can only get worse. And it is not just a media story – the sector itself tends to be pessimistic. We have talked before of an 'abyss mentality' where – even in 'good times' – there is a tendency to worry about the future, and fear the worst.

However, despite the current difficult economic situation, we found that many of our TS050 organisations were managing reasonably well – and there are grounds for optimism. The abyss mentality was not much in evidence, although some organisations had certainly been going through a turbulent and difficult time.

Perhaps the most encouraging finding was simply that nearly all of our TS050 organisations are still going. Of the 50 we started with in 2009, one had shut down, one could not be contacted, and one was unable to meet with us because they were in the throes of a major reorganisation. Almost all had survived – and that situation was certainly more positive than we had expected. Indeed, we had thought that we might have lost several through closure over this period of 2½ years or so – and had talked about the possibility of identifying replacements to add in to our sample. In the event, we did not need to do that, not only because so many had survived, but also because nearly all of them agreed to see us again. We succeeded in interviewing 47 of the original 50 organisations.

But it is not just a matter of survival. In our discussions with them, we did not get the sense of a sector experiencing great crisis. Instead, we heard about a variety of circumstances and experiences. Some organisations have fared well, despite recession and austerity. Others have had a tough time, and a few have certainly experienced serious crises. However, it appears that many of those in trouble were struggling not so much because of sector-wide problems but, rather, because of particular difficulties in their organisations or in their area of activity.

Few organisations seemed to see an abyss opening up before them in the near future, but many were undoubtedly worried about what the future holds in a few months time, or in the next financial year. Uncertainty was commonplace. The amount and types of funding available to organisations has changed, and there is the prospect of further changes. Some are

sanguine about that, however; as one chief officer said, 'we have our plan and we are going to survive, we will be stronger'.

Since the sector is so reliant on short-term funding, organisations will necessarily worry about their future, and even more so during a recession. Such uncertainty is no doubt unsettling and uncomfortable; as the chief executive of a relatively big organisation – that has actually responded well to a great deal of change – said: 'it's the volatility and uncertainty that keeps me awake at night'. For some, though, there is a sense of foreboding, a fear that things could get much more difficult. One chief executive saw it like this: 'we've ridden the first wave – there's another coming'.

4 Taking the temperature

It is hard to generalise about the Third Sector – it is diverse and complex and, at times, contradictory. There is no such thing as a 'typical voluntary organisation' and nor, for that matter, can there be a single 'collective voice' or collective experience of the sector. What works for one organisation may not be the answer for the next; and organisations differ considerably in terms of many factors, including their size and ambition, the particular sub-sectors they are operating in and their funding arrangements.

At the start of our research we discussed the dangers of making assumptions about the structure and behaviour of the sector. However, we do need to find frameworks to help develop our understanding, in order to make sense of our observations and enable us to discern patterns, relationships and processes.

In this report, we look at some of the experiences of the TSO50 organisations without adding too much structure. In the other reports we develop typologies and seek to systematise our findings. Here – to extend our medical analogy – we are listening to the patient and trying to form a view of what's right and what's wrong with them. After that, we can become clearer about the diagnosis.

Although this report is somewhat impressionistic, it does link to our more systematic analyses. In exploring change and responses to it, here we have identified the situations and behaviours of three simple groups: small organisations, organisations in trouble and organisations doing well. In *Journeys and Destinations,* our previous report on the TSO50, we said that how organisations view change has a considerable bearing on how they develop and, indeed, on their 'health'. Based on our interviews, we considered that organisations view change in different ways: some resist change; some prepare for change; and some react to change. These different perspectives are evident as we look at how the TSO50 organisations have fared.

5 Small organisations: bedrock of Big Society?

Many small organisations rely largely or wholly on volunteers and are self-sustaining. We hear a lot about threats to the sector, but usually these concerns centre on the problems facing medium-sized or large organisations that receive public funding. We can sometimes forget that there are many small organisations that may be little affected by external economic and political conditions; they just carry on.

