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<td>Abstract:</td>
<td>This paper explores whether small and medium-sized third sector organisations (SMTSOs) are being 'hollowed out' due to multiple interacting pressures from their policy environment. We draw together and synthesise recent research and consider the extent to which cumulative policy pressures are eroding some core features of SMTSOs. We conclude by considering the extent to which the pressures faced by SMTSOs may limit their capacity to meet governmental expectations about their contribution to a 'shared society'.</td>
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Introduction

More than 20 years ago, Rod Rhodes (1994) surveyed the political landscape of the UK and expressed his concern that simultaneous and multiple public policies could interact in such a way that their cumulative effect was to ‘hollow out’ the British state; that is, to erode its core features. Can public policy processes have an equivalent ‘hollowing out’ effect on third sector organisations (TSOs)? That is, can public policies interact such that their cumulative effect over time is to erode distinctive features of the third sector and its constituent organisations?

These questions have been given added importance in the light of a recent indication of public policy towards the sector; the vision of a ‘shared society’ in which networks of families, communities and citizens will care for one another and in which both government and the third sector will play a part in tackling social issues. Giving the Charity Commission Annual Lecture in January 2017, the Prime Minister (May, 2017) emphasised the expected participation of ‘charities and social enterprises’ in implementing her ‘shared society’ policy.

As with earlier pronouncements about ‘Big Society’ (Alcock, 2010), no distinction was made in May’s speech between different kinds of third sector organisations (TSOs). Yet, we know that the UK third sector is internally diverse, especially with respect to size as measured by income and staff numbers. The majority of charities (around 95%) as classified by annual income, are medium (£500,000 - £100,000), small (£100,000 - £10,001) or micro (less than £10,000). Of a total of 162,296 organisations registered with the Charity Commission in 2013/14, 15% (24,422) were medium sized charities, 33% (53,614) were small and 48% (77,230) were micro organisations (Crees et al, 2016).

Research also suggests that smaller TSOs in the UK may differ from others not only with respect to income size but also with respect to organisational characteristics such as levels of staffing, involvement of volunteers, funding sources and degree of formalisation. SMTSOs are often focused on local and community needs, led by charismatic staff or trustees and/or subject to periodic funding crises (see for example, Harris, 2015; Murray and Milbourne, 2014; Phillimore and McCabe, 2015; Vermeulen et al, 2016). Within-sector diversity of this kind means that there is necessarily variation in the capacity of TSOs to deliver on policy expectations as well as variation in how public policy changes impact on them (Harris and Young, 2010). Small and medium-sized third sector organisations (SMTSOs) in particular, may lack the resources to engage effectively with governmental funders and contractors or to assert their own specialist values and expertise (Harris, 2015; Nunan, 2010).
This paper, then, draws on published UK-based research to consider how SMTSOs have been affected by the cumulative impact of the changing UK policy environment of the 21st century. It also discusses the implications for the capacity of SMTSOs to meet the Prime Minister’s ‘shared society’ policy expectations.

**The Changing 21st Century Policy Environment for SMTSOs**

Published research suggests that two broad themes in public policy - funding and regulation – have been particularly salient for SMTSOs in recent years.

Several studies have thrown light on the impact of the government’s declaration of ‘austerity’ following the 2008 global banking crisis (Edgell and Dutton, 2017; Hemmings, 2017). Drastic cutbacks in governmental grants and in commissioning of services (Lloyds Bank Foundation, 2016a), together with reductions in the governmental sector’s own provision of welfare and health services, have put pressure on small and local third sector organisations to ‘pick up the pieces’ (Buckingham and Jolley, 2015; Phillimore and McCabe, 2015). Yet, these small and medium-sized TSOs have themselves been hardest hit by public sector funding cuts (Lloyds Bank Foundation, 2017). They have been under pressure to be less ‘grant dependent’, to pay and charge commercial rents for office or community spaces and to meet more need with less external funding (Pharoah et al, 2014; Wells, 2013). NCVO’s analysis (Crees et al, 2016) argues that SMTSOs experienced severe annual income fluctuations and lost more income proportionally than larger charities between 2008/09 and 2013/14.

