THE RELATIONSHIP BETWEEN STATE FUNDING AND THE ORGANISATIONAL CHARACTERISTICS OF THIRD SECTOR ORGANISATIONS: AN EXPLORATORY DATA ANALYSIS

By CHRISTOPHER WILLIAM DAMM

A thesis submitted to the University of Birmingham for the degree of DOCTOR OF PHILOSOPHY

Department of Social Policy and Social Work (SPSW)

School of Social Policy

College of Social Sciences

University of Birmingham

March 2017

ABSTRACT

This thesis explores the relationship between state funding and the organisational characteristics of third sector organisations (TSOs). It presents a cross-sectional exploratory data analysis conducted using data from charities' accounts and annual returns. The thesis contributes to a longstanding debate about the impact of state funding on TSOs' independence and the role of the third sector within the welfare mix. The findings make an original contribution to this debate by opening up a new stream of quantitative evidence, to supplement the largely qualitative evidence base that already exists. This makes it possible to explore how changes at the organisational level have played out across the sector as a whole. In particular, it explores the links between state funding and TSOs' voluntary characteristics, financial health, and administrative spending. The findings suggest a mixed picture. Various associations were found in the data, though there were also numerous negative results where no link was found. Those associations that were uncovered were generally quite small. As such there is little evidence overall to suggest that state income is acting as a major driving force for organisational change within the third sector.

ACKNOWLEDGEMENTS

I owe a great deal of thanks to those who have helped me throughout my PhD and all of my postgraduate research.

First, thank you to my two supervisors, Pete Alcock and James Rees, for your support, advice and encouragement over the last few years.

Thank you also to all those who worked at or with the Third Sector Research Centre during my time at the centre. I could not have asked for a more welcoming and nurturing academic community, without which there is no doubt that my research career would never even have started. Almost everyone at TSRC has helped me in one way or another over the last five years with advice, comments on my work, or with warm words and encouragement. I am very grateful for all of it.

My Stipend was paid for by the School of Social Policy at the University of Birmingham. I am very grateful for the opportunities that this financial support gave me, and feel extremely privileged to have had the security if offered over my three years of full-time study.

The analysis in my thesis has made extensive use of the 'R' software package, and in particular the 'GGplot2' package. This software is open source and is maintained and developed on a voluntary basis. I am grateful to all those people who I will most likely never meet, but have helped my research nevertheless.

Thank you to the team at NCVO for making available various sources of data and their work on charity classifications. Also to both NCVO and TSRC for making available the accounts dataset for my research long before it was made available publically.

Thank you to my wider support network of friends and family who supported me, practically and emotionally, through the good and bad times of writing this thesis. Thanks especially to Rhian for her unfailing support throughout and for helping with the proof reading. And thanks finally to Sarah for the unfailing support and encouragement, sustenance and proof reading during the final hard stages of the PhD.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABBREVIATIONS

CDDA - Centre for Data Digitalisation and Analysis

CPA – Committee of Public Accounts

DCLG – Department of Communities and Local Government

DWP – Department of Work and Pensions

EDA – Exploratory Data analysis

HMG – Her Majesty's Government

HMT – Her Majesty's Treasury

NAO – National Audit Office

NCIA – National Coalition for Independent Action

NCVO – National Council for Voluntary Organisations

NPC - New Philanthropy Capital

NSTSO – National Survey of Third Sector Organisations

NSCSE – National Survey of Charities and Social Enterprises

PASC – Public Administration Select Committee

TSO – Third Sector Organisation

TSRC – Third Sector Research Centre

WPSC – Work and Pensions Select Committee (WPSC)

CHAPTER 1 : INTRODUCTION

This thesis contributes to a long standing debate within third sector studies. At its core, the debate concerns whether funding from the state morphs and shapes the charities that receive it into something quite different to those with less or no state income. As such it is about the nature of the third sector, its identity and to some, its value.

The dominant discourse within this debate is as follows:

- A particular group of organisations that offer services to individuals can be identified as part of the 'third sector', organisations that lie outside either the state or the market, and that exist primarily to fulfil a social mission rather than to generate profit
- Over the past few decades these organisations have together received an increased level of funding from the government
- This funding has resulted in a number of changes to individual organisations
- As a result, those with higher levels of state funding are less likely to exhibit voluntary characteristics, are more likely to be financially vulnerable and are more bureaucratic
- These changes are undermining what makes these third sector organisations (TSOs) distinctive and valuable for society

Although much of this debate exists beyond the realms of empirical research, focussing on normative or political disagreements, it also makes reference to a number of empirical claims about observable differences between TSOs. There are also a considerable number of qualitative research findings that appear to back up this discourse, at least to some degree. As of yet, however, these claims have not been tested quantitatively at the population level, across many cases.

The research presented within this thesis attempts to add a new quantitative stream of evidence to help to move our understanding of the issues forwards. While qualitative work has undoubtedly improved our understanding of the processes involved and the issues at stake, there remain major gaps in our knowledge. We do not know how changes observed at the micro level might have played out across the sector as a whole, how strong these patterns may be, and what factors might mediate or influence them.

For this thesis exploratory data analysis techniques have been applied to a newly available dataset derived from charities' accounts and registration data. For the first time, this dataset has allowed a reasonably reliable distinction to be drawn between different sources of income, and so specifically identify state funding. This means that credible sector wide, quantitative figures are now available to assess the extent to which state income is correlated with a range of other organisational characteristics. The data also allows us to bolster our knowledge of state funding for charities within England and Wales, filling in certain empirical gaps with a range of descriptive findings.

The findings presented in the later chapters suggest a mixed picture. Associations do exist between different aspects of state income and charities' voluntary characteristics, financial security and administrative spending, but there is no evidence to suggest that state income is acting as a major driving force for organisational change. The results are mainly quite small, and range from non-existent to moderate. They also depend upon a mixture of mediating factors, and in no cases suggest that state income is a strong predictor, especially when compared to the overall income level of a charity.

With the exception of some of the descriptive results, the analysis of this thesis is largely cross-sectional. It can rule out potential associations in some cases and provide evidence consistent with causal claims in others. It cannot establish causation fully, but it will provide a strong foundation for further research in this area.

Overall the contribution of this thesis is simple but significant: it opens up a new stream of evidence for a long standing debate on third sector independence, it tests some of the strident claims made about the sector as a whole in this debate, it uses simple and accessible analysis to shine light on a new and as yet largely unutilised dataset, and it provides a strong basis for further research in this area. In short, our knowledge of the relationship between state funding and other features of TSOs is advanced considerably by the results.

Chapter 2 outlines the population of interest to the thesis; based on a particular definition of the third sector. It also reflects on critiques of the third sector concept, before providing a defence of its use in this study.

Chapter 3 focuses on the political and historical background to the state – third sector relationship. Stretching back to the Victorian period, it shows how the relationship can be seen as moving between different conceptual forms over time.

Chapter 4 outlines the current policy debate. In particular, it discusses concerns surrounding threats to the third sector's 'independence', a range of prominent critiques aimed at state funding of the third sector, and alleged state dominance in the relationship.

Chapter 5 reviews a range of organisational theories which suggest that an organisation's funders are able to exert control over how it looks and behaves. Its purpose is to show the theoretical plausibility for the hypotheses outlined in subsequent chapters.

Chapter 6, in contrast, reviews the empirical evidence that state funding has influenced TSOs. It explores how state funding levels have changed in recent years, and the links suggested in the literature between state funding and TSO's voluntary characteristics, financial health and administrative spending.

Chapter 7 lays out the research questions for the thesis, and sets out how the research presented in subsequent chapters helps to address them. It provides details on the data source used and the general methodological approach of exploratory data analysis.

Chapter 8 provides descriptive analysis on state funding levels to the third sector. It explores both the current levels of funding, and how these changed between 2009 and 2013. It also shows how state funding levels vary between different sizes of TSOs and those working in different service areas.

Chapter 9 is the first bivariate analysis chapter, and describes the relationship between state income and the voluntary characteristics of TSOs, specifically volunteer numbers, the proportion of volunteers in the workforce, and donations from individuals.

Chapter 10 explores the relationship between state funding and various indicators of financial health. Specifically these indicators are TSOs' profit levels, the debt ratio, the current ratio, and the number of month's expenditure held as reserves.

Chapter 11, the final analysis chapter, explores the links between state funding and 'bureaucratic' costs on administrative support and fundraising costs.

Finally, Chapter 12 reviews the results from the analysis chapters and reflects on their implications for the debates outlined in the earlier literature chapters. It sets out the contribution of the thesis, future potential avenues of research, and to conclude offers a final overall interpretation of the results.

CHAPTER 2 : WHAT IS THE THIRD SECTOR?

2.1. Introduction

This chapter outlines the main population of interest for the thesis and within the wider debate on state funding for TSOs. As referred to in the introduction, this debate is premised on the idea that there is a group of organisations that are usefully distinguishable from those that form part of the state or the private sector.

The first section clarifies that we are primarily interested in organisations that are to at least some degree formally constituted. Primarily, this is because these are the only type of organisations directly funded by the state to any significant degree. The population is also limited to organisations that deliver some form of goods or services to individuals, which is where most of the contemporary controversy lies.

The second section explores the various definitions given to a particular subsection of these organisations, considered to constitute a 'third sector'. The various means by which this sector has been conceptualised and distinguished from other sectors are reviewed and discussed. For the purposes of this study, TSOs are defined as formally registered, independent organisations, operating for the public benefit and not for profit.