In this second phase of the TS050 study, we had a strong sense of the resilience of these small organisations. None of them had changed much since we last met them. They actually don't see the need to change anything – and they wouldn't want to. They have no need to grow, and indeed may want to stay small, in order to retain their strong community connections. These community organisations don't want to be delivering public services or getting caught up in the bureaucracy that can come with external funding.

What kinds of organisations are we talking about here? Our TS050 includes an endowment-based charity that, really, could continue more or less indefinitely. There is a local environmental organisation that looks after an area of countryside; it is unincorporated and quite informal – and there is no desire to change that. There is a community organisation in a rural area that has been putting on social events for older people for the past 50 years – and expects to be doing much the same for the foreseeable future. Its members inevitably die, but are replaced by the next cohort of older people. Some of these organisations are little-known outside their locality and some are known to few people apart from their own members. Organisations such as these are sometimes said to be 'below the radar' – they can be easily overlooked.

Organisations like these value their independence and would certainly not like it if anyone tried to tell them what to do. Some of them may go after funding from time to time and it would be wrong to say they lacked 'enterprise'. We certainly do find examples of small organisations that were actively fundraising for specific needs. But it appears that they can manage without external funding; when and if they do secure such funding it basically enables them to do a bit more. The reliance on volunteers means that they don't need much money and can be self-sustaining. That doesn't mean they are totally secure, however. Some can be dependent on a few key volunteers; if they leave, the continued existence of the

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organisation can be put at risk. Even so, a great strength of many of these organisations seems to be the commitment of their volunteers; these are people who are frequently seen as 'members' rather than 'just volunteers', people who may well have a strong and long-term stake in the organisation and are more often than not involved in its governance.

It could be said that such organisations are the bedrock of the 'big society' – if the concept means people doing things for themselves in local communities. These organisations generally do not want to take over the roles of public agencies – but may well come under pressure to step in as public sector provision is cut and responsibility falls on the local community and community organisations.

In terms of our conceptualisation of perspectives on change, these are organisations that largely *resist* change. But it is probably not as simple as that. While the majority of them may well resist change, some of them are, in any case, hardly affected by change - rather than actively resisting it. It also remains to be seen what would happen if they were under great pressure to fill gaps left by the withdrawal of state provision; we suspect that most would then switch their perspective, becoming organisations that react to change.

6 Organisations in trouble

There may not be a sense of crisis across the sector, but there are undoubtedly individual organisations in trouble. A few of the TSO50 organisations have experienced crises which we heard about when we went to see them for a second time. Others were in a crisis when we saw them in 2010, but have since recovered.

There was general belief that organisations that would be in most trouble in the coming months would be those medium-sized organisations which rely to a large extent on external funding streams, are not affiliated to any other organisations and do not have the economies of scale to be able to 'ride it out'. There was also a perception that certain groups of organisations are going to continue to struggle. Some organisations are finding it hard to come to terms with a big change in their fortunes; one chief officer, for example, said 'we've stopped growing, we've started shrinking', after having gone through 'six years of great optimism, expansion and excitement'. Those that are reacting to change, rather than having planned and prepared for change, are felt less likely to be able to manage - but they may be alright if they are flexible enough (and skilful enough) to react successfully in time.

Whilst challenges for organisations differ, there are common themes - it is the way that organisations are dealing with them that is at the heart of it. There are many different scenarios, with organisations struggling with different issues. Examples include:

■ An organisation that provides direct caring services. Its provision is old-fashioned and, in many ways, this organisation has been left behind. They are finding it hard to hold on to contracts or secure new ones, and are worried about personalisation. They have ideas – but seem unable to change or, indeed, find the energy to change.

■ A rural community organisation that seems to have a great deal of potential but doesn't get moving to exploit opportunities. It gets a lot of support, in terms of both funding and outside expertise, but there's no real impetus to change and develop. For now, it will drift on.

■ A service provider that has had a major management problem, leading to the departure of senior staff. That took up a lot of the time and energy of the board and the organisation is still getting over it. It also meant there was little energy to get on with developing services and respond to changes in the operating context.

- A service provider greatly affected by funding problems that eventually produced a crisis that threatened its existence. The organisation has had to draw on reserves and also lose staff. It has managed to keep going – but is not out of the woods yet.