These impacts of the post-2008 austerity period on SMTSOs can be set within the context of earlier policy trends associated with the Labour governments of 1997 to 2010 which brought TSOs to the fore as both partners and providers of contracted services – with attendant pressures to be more ‘professional’, ‘commercial’ or ‘business-like’ (McKay et al, 2015). The post-2010 Conservative-Liberal coalition increased the pace of ‘marketisation’ of hitherto public services (Macmillan, 2011). Following the Health & Social Care Act of 2012, the NHS was further opened to bidding by corporations as well as TSOs. For-profit businesses such as G4S and Serco were contracted to run core services within the welfare and criminal justice systems. These companies, in their turn, have been drawing SMTSOs - including those working for the homeless, welfare claimants and refugees – into ‘partnerships’ and ‘sub-contracts’ (Milbourne and Cushman, 2015). But it is hard for SMTSOs to bid in their own right for public sector contracts (Lloyds Bank Foundation, 2016a). Large charities working at scale are increasingly dominating the market for governmentally-funded contracts, while...
smaller organisations which support local communities and tackle minority needs are losing out (Hunter and Cox, 2016).

Increasingly, limited available governmental funding (through grants and contract commissioning) has been accompanied by tighter regulation and closer external oversight (Benson, 2010; Cordery, 2013), as well as pressure to adopt more formal organisational structures and more ‘business-like’ management systems (Elstub and Poole, 2014). Even smaller and local organisations which are not in receipt of governmental funding are subject to tighter accountability and accounting regulations, as well as legal restrictions on their campaigning and lobbying; for example, by the provisions of the 2014 and 2015 Lobbying Acts (Commission on Civil Society, 2015; Morris, 2016).

Organisational Impact of the Changing Environment

What, then, has been happening to SMTSOs in this changing policy environment? Research suggests particular stress points around resources, accountability, inter-organisational collaboration and organisational change.

1. Resources:

The ability of SMTSOs to adapt to the changed financial environment of the 21st century has been limited by the fact that the sectoral infrastructure organisations to which they might have turned for support in the past have themselves seen withdrawal of governmental funding and many have not survived at all. Some small service-providing agencies have adapted by reducing their services and/or their advocacy activities (Crawley and Watkin, 2011). Others have embraced mergers and joint ventures, increased their income from trading, established ‘social enterprises’ or embraced partnerships with commercial businesses (McGovern, 2013).

In response to pressure from potential governmental funders and charitable trusts, which prefer TSOs to be as self-sustaining as possible (less ‘grant dependant’), some SMTSOs have sought to increase their designated ‘earned’ income (e.g. rents from hiring out rooms) and some have increased their trading activities following injunctions from funders to create a ‘business income’ stream (Hopgood et al, 2016). Again, some SMTSOs, as they strive to compete for contracts with large TSOs and businesses, have shifted their focus from local, community and specialist needs and have become providers of main-stream welfare services (Lloyds Bank Foundation, 2017; Aiken and Bode, 2009). These activities generate income but may or may not be in line with SMTSOs’ core missions.
2. Accountability:

The pressure for external accountability to governmental funders and regulators has had an impact on the ability of SMTSOs to continue their traditional role as independent advocates for vulnerable client groups (Civil Exchange, 2016). Whereas in the past SMTSOs could often combine receipt of governmental funding with advocacy on behalf of their service recipients (Taylor, 2011), they are now less likely to feel able to use data collected in the course of service provision for lobbying or advocacy, to provide case examples from real life, or to involve service-recipients in governance or volunteering (Milbourne and Cushman, 2015). In effect, their accountability to the causes or communities they were set up to work with has diminished (Milbourne, 2013).