Finally, criticisms of the idea of a third sector, at least as it is commonly conceptualised, are addressed. This final section concludes that the third sector remains a relevant concept worthy of research attention.

2.2. Service provider organisations

Organisations are themselves social constructions with boundaries that can be amorphous and ambiguous. Rather than observing how different types of organisations behave or interact with external entities, a more constructivist approach would consider how they are formed, maintained and given legitimacy through social interaction. Tsoukas distinguishes between studying organisations as nouns in the former case and as verbs in the latter (2005 in Van de Ven and Poole, 2005; see also Bennett, 2013). Constructivist approaches may also include a consideration of how organisations come to hold certain identities such as 'third sector' or 'social enterprise' (Corry, 2010).

Organisations tend to be reasonably stable constructs, however, with regimes and institutions to govern how individuals within them interact and behave. There are reasonably strong inter-subjective understandings within modern societies as to what an organisation is and looks like (Meyer and Rowan, 1977). This is further reinforced by legal recognition, allowing individuals to act and form contracts via a collective, corporate personality (Kendall and Knapp, 1996). This legal status makes *formal* organisations fairly easy to identify through the relevant regulators such as companies house or the charity commission. It also ensures a relatively enduring and cohesive collective identity capable of exerting influence and being influenced within the social world (Knight, 1993).

Many studies, therefore, do treat organisations as though they are reasonably fixed entities that can be compared and identified within causal relationships. This is obviously an ontological position and as such is open to perennial discussion and disagreement between scholars (Hay, 2002; Marsh 2010). Unsurprisingly given the statistical nature of this study, however, it is one that I consider useful and use for much of this thesis, though some discussion of the social construction of the third sector is necessary to first arrive at a suitable definition.

The debate around the influence of state funding on TSOs is most often socio-economic in its focus. This means it is primarily concerned with organisations that deliver goods or services, broadly conceived. In the commonly used parlance of charities, these organisations have 'beneficiaries'. As such TSOs are identified as one sub-section of the 'welfare mix'. The so called 'mixed economy of welfare' consists of all attempts to address the welfare needs within a society at any given point in space and time (Buckingham, 2011; Evers and Laville, 2004; Evers, 1995).

Various adjectives are sometimes used to delineate more closely which services are of interest, such as human services, social services, public services or welfare services (PASC, 2008; Le Grand, 2003, 2007; Billis and Glennerster, 1998; Evers, 2007). These distinctions relate to who receives the services, who funds them, and who benefits from their delivery. Generally speaking, however, the focus is on personal services delivered to either individuals or groups of individuals, rather than to other organisations or more general classifications such as communities, the environment or mankind. Organisations that deliver personal services are also, therefore, the main focus of this study.

In his book on voluntary action, Rochester (2013) is highly critical of this narrow focus on formally constituted organisations that carry out service delivery. He claims it only represents a small part of the full spectrum of voluntary organisations, excluding those that do not offer services but do offer mutual self-help, opportunities for participative leisure or creativity, or campaigning. Along with others he also points out that most research focuses on formal organisations at the expense of informal organisations and associations (McCabe et al., 2010). These latter groups come together to meet a common goal through voluntary action, with some rules and structuring, but never register formally and do not employ staff (Billis, 1993 in Rochester, 2013).

Nevertheless, Rochester (2013) himself points out that the state has by far the largest amount of financial and regulatory interaction with those service organisations capable at least in theory of delivering a contracted public service, even if he views this narrow engagement as a bad thing. If we are interested in the influence of the state on third sector organisations, it is unsurprising that these are the organisations to which our attention is drawn. In practice, much of Rochester’s own discussion is also orientated to this formal service delivery group in his review of New Labour and Coalition policies towards the third sector, highlighting that it is here where the strongest controversy around the third sector - state relationship resides (Independence Panel, 2015; NCIA, 2015). Whilst acknowledging therefore that this study falls squarely into the research paradigm identified by Rochester, along with the limitations to its scope, I argue that this is acceptable given the study’s purpose: to provide new evidence to an existing and ongoing debate about the influence of state funding on TSOs.

2.3. Third sector organisations

Organisations within the welfare mix, or mixed economy of welfare, could be divided up in a number of ways depending on the interests of researchers, such as by geography or industry. One distinction that has an extremely long pedigree in liberal thought, however, is the distinction between public and private service providers. The distinction is almost an axiom of our understanding of organisations, despite the fact that both kinds of provider have many similarities in how they look and behave. They generally employ staff, manage budgets and often have a similar range of job roles and departments. If we limit ourselves to formal organisations there are, however, at least these two sectors that seem to be broadly accepted as useful concepts within academia and beyond.

More controversial and ambiguous, is the use of a 'third sector' concept to describe organisations that do not fully fit into either camp. These are private, self-governed and formal organisations, but they are arguably distinctive from the majority of their contemporaries operating for-profit within the market economy. Extending the geographic metaphor inherent in the idea of a 'sector', numerous authors have used triangles to illustrate how they perceive the relative position of these three sectors within the welfare mix, sometimes also with regards to a fourth informal sector.

One subset of these models defines the third sector entirely vis-a-vis its relationship with the other sectors. The third sector is only distinct from the public sector because it is non-governmental and it is only distinct from the private sector because it is not-for-profit. It is distinguished from the community sector by the formal nature of the organisations involved. Sometimes just one of these features is emphasised depending on the context. In the US, the organisations' non-profit nature is considered most important, while in international development circles the non-governmentality is primary (Alcock, 2010).

Pestoff (1992) combined these dividing lines into a single model that places the third sector in the middle area of a triangle intersected by three dividing lines: indicating whether or not an organisation is public, formal and for-profit. The associations, voluntary organisations and non-profit organisations that make up the third sector are therefore categorised as such by virtue of being formal, private and not-for-profit. Even if some of these characteristics can be phrased positively, the result is a residual category that defines the sector negatively (Brandsen et al. 2005; Alcock, 2010). For Paton (1991), this begs the question of whether the remaining organisations are sufficiently alike to form a worthwhile or interesting analytical category.

Another form of model also places the third sector between the others within a welfare triangle, but somewhat more positively on the basis that it forms a unique hybrid realm rather than a residual category. The justification of this hybrid status differs between accounts. The first claims the third sector itself is a kind of 'tension field' where different rationalities and discourses mix and compete (Evers and Laville 2004; Brandsen et al., 2005). This suggests that each of the other sectors can be primarily defined on the basis of a distinct logic and principles; each with its own set of rules to guide behaviour (Billis, 2010).

Various authors claim the state is driven by elections and the wishes of the median voter (Billis and Glennerster, 1998); principles of public service and collective choice (Billis, 2010); notions of citizenship, redistribution, equality and minimum standards (Buckingham, 2011); hierarchy, impartiality and university (Paton, 1991); and regulation and coercion (Paton, 2009 in Alcock, 2010). The market in contrast is said to be driven by profit, individual choice and competition (Buckingham, 2011; Billis and Glennerster, 1998; Paton 1991), with notions of entrepreneurship, investment, accumulation and performance based remuneration (Paton, 1991). And finally the informal welfare sector operates on principles of care, reciprocity, solidarity and deep personal obligations (Buckingham, 2011).

According to Evers and Laville (2004), TSOs are influenced by and operate in a realm that includes all of these principles, balancing norms, values and logics from all sectors. Brandsen et al. (2005) suggests that TSOs may have some way of uniquely dealing with this complexity and hybridity, but they do not come to a conclusion on what exactly this ability would entail.

Alternatively, the third sector is a hybrid realm because the organisations that constitute it are themselves hybrid. De Donk referred to TSOs as hybrids falling between the 'pure' embodiments of the other sectors: bureaucracies, enterprises, and families or clans (in Brandsen et al., 2005). Similarly, Billis and Glennerster (1998) claimed TSOs possessed characteristics from all three sectors. They suggest that as well as the different motivational drivers identified above, private sector organisations are generally financed by sales and run by paid staff, public sector organisations are funded by taxes and staffed mainly by civil servants, and both sets of organisations are structured using a formal, bureaucratic model.

In his earlier writings on voluntary organisations, Billis places them between the realms of associations and bureaucracies (1993 in Rochester, 2013). Associations are described as groups of people coming together to meet a common goal through collective action. Members are the defining feature, source of resources, and collective decision makers. Unlike in the more formal bureaucracies, there is no strong vertical hierarchy or strict division of job roles. Voluntary agencies may take on staff, though the roles of various stakeholders remain ambiguous (Billis and Glennerster, 1998). Billis (1989 in Alcock, 2010) visually models this relationship using a Venn diagram (Figure 2.1).

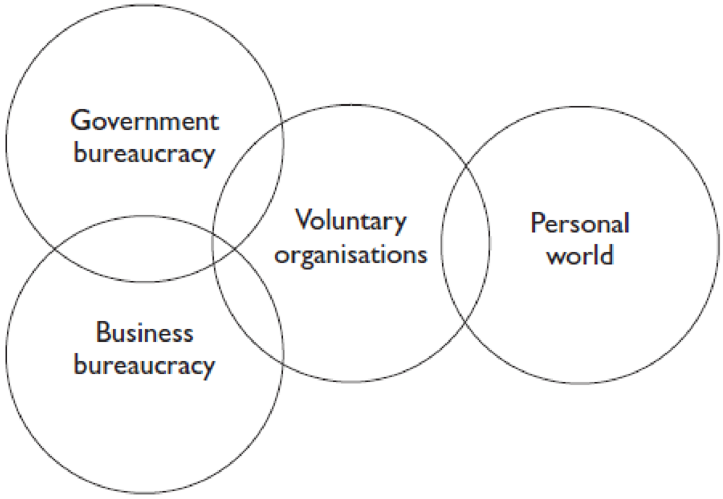

Figure 2.1 : The voluntary sector in relation to other sectors (Billis 1989, p.20 in Alcock 2010, p. 10)

As with the residual definitions some have criticised the idea that the third sector is uniquely characterised by its hybridity. Hybridity and blurred boundaries can be found in all of the sectors (Bode, 2006; Brandsen et al., 2005), as can the principles of competition, hierarchy and personal obligation. As with the residual definitions, the idea of a hybrid sector also positions the third sector as somehow of secondary importance to the other sectors (Corry, 2010). This is less of an academic concern, but poses a dilemma for advocates who see the sector as providing some form of distinctive, beneficial contribution to the welfare mix.