- Another organisation that has relied heavily on public sector funding was hit by local government reorganisation which left it vulnerable. It didn't adapt and was, in fact, poorly run. It has now been closed down.

- An organisation that is said to be heading towards closure. They have been overtaken by their competitors and have lost many of their members to these other organisations. They feel that they probably couldn't have changed enough; that they haven't 'done anything wrong'; and that they are coming to a natural end.

On the face of it, these examples are largely about funding difficulties – but on another level these examples are also, crucially, about how an organisation responds. Most of them *react* to change. They do not generally resist it, but might like to ignore it in the hope that problems will go away. Some of these difficulties, such as lack of reserves to fall back on, might be thought of as self-inflicted (but that would be a hard judgement on those that have really never had a chance to build up reserves). Some difficulties are largely outside the control or beyond the influence of organisations themselves; an example might be the departure of key staff at short notice. These issues are often a mixture of internal and external factors and influences that may be hard to negotiate.

In our second phase of interviews, by focusing particularly on change we not only had a sense of the strengths and weakness of organisations, but also considered turnover in the sector. We wondered whether it is much different from turnover amongst SMEs in the private sector? Perhaps, generally not, but there is one difference. Amongst the organisations that had been in trouble, some seemed to be playing too significant a role in their area of practice to be allowed to fail. Funders were anxious to save them and help them overcome their problems. That was because, for example, they were providers of essential public services, or – in rural areas – they were especially significant, too important to fail, because there was little else. There might be no competitor able to take their place. They could not be allowed to fail - and that has to be recognised when we come to consider policy implications and interventions.

7 Organisations that are doing well

We have already highlighted those small organisations which are resilient and are continuing to do well. In addition to them, there is a substantial group of medium sized/relatively larger organisations that are doing well. They are both solid and adaptable, and quite adept at coping with change. In this second round of interviews we heard about the challenges they had faced and how they had responded to them. For most of them, they are well aware that their operating environment is always going to be turbulent, the future will always be uncertain – but it is nevertheless possible to steer a course through all this. Having said that, organisations can be unlucky and can also be overwhelmed by major changes which are simply too great to manage successfully. Organisational ability and capacity are certainly important – but are not everything.

Talking to the chief officers of these organisations, what comes across most strongly is their attitude, or organisational ethos. It is an opportunistic, open attitude; as one chief officer said: 'we pride ourselves in seeing gaps in the market'. In our previous paper, *Journeys and Destinations*,[2] we have characterised this, essentially, as an enterprising attitude. In addition, that attitude links to other qualities and attributes, notably anticipating, embracing and capitalising on change.

Organisations that were *preparing* for change and doing well demonstrated some of these qualities – such as being flexible and able to compete. The following examples illustrate these approaches:

- An organisation that has been through major structural and cultural changes. The CEO says that the organisation, now, is much more entrepreneurial – and quite different from local authorities, for instance, which are 'used to running a budget, not a business'.

- A small charity, good at service development and adept at getting funding. 'We see gaps in the market and get in there'.

- A rural services provider keen to become a 'sustainable business'. The chief officer talked of getting onto more tender lists, marketing, networking and being seen to be professional. 'We have to be versatile; we have to go out and compete convincingly'.

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[2] Chapman. T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P. (2012) *Journeys and Destinations,* Northern Rock Foundation: Newcastle upon Tyne.

- The regional branch manager of a national social care organisation talked about responding to a competitive environment, streamlining administration and managing to do the same as before, but with less funding. At the same time, the manager noted the need to keep abreast of new developments, particularly personalisation.

- A successful direct service providing organisation that has developed in new and innovative ways, including planning joint ventures with the private sector. The CEO said that they 'need to be business-like – and also hold on to their values'.

- A care organisation that provides services to a niche group of beneficiaries talked about the importance of knowledge and keeping abreast of changes across the sector: 'you have to understand the environment you are working in but it has to be hard business, it has to be about how you run a business. I think now with tendering and commissioning, the inspection frameworks and things, none of this is optional anymore'.