Tighter external regulation has been found to change the informal, family-style culture of smaller organisations as well as their ability to adapt to new needs and local circumstances (Mann et al, 2011; Phillimore and McCabe, 2015). In this way, regulatory changes can threaten SMTSOs’ community-building and social solidarity aspirations (Wier, 2014) as well as their ability to focus limited resources on those they see as being most in need of their services (Nichols et al, 2014).

All the same, and despite the pressures occasioned by economic stringencies and tighter regulatory frameworks, it seems that some SMTSOs are finding ways to continue to be both advocates and service-providers (Cairns et al, 2010) – sometimes by recruiting more volunteers (Murray and Milbourne, 2014) and sometimes by collaborating with another organisation (McGovern, 2013).

3. Inter-organisational collaboration:

The pressure to compete for diminishing governmental funding (grants, service-providing contracts and sub-contracts from larger TSOS or businesses) can be at odds with the traditional inclination of smaller, especially community, organisations to co-operate with each other (Harris and Young, 2010). There has always been some rivalry between SMTSOS - often connected with different geographical locations or different underlying ideologies (Wilson, 1992). Now competition for ever-decreasing resources, as well as for specific contracts, has exacerbated tendencies to competition rather than collaboration (Mulgan, 2016) and undermined trust relationships.

Small and local organisations with credibility and specialist knowledge can be displaced in contract bidding (even for provision of local or specialist services) by larger regional and national organisations whose bids appear to offer a cheaper service and economies of scale (Aiken, 2014; Lloyds Bank, 2016a). Within smaller organisations competition may shift already limited resources away from service-provision and community-focused efforts; for example, by diverting limited staff resources into funding applications and meetings attendance (Cairns and Harris, 2011). Acute
competition for funding and other resources may also discourage exploration of organisational

collaboration even though, in the longer term, such collaborations may increase the chances of

organisational sustainability (Cairns et al, 2005). Competitive tendering for contract funding may
encourage short term strategic co-operation between organisations to secure funding while
discouraging joint working in the longer term (NCIA, 2015a).

Increasingly SMTSOs feel obliged to interact with governmental agencies (as sources of funds,
regulators and focuses for advocacy) and yet they struggle to develop appropriate relationships with
them (Nichols et al, 2014; Ware, 2014). This applies particularly to relationships at the local level
where so many SMTSOs operate and where cutbacks have meant that the 'policy making framework
is much weaker (Aiken, 2014). Smaller organisations need to understand the norms and working
practices of larger, formal organisations (of the third, governmental or business sectors) if they are
to interact effectively with them but whether they have appropriate knowledge and expertise for
this is a matter of chance. Conversely, large organisations, of all three sectors, may be unaware of
the values, working practices and limited resources of smaller TSOs and see no necessity to adapt
their own working practices to them. Because there is generally a lack of balance in the respective
resources available to large formal organisations interacting with smaller more informal ones, the
norms and assumptions of the former tend to become dominant in inter-organisational relationships
(Cairns and Harris, 2011; Harris, 2015).

Organisational Change:

The cumulative impact on SMTSOs of the pressures around funding, accountability and collaboration
have been found in recent research to be reflected in organisational adaptations and changes. Most
obviously, some have grown rapidly, driven by governmental and philanthropic funding (NCVO,
2015). Such growth is of various kinds: expansion into adjacent fields of work, or additional
geographical locations (often referred to as ‘scaling up’); or towards a focus on service provision by
paid staff for which funding is more readily available than for community-building or advocacy
(Hopgood et al, 2016).

At the same time as there are pressures on some SMTSOs to grow (albeit not necessarily by
providing more of the same) there are also pressures on others to ‘scale back’ or even close down
altogether. Those that survive may do so by ‘financial efficiencies’ such as withdrawing from
activities other than externally funded direct service-provision; changing their goals and ‘customer
focus’; ‘casualising’ staff; or employing less skilled and experienced staff who are cheaper but are
given little discretion to innovate or respond to new needs (NCIA, 2015b). A few may be successful in
obtaining support for organisational development from large charitable foundations (Lloyds Bank Foundation (2016b; 2017) or the Big Lottery Fund (Paine et al, 2012).