Alcock (2010) characterises these externally facing definitions as exogenous models, in contrast to endogenous models that attempt to define a third sector on the basis of unique characteristics or some kind of cohesive sectoral core. For both academic and normative reasons, therefore, various attempts have been made to outline a more positive, endogenous definition using specific organisational characteristics.

In contrast to his earlier work, Billis (2010) later came to identify the associational realm as the true embodiment of the voluntary sector, with the professionalised service agencies constituting hybrids. He identifies from the literature the elements of ownership, governance, operational priorities, human resources and other resources as the key indicators of each sector. Hybridity can result from different resources (human or financial), drivers of behaviour and goals, legal forms and ownership structures (see also Evers, 2007; Paton 1991). Under this schema, associations and hence the voluntary sector (or alternatively the third sector), are positively defined on the basis that they are owned by their members, governed through internal democracy, driven by their distinctive mission and rely on donated income and volunteers.

Anything that lies between these poles and possesses the characteristics of more than one sector is a hybrid. Billis suggests, however, that all organisations are primarily rooted in a single sector. As Macmillan (2013a) points out, this kind of conceptualisation suggests that some types of organisation are better fits, or closer to the ideal or pure type than others. The idea that hybridity is a matter of degree seems to be implicitly reflected in the geometric metaphor of a welfare triangle (Evers and Laville, 2004), or a welfare pyramid if the informal sector and third sector are both included (Buckingham, 2011). Hybrid organisations can be visualised as moving towards or away from the different poles depending on their characteristics. It is also worth noting that under Billis' schema it is possible for an organisation to be at different points on the spectrum for different characteristics, though it is not clear how exactly these could be combined into a single, overall measure of hybridity.

Billis (2010) himself, however, is adamant that hybridity itself is not a continuum, because there is a clear cut off point at which organisations start to operate according to another sector's principles. Although it is not fully clear how this cut off point is determined, it strongly suggests that there is something more than just the presence or absence of particular characteristics that determines the sector of an organisation. It implies that these features add up to something more: a combined logic and set of principles, or the 'rules of the game' in Billis' terms.

This presence of a sectoral 'logic' may in fact be necessary for the hybridity theory to remain coherent. Without it, it is not entirely clear why some combinations of these different characteristics should be considered to add up to a pure type while other patterns should be considered hybrid. There is not much empirical evidence that the characteristics cluster into the pure types more commonly than they do hybrid mixes. In fact Billis (2010) suggests that the completely pure type rarely exists in practice and that hybrids are widespread and increasingly common (also Brandsen et al., 2005). It remains an open question at what point, if at all, hybridity becomes so pervasive that it is no longer analytically useful to think in terms of the original sectors. Supposedly pervasive hybridity has led some to suggest that a single concept is no longer useful to describe the third sector, as it has bifurcated into professionalised and non-professionalised bodies (Knight, 1993; PASC, 2008).

Identifying the unique values, principles or logic of the third sector is a difficult endeavour, however. Different authors have placed the emphasis on different characteristics, some of which coincide with different elements of Billis' (2010) framework.

The most famous and perhaps frequently used example of an endogenous definition is the structural operational definition developed by Salamon and Anheier (1997) for the John Hopkins Comparative Non-profit Sector Project. These authors came up with five key criteria to identify non-profit organisations. Besides the non-distribution constraint, non-profits were defined as independent, self-governing, formally organised, and with at least some form of voluntary input (Kendall and Knapp, 1996). Although all are matters of degree, organisations are classified as either meeting all of the criteria or not. Notably, mutuals and co-ops are excluded despite their importance in a European context (Evers and Laville, 2004), while fully state funded organisations are not (Kendall and Knapp, 1996). In Kendall and Knapp's (1996) UK based contribution to the project, purely religious groups and political bodies are also excluded, though it is not entirely clear why.

As Corry (2010) points out, the first four of these are in fact identical to the residual definitions that distinguish the sector from the for-profit sector, the government and the informal sector. The truly positive element is the inclusion of voluntarism, which Kendall and Knapp (1995) identify as perhaps the sector's most important feature. Voluntarism could feasibly be seen as part of the 'logic' of the third sector. This matches the reliance on voluntary resources, both time and money, included in Billis' (2010) framework. The emphasis on voluntarism also fits with the frequent use of the term 'voluntary sector', particularly within a UK context. In practice the requirement is fairly minimalist in its implementation, however, as the majority of a qualifying organisation may still be run by paid staff or be paid for out of non-donative income.

What the structural operational definition clearly does not include is any reference to public benefit, altruism or the organisational expression of values (Corry, 2010). The exclusion of the public benefit criteria from the structural operational definition seems to have been mainly practical. It was apparently not possible to agree within the international comparative project on how it could be successfully applied (Kendall and Knapp, 1996).

Because this seemed to lead to a definition at odds with most people's understandings of the third sector in the UK, it led Kendall and Knapp (1996) to adapt the structural operational definition and offer a supplementary 'narrow' definition. This fairly arbitrarily excluded organisations such as private schools, most housing associations, professional associations, recreational organisations and unions, on the justification that they were too exclusive, political or informal.

Whilst it is true that the issue of public benefit can be contentious and difficult to apply, however, it seems to get to the heart of why scholars, practitioners and policy makers have identified TSOs as both an interesting and distinctive phenomenon in the first place, and as providing a contrast to the for-profit form. It is central to the legal definition of charity, as well as the definition of a TSO provided by the Office of the Third Sector (in Hands et al., 2008). Furthermore, voluntary resources and the non-distribution constraint both seem fairly inextricably linked to the fact that these organisations are not primarily intended to generate profit for their owners. It seems likely that people rarely volunteer or donate to the private sector, at least in a conventionally understood sense, precisely because it theoretically lacks the explicit and primary commitment to a set of values, mission or cause beyond profit.

As a result many authors *have* included the idea of value driven or expressive organisations in their definitions of a distinct third sector (as identified in Macmillan, 2013a and Kendall and Knapp, 1995). Brandsen et al. (2005) consider whether there may be a caring rationality, aimed towards some defined 'other'. In addition to voluntary resources, Buckingham (2011) focuses on a commitment to an organisational mission to promote a particular moral framework. The idea of welfare delivery conducted on a logic of voluntary altruism or public benefit does, therefore, seem to be the most likely alternative to the 'logics' or 'principles' associated with the other sectors by Billis (2010).

On the other hand, there are clear difficulties with relying on values or public benefit criteria for the definitional purposes. Some authors, such as Knight (1993), suggest that the idea of a value driven sector is too pejorative, and based on subjective and normative stereotypes. They also point out that there are value driven organisations that the wider society may disagree with. This criticism only seems valid, however, as a result of frequent conflation between what defines the sector, and what makes it distinctive or valuable (Macmillan, 2013a). Whether or not we agree with a moral framework does not prevent us from defining an organisation as being mission driven.

Authors have also pointed out that other sectors can have moral aims and be driven by their values (PASC, 2008; Taylor and Langan, 2006). This is partly because organisations can have multiple and overlapping goals, existing alongside one another more or less compatibly (Kendall and Knapp 1995; Taylor and Langan, 2006). Organisations may also claim one motivation, while seemingly acting in pursuit of another (Paton, 1991). Just as few organisations are free from any self-interested concerns; few organisations are purely motivated by profit at the expense of all other considerations. We can, however, conceive a distinction between organisations *primarily* driven by either profit or a social mission, with a spectrum in between.

A framework is therefore needed that acknowledges we are dealing with variables and matters of degree, even if we draw cut off points for the purposes of analysis. Paton (1991), writing on the social economy, provides a simple and coherent approach using two variables. As with the triangular models, TSOs are distinguished from the public sector and informal sector on the basis of their level of institutionalisation. This refers to their size, permanence and formal structure. They are distinguished from similarly sized private sector organisations on the basis of their motivations and mission driven character. Paton's (1991) resulting grid therefore identifies six sectors, based on three degrees of institutionalisation and a binary distinction between primarily altruistic and primarily self-interested organisations (Table 2.1). The third sector lies with the social economy in the right column of the middle row.

Identifying that there are *two* important dimensions at play helps to clarify how exactly we are dividing organisations, and helps to move us from the models of welfare triangles, pyramids and theories of hybridity to a more clearly delineated sector. It is also more parsimonious than Billis' multi-variable model, though perhaps it is less suited to examining the nuances of hybridity. While reminding us that us that these are not all or nothing theoretical classifications, it also emphasises the importance of a public benefit criteria as perhaps the most important factor when identifying the third sector as distinct from similarly formal and independent organisations. Finally, none of the categories is positioned as primary, or as more important than the others.