There is clearly more to being enterprising than simply being a skilled operator in a competitive market. There are combinations of attributes, attitudes and approaches that are different in different organisations, which is understandable given the complexities of the sector. The trick is perhaps to get the right combination in relation to the organisation and its context.

Organisations that are doing well have also, at least in some cases, had to take hard and even risky decisions. As one CEO said, 'we're prepared to take the risk and the board will go with the risk as well…as long as it's a sound risk, they don't just go for anything'. A few have been involved in mergers over the past two years; and several have had to substantially change how they operate and respond to major changes in their 'market' – enabling them not only to survive, but also to become stronger.

8 The importance of governance

In this round of interviews, as in the previous phase of the work, we were struck by the range of approaches to governance. Governance really matters, whether the organisation is small and has a perhaps fairly informal 'management committee' or is big and has a very formal board structure.[3] Good governance provides an organisation with a sound foundation for planning, and dealing with and responding to challenges and changes, both internally and externally. A good board drives the strategic decisions of the organisation, and can make difficult decisions.

The following are just some of the kinds of boards running (or sometimes not really running) the TS050 organisations:

■ A board that included many skilled and experienced individuals – so much so that they hardly ever felt the need to seek outside advice or professional services.

■ Boards that were largely inactive. This may be because they are not asked, or expected, to do much – and so do not take on responsibilities. This can cause problems if they are then asked to take on a more active role. One chief officer explained that the board should take on more responsibilities: 'this year we decided to try and make the trustees more accountable because, with such a changing environment, it's really important for the trustees to take some of this ownership'.

■ We were told about a board of 'lethargic trustees'. Their meetings were an opportunity to get together for a chat and a cuppa. According to the chief officer of this organisation, trustees used to say: 'Anything to report? Nothing.' The chief officer admitted that it was easy to manipulate them – they would agree to almost anything.

■ We were told about boards that have taken some difficult and even risky decisions due to serious funding problems. One board was prepared to rise to the challenge, draw on reserves – and, in this case, the organisation did pull through. Another chief officer, at an organisation still going through turbulent times, reflected on how the

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[3] For a more detailed discussion on our position on governance, see: Robinson, F., Chapman, T. and Bell, V. (2011) *Building Better Boards: what's the problem?* Northern Rock Foundation: Newcastle upon Tyne.

board had risen to the challenge: 'they have really grown up, the board, in the last three years'.

- A rather small and ineffective board that was unable to respond to change – the members had been there a long time and had little vision or energy. In the end, funders put pressure on this organisation to expand the board, bring in new blood and so start to open up new possibilities.

- A closed board, with limited skills, made up of people chosen by the CEO. This board appears to have been 'in the pocket' of the CEO and their lack of power and sense of responsibility meant that they failed to control the CEO. The organisation nearly collapsed as a consequence of the board's failure to govern.

- We heard also about boards which may be too active – at least as far as the chief officer is concerned. The chief officer of one organisation complained that there were business people on the board who worried too much about the financial viability of the organisation and, as that chief officer saw it, failed to understand how the sector has to live with uncertainty.

- Another organisation that had struggled in the past with insufficient staff and, as a result, board members had become actively involved. Now, according to the chief officer, the board were *too* 'hands-on' and board members 'see themselves as being best mates with the staff and I need to get them to understand that that is not their role'.

- A board which was kept entirely in the dark about the actions of the Chief Executive and did not know that the organisation was drawing heavily on reserves to pay for staff salaries. The organisation was heading for the rocks if a last ditch attempt to win a contract failed and that could leave them vulnerable to accusations of serious organisational mis-management.

Some organisations may be able to manage with an inactive, hands-off board – and, it might be argued, that may sometimes be better than an active board that takes the wrong decisions. In the absence of an effective board, the chief officer or some other 'leading light' may manage well enough. But it is the board's responsibility to govern and lead the organisation; it has a duty to do so.

In addition, a good board can make a big difference. On the whole, those organisations that were in trouble had weak boards that were unable or unwilling to respond sufficiently to the challenges they were facing. Some of these boards were not good at spotting problems or recognising management failures. On the other hand, the more successful

organisations not only had an enterprising approach but also boards that were prepared to govern. They might well let the chief officer have a good deal of freedom to develop 'the business', but the board was there to support the chief officer, debate matters, make important decisions – and take ultimate responsibility.