Volunteers who need to be trained and managed may be discouraged because they are costly. Alternatively, volunteers may be encouraged but drawn in as apparently cheap replacements for paid and skilled staff (Findlay-King et al, 2017). There may be efforts to secure professional and specialist expertise ‘pro bono’ by co-operating with ‘corporate social responsibility efforts’ of large businesses or by inviting such people to join governing bodies to replace consumer and community representatives (Harris, 2012). This appears to be part of a broader drive by funders and potential funders to change ‘the narrative’ or ‘world view’ of SMTSOs so that it aligns more closely to managerialist and neo-liberal approaches (Centeno and Cohen, 2012).

A ‘Hollowing Out’ of Small and Medium TSOs?

The overall outcome of these various pressures is that many SMTSOs appear to be withdrawing from a local, community or minority focus and surviving – if at all - by cobbled together projects for which governmental funding or foundation funding is more readily available. Survival may well be at the cost of losing local and specialist knowledge, credibility and support.

In his widely-cited article, Rhodes (1994) expressed his concern that simultaneous and multiple public policy process could interact in such a way that their cumulative effect might be to ‘hollow out’ the British state, to erode its core features. In the light of evidence presented here about how recent trends in public policy have been impacting on small and medium sized TSOs, we would suggest that there are now equivalent deep changes underway in the third sector; a process of erosion of core features of the small and medium sized third sector organisations which have up to now tried to work for specialist and local interests.

Many of them have responded positively, even with enthusiasm, to a policy environment in which resources flow most freely to those groups which deliver services according to governmentally-defined expectations. Those which have responded less positively have either disappeared or are struggling to implement what they regard as their core values of specialist responses to need and evidence-based advocacy on behalf of disadvantaged and minority populations (Hemmings, 2017; Tiki et al, 2015). The policy environment is not running in their favour. It is one, foreseen by commentators in the 1990s (eg Knight, 1993; Charlesworth et al, 1996), in which large third sector organisations whose organisational features are familiar to governmental officials are most likely to
win governmental funding (grants and contracts) and in which smaller TSOs feel pressurised to become more formal and ‘business like’ (Morgan, 2015).

In her policy vision of a ‘shared society’ (May, 2017), the Prime Minister invoked the idea of people looking out for others at a community level, as an alternative to large-scale standardised service provision for those in need. Yet as we have shown here, UK research suggests that the ‘small battalions’ of the third sector - those TSOs most likely to be able to deliver on the PM’s vision of shared responsibility for responding to social needs – are being organisationally eroded as they respond to funding and regulatory pressures in their policy environment. It seems that, in some cases at least, distinctive features (such as flexibility and responsiveness to new need) which have favoured SMTSOs as partners with government in the past may be being ‘hollowed out’. As the evidence also shows, some SMTSOs have managed to retain their values and goals and found positive ways of actively reconstructing their approach to environmental pressures (Acheson, 2014). But many others are struggling in the face of pressures to change quite fundamentally.

Further research might throw more light on the complex policy streams and policy interactions highlighted in this paper. It might also reveal the extent to which UK trends reflect shifts in other countries. In the meantime, we would suggest that the implications of the various research findings we have drawn together in this article, merit attention not only from those hoping to implement the current government’s social policy vision, but also from those concerned about the future of western liberal democracies. For these SMTSOs are a key element in ‘civil society’, the layer of collective activity between the state and individual citizens which holds communities together and can act as a bulwark against oppressive governments (Edwards, 2014; Putnam, 2000). Civil society is inevitably threatened when the deliberative and advocacy activities of SMTSOs are constrained.

Endnote

(1) Authors names shown in alphabetical order indicate equal contributions to the development of this article

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