Table 2.1 : Different sectors according to institutionalisation levels and goals / benefits

Institutionalisation	Primarily private benefit / economic goals	Primarily public benefit / social goals
Institutionalised bureaucracies	The corporate sector	The public sector
Semi-institutionalised organisations	Small and medium sized enterprises	The social economy
Informal groupings	The hidden economy	The natural economy

Voluntarism, which as discussed forms an alternative basis for a positive definition, is not included. Not all formal organisations that operate independently, not-for-profit, and for the public benefit use either volunteers or receive donations. The extent to which TSOs do make use of these resources is an open question. By treating voluntary characteristics as contingent outcome variables, rather than a defining characteristic, we will be able to explore the extent to which TSOs exhibit voluntarism depending on their level of state finding in Chapter 9. The rationale for exploring this relationship is developed further in the chapters that follow.

To summarise the discussion therefore, TSOs will be defined within this study using the following criteria. They are:

- Organisations that deliver personal services
- Formally and legally registered organisations
- Independent and self-governing
- Driven by a social mission or purpose, for the public benefit, and are not-for-profit

The steps taken from this population to a workable sample are described in Chapter 7 on the methodology, along with some of the compromises that were necessary along the way.

2.4. Defending the 'third sector' concept

It is worth acknowledging that the third sector concept and its perceived utility are contested. This is partly because the idea of a third sector increased significantly in prominence as part of a political project stewarded by New Labour. Kendall (2005) labelled this the 'hyperactive mainstreaming' of the third sector discourse, accompanied by a major increase in state funding for TSOs and 'horizontal' policies aimed across the sector (Kendall, 2003). These included the formation of the Office of the Third Sector from a number of smaller government units, a 'Compact' to outline best working practice in cooperation between the sectors, funding for research, and a range of capacity building programmes to fund organisational development within the sector.

The government has more power than most actors to shape political discourse for its own ends (Alcock, 2010), and Carmel and Harlock (2008) claim this power was the primary driver behind the third sector concept. They suggest the labour Government sought to carve out a broad domain of organisations it could govern and discipline into acting as alternative providers for previously state run services. One of the problems with this viewpoint, however, is that the power of other actors is diminished and the TSOs themselves are portrayed as almost entirely passive recipients of discourses and identities exerted onto them from a space beyond their control.

On the other hand, 6 and Leat (1997) suggest that the rise of the third sector concept was the result of lobbying by a self-interested sub-elite. They claim that a wide range of actors including practitioners and academics had a stake in 'inventing' the idea of a united sector out of a wide range of disparate organisations, in part to secure and consolidate resources from the state. They legitimised the concept by stressing the sector's economic importance and assumed positive attributes. As such, 6 and Leat suggest that any use of the concept of a voluntary or third 'sector' to debate or research organisations is implicitly supporting the political agenda of these actors. Less pejoratively, Alcock (2010) describes how various actors have a stake in the idea of a homogenous sector, leading to a 'strategic unity', albeit a unity under constant strain (see also Macmillan, 2013a).

Whereas Carmel and Harlock place too little emphasis on practitioners' role, 6 and Leat arguably overstate their case. Although some actors are more discursively powerful than others, a broad coalition of stakeholders is needed for a concept to gain prominence and it seems untenable that such a small group of self-interested actors could instil such a powerful concept, unless there was a wider appetite or at least acceptance towards its use. Despite seeming to agree with 6 and Leat's analysis and frequently referring to the 'invention' of the voluntary sector, Rochester (2013) seems to acknowledge this at one stage. He claims the concept found 'fertile ground' in the UK, as many of those working in TSOs felt there were common interests that bound them together beyond just their tax status.

Kendall (2000) offers an arguably more nuanced account, considering the phenomenon through Kingdon's framework of 'policy windows'. He identifies a wider variety of factors that influence the policy environment, including public option, new academic research, and the role of think tanks, all of which helped to create a receptive environment for the third sector concept. This opportunity was then seized by policy entrepreneurs within New Labour seeking a new discourse to differentiate their policy agenda.

The account provided by 6 and Leat (1997) in particular seems to fall into a particular bracket of social science critiques, commonly aimed at dominant discourses and established concepts. Hacking (1999) describes how particular concepts are de-legitimised by highlighting their socially contingent status as ideas, indicating they are neither essential nor inevitable. The implication is that as these 'invented' concepts are not fixed, then they could and often should be discarded.

Although epistemological and ontological debates are to some extent irresolvable, many authors view some form of conceptualisation and categorisation as an inevitable and useful part of human activity and understanding (Alcock, 2010, Salamon and Anheier, 1997). Under this view, the more interesting question is which concepts are privileged and why. Carmel and Harlock argue that Government is the key driver, enforcing the dictates of neo-liberalism, while 6 and Leat (1997) point to elite practitioners. But this arguably oversimplifies the constant political competition and discursive turmoil that occurs within any given policy field (Fligstein and McAdam, 2011; Macmillan, 2013a).

Although academics are only one part of this political activity, it seems reasonable that researchers should strive to assess the utility of a concept beyond its material advantage to different groups. This does, however, require some sort of epistemological commitment that some concepts are better, more useful, or perhaps closer to 'reality' than others. What then makes a useful research concept? Salamon and Anheier (1997) suggest that it is a question of internal homogeneity, commonality and consistency. Macmillan (2013a) suggests that in classical categorisation theory, a strong definition maximises internal coherence and external contrasts. On this count too, however, the concept of the third sector can be seen as problematic. The sector has blurred boundaries and great internal diversity, leading Kendall and Knapp to describe it as a 'loose and baggy monster' (Kendall and Knapp, 1995). Halfpenny and Reid (2002) suggest that it is far too vast to study as a single entity.

Arguably, however, these difficulties are overplayed. Although the boundaries of the sectors may be blurred, many if not most organisations seem to fit rather clearly into one sector or another. Regardless of the exact definition used, it is usually the same core group of organisations that is ultimately identified (Corry, 2010; Alcock, 2010). It is certainly at least unproven that hybridity is in some sense becoming the norm.

In terms of internal diversity, the common characteristics that form the definition of the third sector have been clearly outlined in the previous section. Although there are difficulties applying these criteria in practice, which will be discussed later in the thesis, they seem no more blurred than those used to identify the other sectors. The real question is perhaps whether the unifying thread provided by this definition is considered a sufficiently important one or not, given the myriad other ways in which these organisations can differ from one another.

This is a more normative judgment and cannot be proven as such. It will be determined by readers on their own terms. But given the dominance of neo-liberal and market discourses, it is not surprising that for many at least, the public benefit distinction and not for profit restriction do appear to be an important one within the organisational universe. Furthermore, the group of organisations that it helps to identify seems to be one that many observers consider worthy of attention, as indicated by the ongoing level of research explicitly targeted at TSOs. In particular, the threat that government funding has somehow undermined or threatened this group of organisations has inspired the often heated debate to which this research contributes. Billis (2010) suggests that the idea of the third sector points at a deep rooted and firm distinction. And as Corry (2010) puts it, the reality of the monster, with a distinct type of social form and practical logic, is rarely denied (Corry, 2010).

2.5. Chapter summary

This chapter has outlined the main target of the research for this thesis. Given the ongoing debate around the impact of state funding on third sector organisations that deliver personal welfare services, the focus of the research is targeted at the organisations most likely to fall into this category. Specifically, it focuses on organisations that deliver personal services, are formally constituted and legally registered, are independent and self-governing, are non-profit, and instead operate for a social mission and the public benefit.

The concept of the third sector is criticised by those that consider it to be part of a restrictive and politically driven discourse. I have argued that the distinction provided by the public benefit criterion is an important one, however, and can justifiably be used to define the research population for this study.

CHAPTER 3 : THE DEVELOPMENT OF THE THIRD SECTOR'S RELATIONSHIP WITH THE STATE

3.1. Introduction

The previous chapter established that the focus of this thesis is on a particular group of organisations that operate primarily for public benefit and form a distinctive 'third sector'. It also identified that these TSOs are considered by many to be a worthwhile focus of research attention.

This chapter provides a contextual overview of the often controversial relationship between the third sector and the state within the welfare mix. In particular it explores how the division of labour between the two sectors has historically veered between different conceptual models. Starting with the foundations of the relationship in the Victorian period, it then looks at how the third sector carved a new role within the modern welfare state after the Second World War. The impact of the breakdown of the post-war consensus under Margaret Thatcher is also considered, as well as the third way under New Labour. Finally, it explores how the current policy context has developed since the election of the 2010 Conservative led Coalition.

3.2. Visions of the third sector

First, a brief conceptual review helps to plot a route through the complex history of the two sectors' respective roles within the welfare mix. Particularly helpful is Young's (2000) typology of state-third sector relations. Young categorises the relationship between the state and third sector as supplementary, complementary or adversarial.

When TSOs fulfil a *supplementary* role they work separately from government. The model closely links to theories of state failure, which identify the third sector as 'filling in the gaps' in state provision. For example, Weisbrod (1975) notably argued that TSOs would emerge to meet unmet demands for public goods made by minority groups, which could not be agreed to democratically by the majority.

Under a *complementary* model, TSOs act as state funded delivery partners. Salamon (1987) claims that the state bankrolls the third sector, or steps in to fill any gaps in voluntary provision. The two sectors work together to mitigate their respective weaknesses. In particular, the state uses its financial power to underpin a universal level of basic services and to compensate for the uneven nature of third sector provision.

Finally, in the *adversarial* model, TSOs campaign for policy changes and the Government reciprocates either by acquiescing to these demands or by attempting to co-opt and control the third sector. This model, therefore, focuses on advocacy and campaigning rather than direct service delivery.