9 Some policy issues

It would be premature to identify *specific* policy implications flowing from this second phase of the Third Sector Trends Study. We have more analysis to do on the TSO50 work, and are only just beginning to analyse data from the large-scale TSO1000 survey. However, we do feel there is merit in beginning to think aloud at this stage about some possible policy implications, based on the picture emerging from the TSO50 interviews.

We are thinking here about what might be done to help Third Sector organisations to be better and, above all, to serve their intended beneficiaries more effectively. In terms of policy actors, we have in mind a wide range of institutions that, in various ways, might be able to intervene and support. They would include central and local government, other public sector agencies, sector infrastructure bodies and charitable trusts and foundations.

In relation to the **small organisations**, what we have called the 'bedrock of the big society', it could certainly be argued that institutions should leave well alone, and let them get on with it.

Probably the most helpful policy approach in relation to these organisations is the maintenance of a benign environment enabling them to continue to operate at least reasonably well. What most would want would be little regulation. What is actually needed is light touch regulation, from the Charity Commission for example, which can help them avoid problems.

Most of these organisations seem unlikely to grow, though some will-- to eventually become part of the next cohort of medium-sized organisations. But the vast majority won't do that; they have neither the potential, nor the inclination, to grow. In fact, we would be hard pressed to point to any of the small organisations in the TSO50 sample that seem likely to expand substantially.

However, some small organisations may be presented with the opportunity to develop and grow, notably by becoming involved in delivering services contracted out by the public sector, or filling gaps left by the retreat of the public sector. That can work out well, but has dangers too. One danger is that the organisation loses its way, its ethos, perhaps also its volunteers. It can also become uncomfortably and unsustainably dependent on external funding – as has happened to many organisations over the last couple of decades.

In relation to this kind of challenge, organisations could benefit from mentoring support. That support could help them negotiate such a transition or, maybe more often than not, decide such a change is not for them. That kind of intervention could help organisations to avoid a path that would undermine them, while identifying and supporting those that could successfully take on new roles and activities.

Organisations that are in trouble are prominent in discussions about policies to support the sector. Many of the organisations amongst the TSO50 that have been experiencing difficulties are funded by public sector agencies or by foundations, and may understandably expect their help if they are in trouble. They expect them to have policies which are sympathetic and supportive.

It seems to us that there is a fair amount of support available to at least some of these organisations. We have noted, in particular, that there are those deemed too important to fail and which, therefore, may receive considerable extra support from their funders. Infrastructure organisations such as the local CVSs can also get heavily involved with organisations in trouble. And some of these organisations have a relatively high profile, resulting sometimes in rescue attempts and behind the scenes interventions.

We have a strong sense from the TSO50 that, while some organisations are brought low by circumstances outside their control, many others struggle because they are poorly managed and governed. We have presented a number of disconcerting examples of inadequate governance. It is hard, however, to develop policy responses to those weaknesses: these are independent organisations that need to deal with these issues themselves. Nevertheless, there may be benefit in an external review, so encouraging these organisations to strengthen their boards, adopt realistic plans and take difficult decisions. Funders can make their support dependent on an organisation being able to demonstrate good management and governance.

Throughout all the work we have done on the sector, we have sought to be realistic and to recognise that it is reasonable to have a turnover of organisations in the third sector, as in other sectors. Not all of them can be saved – nor should they be. Those that are no longer useful or effective ought to be merged with others or close down. In these cases, there is certainly scope for policies supporting mergers and also, we think, there is a need for help with closure – so that organisations may close down in an orderly way: 'a good death'. The most important thing, not to be lost sight of, is protecting service users, rather than simply saving organisations.

Those medium-sized **organisations that are doing well** should, perhaps, be left to get on with it. After all, they are being successful, they prepare for change and they can probably cope with most of the challenges that may come their way.