Najam uses similar concepts, but stresses the importance of agency and strategic decision making on either side (2000). Where goals and preferred methods coincide, close cooperation and the mutual exchange of resources are likely, similar to Young's complementary model. It is also possible for goals to conflict, but for joint working to occur anyway, which inevitably leads to an unstable power struggle over the direction of services. If both sides work separately but have similar goals, then Young's supplementary relationship is more likely. And finally, if they work separately and their goals differ, there will be an adversarial relationship.

As with all theory, these frameworks are significant generalisations. As Buckingham (2012) points out, organisations in practice have multiple overlapping and competing goals and methods. The purpose of theoretical models is not to account for all of the empirical details, however, but to draw our attention to particularly salient or important patterns. In this case, both Young and Najam both usefully highlight the variation which occurs in the relationship between the two sectors.

Perhaps more importantly, these concepts are often drawn upon, implicitly or explicitly, in discourses that concern what the relationship between the state and the third sector *should* resemble. They are recurrent motifs within debates over the direction of the third sector.

The following discussion focuses on how the relationship itself, and views on its proper form, have varied between these ideal types over time since the Second World War as part of a 'moving frontier' (Finlayson, 1990 in Lewis, 1999).

3.3. The historical state-third sector relationship

Although the state is not the only influence upon the third sector, its impact is clearly visible as both sectors have developed over much of the previous century. This section describes how the two sectors' relationship has developed from a largely supplementary model, to a more mixed model, and how there are now concerns that a particular kind of complementary, 'instrumental' model predominates.

Prior to the Reformation, the Catholic Church arguably fulfilled the role of a third sector in England. It held a power base to genuinely rival that of the state. To some degree that power continued to reside within the Protestant church, somewhat less independently of the state, through the centuries that followed. Over time, however, the church's power declined and more secular forms of philanthropy developed amongst the new mercantile elite (Kendall and Knapp, 1996). At same time, the role of the state also gradually shifted. Visible poverty in the Tudor period elicited the development of the Poor Law and the administration of outdoor relief by local parishes, resulting in the potential for a significant overlap between the roles of the two sectors for the first time.

Early attempts were made to instead impose a vision of supplementary and 'mutually exclusive spheres' onto the relationship, including the 1834 Poor Law Amendment Act and later 1869 Goschen Minute (Knight, 1993). These changes attempted to both harden the state regime for those able to work, whilst leaving provision for the more 'deserving poor' to charity (Taylor and Kendall, 1996). Critics of the old poor law preferred private charity due to its more conditional and contingent nature (B. Harris, 2010). The Charity Organisation Society was independently established in 1869 partly to administer this distinction and to ensure that only the most deserving cases fell under a charitable remit.

The Wolfenden Committee (1978) would suggest much later that the period marked an increase in the third sector's role, though B. Harris (2010) has cautioned that the data is somewhat contradictory. He also suggests that the idea of separate spheres should not be overemphasised, given the state's regulatory role, the overlap of key individuals involved in governance, and the flow of donations and support in both directions. Nevertheless, he suggests that the third sector did help to independently build up the rudiments of a functioning public welfare system in both education and health, albeit with some state funding.

The status quo started to come under strain, however, as state involvement gradually but steadily expanded (Lewis, 1999; Alcock et al., 2004). In 1870, local authorities were permitted to set up their own schools, in addition to the grants they had provided to those in the third sector since 1833 (B.

Harris, 2010). The Liberal welfare reforms would follow in the early twentieth century in areas such as health, unemployment and pensions. Increasingly the third sector operated in a new landscape; one in which the state played the dominant welfare role.

Although revolutionary, the advance of the state was a far from even phenomenon and some areas remained under third sector control for much longer than others. The situation between the wars, therefore, arguably matched Salamon's theory of voluntary failure (1987). The state filled in gaps left by the third sector and underpinned universal provision. Existing TSOs were also often recruited to assist in the delivery of new state services (B. Harris, 2010). For example, social insurance was initially delivered through existing mutual aid schemes and state funding was made available for TSOs to care for the elderly, children and disabled people (Kendall and Knapp, 1996).

Following the Second World War, however, the state took an increasingly dominant position. Many service areas were nationalised entirely and faith was placed in statutory agencies to provide universal, professional and impartial provision (B. Harris, 2010). Some may have feared, or perhaps hoped, that the third sector would become redundant and fade away entirely, a relic of a bygone age (Deakin, 1995). Although voluntary hospitals and friendly societies were largely replaced by the new state system, however, the idea of a zero sum game between sectors was in general to prove unfounded.

Gradually, the third sector became more focussed on providing additional services to clients, rather than on their material subsistence or finances (B. Harris, 2010). Interestingly, the Webb siblings had earlier suggested a similar 'extension ladder' system as a replacement for a mutual spheres: a 'parallel bars' model (Knight, 1993). The idea was that the state would provide universal minimum welfare and material assistance; and charity would supplement this with specialist services. This still represents a supplementary model, but the division of labour is in terms of separate services rather than clients. We could perhaps distinguish between horizontal and vertical models of supplementary provision.

William Beveridge, one of the architects of the new welfare state, was also a strong proponent of this form of supplementary model. He argued strongly that voluntary action should retain a separate, protected sphere of influence outside the market and state, offering specialist, additional services (1948, Alcock, 2016). He even argued that the state's responsibility was not simply to permit such a realm to exist, but to protect and encourage it. Notably, Beveridge was in favour not just of TSOs providing top-down, philanthropic aid, but also of the mutual aid motivation that leads to self-help amongst the disadvantaged (Kendall, 2009). A good society, he argued would succeed only when individuals sought to improve the situation of themselves and others beyond the minimum offered by the state (1948).

In some cases the expansion of state welfare freed up voluntary resources to be deployed in new areas, such as medical research (Kendall and Knapp, 1996). New roles emerged in fields such as family welfare or information and advice, which required new skills and professional staff (Deakin, 1995). In others, new and innovative activity was undertaken, often to address new areas of need or dissatisfaction with mainstream provision. Some areas were never taken into the state system at all, such as lifeboat provision (Knight, 1933). Supplementary provision was far from moribund.

Wolfenden (1978) also suggested that although state funding for third sector agencies became unfashionable in the years immediately after the war, grant funding began to increase once again from the 1950s onwards along with local and national spending generally, particularly in the field of social care (Kendall and Knapp, 1996). The third sector may have been the junior partner, but TSOs still enjoyed a reasonable amount of autonomy to deliver services as they saw fit (Knight, 1993). Bode (2006) argues that this period constituted a form of corporatist model, shared to a greater or lesser extent with other major European welfare states. Where it was involved in delivery, the third sector had at least some role in policy planning and delivery partnerships tended to be long term and relatively stable.

Overall, therefore, the post war years saw the third sector fulfil a variety of roles, though arguably with an increasing emphasis on complementary provision (Lewis, 1999). Far from being squeezed out, the third sector was able to grow and consolidate. The growing discontent with state provision was soon to have far reaching consequences for the sector, however. The 1979 Conservative administration under Margaret Thatcher saw significant changes to the modus operandi associated with state funded provision.

3.4. The rise of contracting and competition

The 1979 Conservative Government was elected in a period of growing dissatisfaction with the post war welfare system. Economic conditions had begun to deteriorate, leading to intervention by the IMF and severe public expenditure cuts. State services were accused of being inefficient, impersonal, unresponsive, and subject to bureaucratic mission creep (Deakin, 1995).

The third sector responded with a new generation of TSOs including campaigning groups and providers that were highly critical of the perceived failings of existing state provision (Deakin, 1995; B. Harris, 2010). Self-help groups also emerged to represent the interests of their members, along with a significant advocacy and campaigning role for the sector. These organisations predominantly match an *adversarial* model for the third sector and sat somewhat uncomfortably alongside the more established third sector service providers.

Alternative visions were put forward for how third sector's role should develop. The Wolfenden Report on the future of voluntary organisations remained fairly corporatist, rooted in a paradigm that was arguably coming to an end (Deakin, 1995). A review by the National Council of Social Service suggested a more radical alternative based on independent self-help provision and community development (*ibid*).

In practice, rather than leading the agenda towards a new model of welfare, TSOs were instead forced to react to a rapidly changing political situation. Economic conditions, combined with New Right ideology, led the 1979 Conservative Government to attempt, at least in theory, to 'roll back the frontiers of the state'. The Conservative administration particularly targeted local authority budgets for cuts, where much of the third sector's interaction with the state occurred.

Although lacking the profit motive and market competitiveness of private sector organisations the third sector still provided a viable alternative to the state in many service areas. TSOs were called to cooperate with new schemes to tackle unemployment and community breakdown, partially replacing funding lost through local authority cuts. By 1988 TSOs were supplying over half of the Community Programme projects (Deakin, 1995). These same organisations were subsequently hit hard, however, when central government diverted or withdrew the funding (Leat, 1995a). There were also accusations that the third sector was supporting a political agenda focussed on providing low skilled part time employment (Deakin, 1995; Taylor, 1996).

Perhaps the most significant development, however, was not to occur until Margaret Thatcher's third term. Large areas of public services were either privatised or outsourced via quasi markets in 1988 and 1989 (Le Grand, 1991). Within quasi marketised services, the state remains the main funder of a service but external providers compete for market share (Bartlett and Le Grand, 1993). Most commonly, this is achieved through competition for government contracts.

Most notably, the 1989 White Paper on Community Care obliged local authorities to purchase much of their provision from the independent sectors. This generally meant that existing funding relationships were subject to greater levels of specification, quality assurance and monitoring (Lewis, 2005; Alcock et al., 2004). Other services were to be provided externally for the first time. These reforms provided new funding opportunities for TSOs, but also fears that the newly developing contract culture would change participating service organisations and lead to a repeat of the problems associated with the community and employment programmes.

The overall aim appears to have been to harness the third sector within the Government's agenda as part of an 'instrumental' approach to partnership (Kendall, 2000; Lewis, 2005). An 'Efficiency Scrutiny' of Government Funding for the voluntary sector in 1990 called for greater regulation and government control over how funds were spent. Grants were therefore increasingly attached to specific projects, or replaced with contracts and more business like arrangements (Knight, 1993). Although grants were never unconditional, the overall trend was a shift towards greater formalisation and specification (NCVO, 1993 in Lewis, 1996).

The developments described clearly marked a very different form of complementary provision to that which developed during the initial development of the welfare state.

3.5. New Labour, same approach to partnership?

Early in its first term, New Labour attempted to distance itself from their predecessor's instrumental model. Instead the party emphasised collaboration and equal partnership, enshrined in 1998 by a new 'Compact' to codify principles of joint working locally and nationally (Lewis, 2005).

Not only were better terms and conditions for complementary provision proposed but the adversarial role of the sector was also supposedly safeguarded. The importance of the third sector's independence and voice was repeatedly stressed (HMT, 2002, 2005; OTS, 2006). To some, this marks a major attempt to protect third sector independence. To others, its very existence demonstrated how far the sector had already been co-opted into the Government's sphere of influence (Blackmore, 2008).

In addition, a commitment was made to include the third sector not only in the implementation of policy, but also during policy formation and service design. The aim was to combine both co-production and co-governance, which Osborne and McLaughlin (2004) refer to as a 'community governance model'. There also appeared to be a broader vision of the third sector working within communities to build social inclusion and democratic renewal, beyond specified service delivery (Osborne and McLaughlin, 2004; DCLG, 2006 and 2007 in Cairns, 2009; HMT, 2002).

The assumption appeared to be that if the correct framework was put in place then such cooperation would be largely unproblematic, as both the Government and the third sector shared broadly the same objectives and vision of the public good (HMT, 2002). Najam's (2000) conception of joint working with conflicting goals, and the resulting conflict, was not openly considered.

The introduction of a partnership culture, to replace the prior 'contract culture', therefore can be seen as an attempt to support a more multifaceted, broad approach to the state's relationship with the third sector (Macmillan, 2010). As such, it reflected the proposals of the so called 'Deakin Commission' (1996), an independent inquiry supported by NCVO, rather than those of another review from the think-tank CENTRIS (Knight, 1993). The latter had called instead for the different roles of the sector to be segregated between different types of TSO. One section would offer professionalised services on behalf of the state, while the other remained truly independent and 'voluntary' under a complementary model.

In practice, Lewis (2005) has argued that New Labour's support for the sector's community building and co-governance roles soon diminished in favour of the service delivery agenda. In Labour's second term, the 2002 Treasury review of the voluntary sector was highly focussed on where the latter could add value to service delivery, and how it might need to change or 'professionalise' to fulfil this role (Chapman et al., 2008). It also marked a shift away from comprehensive, holistic engagement, to a tighter focus on those organisations capable of contracting and compliant to the Government's agenda (McLaughlin, 2004; Lewis, 2005).

Various 'capacity building' schemes were put forward to modernise the sector. 'Capacity' in this sense was clearly the capacity to take on contracts, rather than engage in policy or build social capital (Carmel and Harlock, 2008). Arguably the professionalization requirements involved might actually diminish TSO's ability to carry out the latter two roles (Lewis, 2005; McLaughlin, 2004).

Carmel and Harlock (2008) argue that the implicit New Labour strategy was to make the sector 'governable'. This means taking a set of organisations, activities and relationships previously considered part of the private sphere, and making them subject to public regulation, management and coordination. While the partnership discourse legitimised greater government interference, contestability and competition were allegedly the real goals.

The degree to which New Labour's partnership discourse represented a significant departure from a more instrumental view is, therefore, highly debatable. It is also worth remembering that when comparing to the previous or subsequent administrations, the majority of their tenure coincided with a period of economic growth when extra resources were considerably easier to come by than either before or since. Separating out the effects of policy agenda from the more general economic trend is difficult.

What is clear is that there was no reversal of the emphasis on complementary provision, although in contrast to other periods, contracting under New Labour was used to expand rather than shrink the remit of the state (B. Harris, 2010). Although some quasi market reforms were initially reversed, those in social care were retained and new service areas were opened up to competition and contracting for the first time (Bartlett and Le Grand, 1993). Figure 3.1 below, shows that state funding for the sector increased steadily over Labour's second two terms, in concert with rising income from individuals.

In some service areas, the model was also developed a stage further, to reduce the administration involved in contracting and to transfer risk away from the Government (NAO, 2012; DWP, 2007; WPSC, 2009). Towards the end of Labour's second term, the Department of Work and Pensions (DWP) consolidated the number of employment services contracts it issued to a handful of larger 'prime contracts'. Although the model was not entirely new, the size of the contracts was significantly increased to cover entire regions (WPSC, 2009). These organisations, usually from the private sector, would in theory subcontract to smaller providers with local or specialist expertise (DWP, 2008).

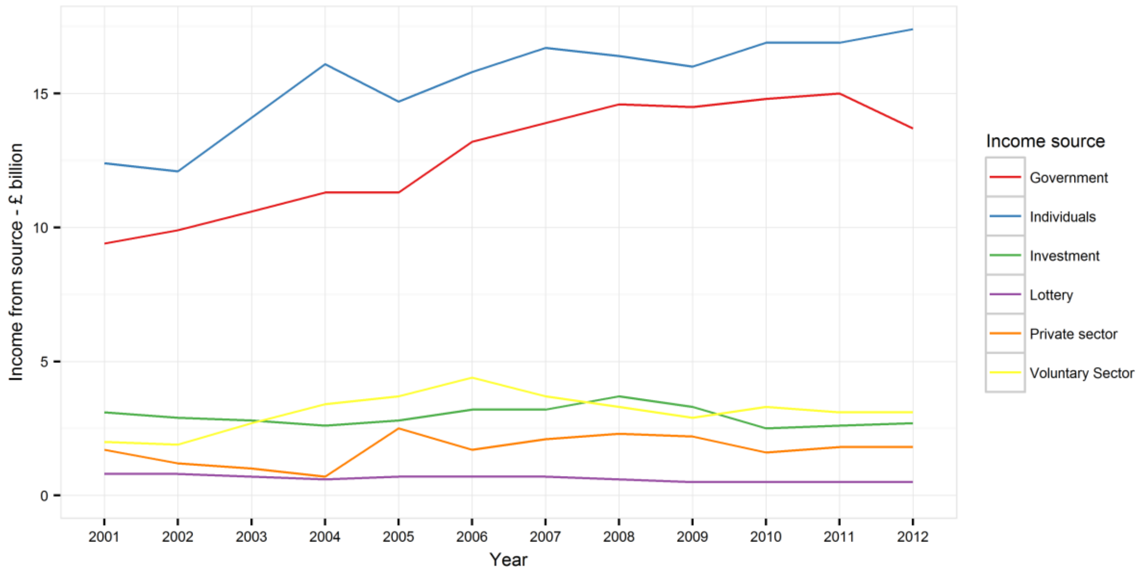

Figure 3.1: **Third sector income by source, £ billions, 2000/2001 to 2011/2012. 2012 prices, based on NCVO (2014)**

The prime model was also accompanied by a second major development. Commissioning in employment services increasingly relied on ‘payment by results’. The basic premise of this model is that providers are only paid once they meet pre-specified ‘outcomes’ outlined in their contract. Again this was not an entirely new policy development but the level of reliance on this mechanism has increased, resulting in higher risks for providers and the need for large amounts of operating capital.

The net effect has been that the vast majority of TSOs in this service area were only able to secure central Government funding as subcontractors, if at all. They lack the attitude to risk, cash flow or capacity to operate at a prime level (McDonald 2007; TSTF 2009; Bennett, 2012; Crisp et al., 2011). The prime model marks a significant potential shift in the state’s engagement with the third sector, as it represents a change from a direct contractual relationship, to one mediated by the private sector. Primes are likely to contract with TSOs only when it offers a clear return on investment under payment by results. The ‘shared values’ or less tangible community development goals emphasised by the New Labour Government, or ‘social impact’ are unlikely to be particularly relevant in this new context.

There have also been complaints of exploitative or unfair treatment of third sector subcontractors at the hands of primes, or that primes are in practice monopolising services and keeping services in house (WPSC, 2007, 2010; Simmonds, 2011; NAO 2010). At the very least, subcontractors are likely to receive less in fees by the time a management charge has been deducted by their prime (NAO 2010; Aiken, 2007).

Prime providers operating under payment by results represents just one outsourcing model, however, amongst many alternatives across fields or levels of government (Rees, 2013). Even after the reforms to employment services, it affected only a minority of TSOs receiving state funding, despite its prominence in the debate. Its significance for the third sector-state relationship largely depended on how far it spread. The election of the Coalition Government in 2010, therefore, had the potential once again to produce a major shift in the state-third sector relationship, and many watched closely to see the direction in which contracting in particular would develop.

3.6. The current policy context: hyperactive outsourcing

Despite once again facing the looming spectre of major cuts to public expenditure, David Cameron's personal commitment to the concept of a 'Big Society' brought some optimism following the 2010 election that there might new opportunities for TSOs (HMG, 2010). The Public Administration Select Committee (PASC, 2011) identified the key pillars of the Big Society Agenda as decentralisation, encouraging volunteering and donations, and opening up public services to contracting and competition.