But in fact policy can help or hinder them. To help them develop their role, and contribute fully to community well-being, they need a supportive policy environment. A benign environment is not enough. In relation to contracting to deliver public services, for example, the focus might be on policies connected to public sector procurement. Third sector organisations, as social enterprises, need to be put in a position to be able to anticipate new opportunities and to have a fair chance to bid for contracts. Procurement processes also need to be developed in such a way to give some recognition to the particular strengths and characteristics of these enterprising organisations.

The emphasis should surely be on developing policies that help the successful to continue to be successful, and, more than that, help them to do even more. But again it is important to be clear about motives and ultimate goals: we should be focused on securing the best service and best value for beneficiaries. We would want these organisations to do more because they are good at delivery, not because they are third sector (although their ethos is important, as is the absence of private shareholders requiring returns on their investment).

There is a need here to delve deeper, looking particularly at the TSO1000 data to understand more fully which organisations are 'doing well' and what that means – and therefore what the policy implications are. We need a better idea of organisations' trajectories, ingredients of success and the impact that different policies might have. Thinking about the more successful organisations among the TSO50, it is inevitable that we will wonder whether their attributes and behaviours can be transmitted to others. Can an enterprising approach be inculcated in others through policy initiatives? Is this about 'capacity building' – and does that, or would that work?

What seems clear is that there is much to be said for a policy approach designed to build on success and encourage the successful development of organisations over the long term. Arguably, that may be a better use of resources than rescuing those which seem to have little prospect of becoming effective in terms of management, governance and, above all, delivery.

10 Summary and next steps

The situation for the TSO50 organisations was better than we expected, with 47 of the 50 able to take part in this second phase of the study. Many organisations were managing reasonably well – and there are grounds for optimism. We heard about a variety of circumstances and experiences. Some organisations have fared well, others have had a tough time, and a few have certainly experienced serious crises. It appears that those in difficulty have been struggling not so much because of sector-wide problems but, rather, because of particular difficulties in their organisations or in their area of activity.

The importance of good governance seems evident from the experiences of the TSO50. A good board or management committee can provide a sound foundation for responding to challenges and changes, both internally and externally.

Many **Small organisations** may be said to largely *resist* change – but many of these organisations may, in any case, be hardly affected by change. If they were under great pressure to fill gaps left by the withdrawal of state provision, we suspect that some might switch their perspective, becoming organisations that react to change.

The maintenance of a benign environment should enable small organisations to continue to operate at least reasonably well. Light touch regulation is needed, and in some cases, tailored mentoring support.

The reasons **organisations are in trouble** are closely linked to how they respond to change **-** most of them *react* to change. Some are poorly managed and governed.

Many of the TSO50 that have been experiencing difficulties are funded by public sector agencies or by foundations, and may understandably expect their help if they are in trouble. It is hard to develop policy responses to weak management and governance: these are independent organisations that need to deal with these issues themselves. Nevertheless, there may be benefit in external review, so encouraging these organisations to strengthen their boards, adopt realistic plans and take difficult decisions. Funders can make their support dependent on an organisation being able to demonstrate good management and governance.

Organisations that are doing well generally have an enterprising attitude and are good at *preparing* for change. They demonstrate qualities

such as anticipating, embracing and capitalising on change - and being flexible and able to compete.

There is clearly more to being enterprising than simply being a skilled operator in a competitive market. The trick is perhaps to get the right combination of attributes, attitudes and approaches, geared to the organisation and its context.

Policies should help the successful to continue to be successful, and help them to do even more - if they want to. Public sector procurement practices are particularly important here. But again it is important to be clear about motives and ultimate goals: we should be focused on securing the best service and best value for beneficiaries. We would want these organisations to do more because they are good at delivery, not because they are third sector.

These findings and thoughts about policy implications are tentative at this stage. The next step is to complete our work on the TSO50 and do further analysis of the TSO1000 data. We are steadily moving forward towards a robust analysis of the state of the sector, how it responds to change -- and how it might be strengthened.

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The Old Chapel, Woodbine Road
Gosforth, Newcastle upon Tyne NE3 1DD

Tel: 0191 284 8412
Fax: 0191 284 8413
Minicom: 0191 284 5411
Email: generaloffice@nr-foundation.org.uk
Website: www.nr-foundation.org.uk

Charity Commissioners' Reference Number 1063906