Macmillan (2013b) tentatively suggests that this agenda may represent a break with New Labour's focus on partnership and collaboration. He suggests that a highly devolved, decentralised and community based form of voluntary action would be both consistent with the Big Society agenda and a deep, longstanding vein of conservative theory typified by the writings of Hayek (1979). He points to the withdrawal of various forms of state support, particularly financial, as evidence for this model and of a partial decoupling of the complementary, interdependent model. Nick Hurd (in Third Sector, 2010), the former Minister for Civil Society, also argued that high levels of state funding were not compatible with the Coalition's long term vision of the sector, though there seems to be limited evidence of this in policy terms.

In practice, PASC (2011) suggested that the decentralisation and community based elements of the big society agenda may be overshadowed or even undermined by the open public services elements, especially in the context of economic austerity. The Coalition's Open Services White Paper (HMG, 2011) places a heavy emphasis on quasi markets.

It also explicitly states that the Government had no ideological preference towards any sector, and that good delivery is not about the ownership model (p.47). The expectation is that the third sector will win contracts providing the competition is fair, open and takes place on the ubiquitous 'level playing field'. Extending this metaphor, however, the problem is that different players are clearly suited to different games. Whether or not the third sector is successful at securing contracts therefore depends in part on what is being commissioned and how. The measures promised to reduce barriers to contracting generally relate to size rather than sector (Cabinet Office, 2010).

Teasdale et al. (2012) have pointed out that a Private Member's Bill on Social Value by Conservative MP Chris White initially aimed to tilt the balance in favour of TSOs bidding for public services. The Bill ultimately became the Public Services (Social Value) Act in 2012 and obliges commissioners to "consider" how "economic, social and environmental well-being" could be improved by any given piece of procurement. Ultimately, however, the market liberal contingent within the Conservative party ensured that no necessary advantage was conferred to any sector. These tensions may reflect the competing 'visions' of voluntary action. On the one hand the Big Society may be something organic that emerges from within civil society whenever the state leaves enough room. The Conservative Green Paper on civil Society in opposition promised to free the sector of Labour control and interference (2008 in Macmillan, 2010). On the other, the state may be needed to support and compensate for third sector failings that otherwise prevent it from playing a full role in quasi markets and the delivery of state services (PASC, 2011).

In the absence of any major efforts to alter the playing field, the solution appeared to once again revolve around reshaping the potential players (Cabinet Office, 2010). The New Labour discourse of 'capacity building' remained in favour. Support was pledged to help organisations to become more 'entrepreneurial' and 'efficient' (HMG, 2010).

Many of the concerns around the Coalition's approach to commissioning have centred on the Work Programme, their flagship employment programme. As discussed above, some of the main features of the contracting regime used for this programme had been largely developed under New Labour's jurisdiction (Damm, 2012). The prime model and payment by results were both arguably accelerated under the Work Programme, however, and the consolidation of a number of schemes under one roof reduced the range of alternative funding sources.

The result of these developments was a general reduction in the level of third sector involvement within employment services, and an extremely difficult operating environment for those that remained (Simmonds, 2012; NAO, 2012). As discussed above, however, the significance of these developments partly depends on how widely this rather severe model is adopted.

With this in mind, it is significant that the Coalition made an absolute commitment to payment by results in the Open Services White Paper (HMG, 2011) and the 2010 Spending Review (HMT, 2010). The mechanism, it argued, allows risk to be devolved to providers, encourages innovation, eliminates waste, and incentivises providers to drive up standards. It has since been implemented in a variety of settings, including the Troubled Families programme and areas of health. It is also being rolled out in the probation field (Macmillan, 2016) and drugs and alcohol treatment (Roberts, 2010).

These developments take us up to the current status quo, and the ongoing debate as to the proper role of the third sector, discussed in more detail in the following Chapter. Overall, the relationship between the state and the third sector is in a period of considerable flux and uncertainty. On the one hand, the open public services agenda seems to present increased opportunities for TSOs to participate under a complementary model. On the other, public sector cuts and the growing support for a particular form of commissioning in central Government have led to fears that the sector will at best continue to play a highly subservient role (Rees, 2013).

3.7. Chapter summary

The foundations of the relationship between the third sector and the state extend at least as far back as the Victorian period. There were attempts to establish largely separate roles for the two sectors, though some interaction and state funding of some TSOs did occur.

After the huge increase in the role of the state following the Second World War, the third sector was forced to carve itself out a new role. While some organisations continued to provide services on behalf of the state, others focussed on additional supplementary services. New sources of grant funding allowed TSOs to innovate and to operate largely independently.

The breakdown of the post-war consensus under the New Right took away some of these local funding sources, while at the same time introducing more restricted funding for national programmes. In general funding moved towards a more formal and contractual basis, sometimes as part of newly privatised quasi-markets. At the same time new organisations fulfilled campaigning and self-help focussed roles.

Prominent commitments were made under New Labour to reset the relationship on the basis of a more equal partnership, including involving the sector in policy formulation and community development programmes. In practice, the emphasis on those TSOs willing and able to act as service delivery contractors continued. In some service areas contracting also moved towards a more hierarchical model based on prime contractors and payment by results.

The most recent Coalition and Conservative governments have largely continued on the same trajectory. Further services have been contracted out and there has been an increased emphasis on payment by results. This emphasis on outsourcing has dominated the Big Society agenda. The continuing context of austerity and public sector cuts has resulted in a reduction in state funding for the sector falling after many years of increases. This means contracting has occurred in a new context of increased competition rather than the new opportunities made available under Labour.

The net result of these changes is that state funding of the third sector is very high by historical standards but is now declining. Arguably this puts the third sector, or at least the part of it reliant on state funding, in a weak and uncertain position vis-à-vis the state. This might explain the recent resurgence of the debate surrounding third sector independence, which is discussed in the following chapter. As Blackmore (2008) points out, such concerns always appear to materialise when third sector providers feel under threat or in times of change.

CHAPTER 4 : THE DEBATE ON THIRD SECTOR INDEPENDENCE

4.1. Introduction

The previous chapter outlined how we arrived at a scenario of historically high levels of state funding for third sector delivered services, even if these levels are now beginning to fall somewhat due to austerity. Alongside this growth in state income we saw that there has been a shift towards more formalised service delivery relationships via contracting, leading to fears that the third sector may increasingly find itself co-opted and at risk of exploitation.

Much of the debate surrounding these issues revolves around the concept of third sector 'independence'. Have the increases in state funding and contracting undermined the autonomy of TSOs? Those that believe it has suggest that the result has been a corruption of the third sector's distinctive qualities and an erosion of its ability to provide an ungoverned space for welfare activity, outside the state apparatus. Others, however, question both the true extent of this shift and the implications for TSOs.

This section outlines the parameters of the debate and the claims made about the impact of state funding on the third sector as a whole. It remains a fairly general level, leaving the more specific claims about organisational change to the review of empirical evidence in Chapter 6.

4.2. Is third sector independence under threat?

The concept of independence emerges as a recurring motif in the literature on the relationship between the state and the third sector. There are widespread concerns that dependence on state funding, particularly tightly specified contracts, is degrading the independence of third sector organisations.

These concerns are not a recent development. Arguably, there has never been a ‘golden age’ when independence has *not* been seen as under threat (Blackmore, 2008; Kramer, 1994). Concern undoubtedly increased significantly, however, following the development of the ‘contract culture’ within the health and social care field in the early 1990s. In 1993, after over three full terms of Conservative Government, Centris published a highly critical report by Barry Knight (1993) on the state of voluntary action. He suggested that the rise of state funding and market based approaches were both disastrous for independence and had led to a sense of “lost directions, low morale and spoiled self-worth” (Knight, 1993, p. xi). The third sector was cast as a largely reactive force: one of Knight’s case studies described the sector as content to follow behind “a government horse and business cart picking up the droppings” (p. 93).

Other authors also found fears amongst TSOs that funding changes would lead to a loss of independence, voice and distinctiveness (Leat, 1993; Richardson, 1993; Lewis, 1993; Taylor, 1996). Common and Flynn (1992) identified that some organisations were becoming highly dependent on a single local authority contract. Although the picture was extremely mixed, they also suggested that some local authorities were using this dependence to exert control over their contractors, reducing the scope for innovation or flexible provision.

Much of the evidence discussed in this period, however, was in fact based on experiences in the US where contracting was already well established. After a study tour looking into the issue, Gutch (1992) warned of a range of changes being forced upon contractors, causing them to bureaucratise, professionalise and commercialise. He memorably described the entire system as a “vast bureaucratic paper chase” (in Lewis 1993, p.175). Lewis (1996) cautioned that the situation in the US differed in its context and history compared to the planned outsourcing agenda in the UK. Nevertheless there seemed to be a good deal of pessimism that TSOs would soon find themselves less able to pursue their own independent objectives (Richardson, 1993).

These concerns were also expressed throughout the New Labour period. Carmel and Harlock (2008, p. 157), for example, argued that the third sector and its activities had been rendered “governable” by various reforms. Its regulation, management and coordination were made both “thinkable” and “practicable”. They argue that a discourse of partnership and unspecified “shared values” created an “illusory unity” (p. 159), which both neutralised a potential source of ideological opposition and disguised the Government’s main goal: to create a generic pool of potential providers to participate in its contracting agenda. Once engaged in the regime, organisations were then governed and disciplined through contract mechanisms.

In a report for the think tank Civitas, Seddon (2007) argued that state funding and independence are inherently incompatible. It is no surprise then, given the marked increase in state funding outlined in the previous section, that he too perceived the independence of the sector to be on a downwards trajectory. State funding, he suggested, allowed uncompetitive or unpopular charities to continue on the back of mandatory taxation. A more recent report for the IEA by Snowdon (2012) adopted a similar tone, accusing some state funded charities of acting as mouthpieces for the Government. He suggested that these organisations receive state funding to sponsor and lobby on behalf of unpopular causes favoured by the elite, while giving the illusion of grass roots support.

The debate has, if anything, been intensified under the former Coalition and now Conservative Governments. As discussed in the previous chapter, the Open Public Service agenda has maintained the pre-existing direction of travel, with continuing support for contracting out public services. At the same time government spending cuts have made the financial situation much more acute for all service organisations by reducing the amount of overall funding available. This may make it more difficult for TSOs to walk away from inappropriate contracts or unsuitable conditions.

Two major projects have been conducted on the subject of independence since 2010. The first was a Panel established by the Baring Foundation to examine the relationship between the state and the third sector and report annually on concerns relating to independence. It followed on from previous work by the foundation to provide small grants to TSOs working to protect their independence (Rochester, 2013). The final report by the panel reached quite a clear conclusion: the sector’s independence and freedom is being undermined from multiple directions (Independence Panel, 2015). It suggested that TSOs are treated as though they exist to serve the state, rather than their own independent missions.

In terms of contracting specifically, the panel suggested that TSOs are either being frozen out of delivery entirely, or forced to remain within the system under worsening conditions. They point to the closure of the Commission for the Compact as an example of weakening protections for third sector contractors (2011). They also criticise heavily the development of subcontracting within schemes like the Work Programme, pointing to barriers that prevent smaller organisations from participating fully and the risks of corporate exploitation (2012).

The panel also focuses heavily on threats to the ability of TSOs to carry out non-service delivery activities such as campaigning or advocacy. Measures such as the 2014 Lobbying Act, gagging clauses in contracts, and changes to the right of legal review are cited as tangible examples of new barriers to expressing an independent 'voice' (Independence Panel, 2015). More generally a number of right wing commentators and politicians, including ministers, have directed criticism at TSOs that campaign against Government policy whilst in receipt of contract funding (Independence Panel 2013, 2015, e.g. Snowdon, 2012). The DCLG (2012) have adopted some of this language and urged councils not to fund 'fake charities' who spend their resources on lobbying or campaigning. The risk is that this creates a hostile, chilling environment in which TSOs see self-censorship as the safest option.

The second major group to raise concerns over independence is the National Coalition of Independent Action (NCIA) and in particular their Inquiry into the Future of Voluntary Services. NCIA's campaign is avowedly political. They position themselves against what they describe as the ideological endeavours of the Coalition and Conservative administrations to reduce the size of the state through public sector cuts and privatisation (Benson, 2014). They claim the driving force behind these changes is the so called neo-liberal agenda, a discourse that supports self-regulating markets while scorning social welfare and the state (NCIA, 2015).

The NCIA is categorically opposed to contracting, which they claim makes servants out of TSOs and hugely damages their independence, integrity and ability to criticise social policy (NCIA 2013b; Rochester, 2013). As well as more formal actions, Rochester claims contracts allow a culture of bullying and informal threats against TSOs (NCIA, 2015). On the one hand this is due to the manner in which commissioning is implemented, allegedly driven by price into a race to the bottom of both quality and staff conditions (Benson, 2014). On the other, they argue that there is something inherently damaging to independence that results from the inevitable compromises an organisation must make to the funder's agenda (NCIA, 2013a). The TSOs involved are "complicit" (p.3) in the privatisation agenda, "subservient" (p.9) to private companies, and "supine" (p.3) in their lack of resistance (NCIA, 2015). Their stated mission is to prevent the 'enslavement' of ungoverned, public space (NCIA, 2011 in Rochester, 2013, p. 197).

Although most of the above authors seem to agree that delivering services for the state under contract is threatening the third sector's independence, there seem to be three different solutions put forward in response. Either contracting should continue in a reformed format, it should be replaced with unrestricted grant funding, or the state should not be funding the third sector to deliver services at all. Which stance is favoured seems to depend on the author's preferred model of the welfare mix and their subsequent definition of what it means to be 'independent'.

Smith and Lipsky (1996) identify two narratives that seem to favour a 'separate spheres' division of labour. Under this model welfare needs are met primarily by voluntary action or informal ties, if at all. The conservative right has often celebrated the idea of an organic, grass roots form of voluntary action that develops independently of the state and involves individuals collectively taking responsibility for their own wellbeing (Kendall and Knapp, 1996). In some ways this seems to create an inherent tension within the policy of the Coalition and now Conservative governments. On the one hand the third sector is seen as something rightly separate from the state, while on the other TSOs are expected to participate in contracting and quasi-markets (PASC, 2011). This led Nick Hurd (in Third Sector, 2010), the minister for Civil Society for much of the Coalition's term in office, to suggest that the government did not wish to see high levels of state funding for voluntary organisations, despite Coalition policy clearly encouraging the opposite (HMG, 2010).

Although he does not rule out state funding altogether, it is clear from most of his report that Seddon also principally supports this type of division. He suggests that the early development of free provision from the welfare state "undercut" the third sector (2007, pp. 24, 132) and that whenever the state impinges upon the sector's space, it crowds out donations and marginalises volunteers. His view of what counts as independence reflects this. He argues that dependence on state funding is by definition inimical to true independence, as "he who pays the piper picks the tune" (p.3). As discussed further below, Seddon and others believe that the true, pure third sector does not receive large amounts of state funding (2007; also Knight, 1993).

Smith and Lipsky (1993) also identify a second, alternative vision of separate spheres. Under this view, welfare is predominantly the responsibility of the state rather than individuals or TSOs. When the state stepped in to take responsibility for welfare provision following the Second World War, it displaced a paternal and inequitable system reliant upon the charity of the upper classes. Charity became either supplementary or unnecessary.

To some extent this appears to be the favoured model of those that make up the NCIA. They very clearly support a supplementary role for the third sector, providing the space in which innovation and experimentation can occur, excluded and marginalised groups can be catered to, and from which critiques of mainstream provision can be developed (NCIA, 2013a). Their concluding report makes clear that they believe "Voluntary services exist to do the things that Government cannot, will not, or should not do; to complement, not substitute for public services and entitlements" (NCIA, 2015, p.1).

Attempts to incorporate TSOs into the mainstream as alternative providers under contract are viewed as an attempt at co-option. The campaign does not rule out state funding altogether, however. Benson and others seem to most favour the reinstitution of lost grant funding, which allowed the funding recipient to design and pitch the service themselves (2014; Aiken, 2014). Because contracting narrows the range of services that can be funded to those that fit within the state's own orthodoxy, it precludes the third sector from participating in the welfare mix on their own terms in a way that unrestricted grant funding does not.

The Independence Panel, in contrast, appears to be more sympathetic to a more complementary model of cooperation between the state and third sector. It insists that external funding is inevitable and that in some fields TSOs will have no choice other than to accept a high level of dependency due to the lack of alternative funding sources (2011). Nor does it believe that contracting is necessarily incompatible with independence (2015). Although reliance on state funds may increase the *potential* for coercion and control, organisations can retain their freedoms if the government provides a suitably conducive environment orientated towards equal partnership. It is the nature of the relationship and maintaining an independence of purpose that counts.

Their focus is on how a complementary model can be made amenable to TSOs in a way that plays to their strengths while mitigating their weaknesses, including a lack of capacity. This has strong echoes of Salamon's (1987) theory of Voluntary Sector failure, in which the state compensates for the potential paternalism, particularism, amateurism, and insufficiency of third sector provision. As Smith and Lipsky (1993) point out, some see this stance as a compromise between both the statist and anti-statist separate spheres positions outlined above. To the NCIA, in contrast, the idea that contracting can ever be reformed or made to fit with TSOs' own agenda is naïve, based on a misguided assumption that the risk to independence is simply the result of some form of benign misunderstanding (Benson, 2014; Rochester, 2013).

Both the Independence Panel and the NCIA seem to share a definition of independence that goes further than just the absence of external control, but also requires the resources and capacity to actively engage in welfare provision and public debates (Rochester 2013; Independence Panel, 2011). This goes further than Blackmore's (2008) definition of independence: the right to free association and expression. The state's responsibility to create a conducive funding environment for TSOs goes far beyond the 'benign neglect' advocated by advocates of separate spheres (Knight, 1993).

What most authors do seem to agree on, however, is that independence is not synonymous with isolation. Interaction with the state of some kind, either cooperative or adversarial, appears inevitable (Blackmore, 2008). First, the Government and TSOs often operate within the same areas of social policy and target similar problems (Najam, 2000). Second, the Government has a pervasive influence over all areas of social and organisational life, including the environment in which TSOs operate (Blackmore, 2008). This includes a range of policies and regulations either directed at the third sector specifically, their policy and service fields, or all formally registered organisations and employers (Taylor, 1996).

4.3. Why does independence matter?

If interaction with the state is inevitable, then why is it important that this interaction is on 'independent' terms? To some, there is a risk that dependency on the state will lead to changes to TSOs that undermine the very characteristics that give the third sector its identity as a separate sphere of activity from government (Knight, 1993).

Using the metaphor of welfare triangles or pyramids discussed in Chapter 2, a lack of independence may allow TSOs to be drawn towards the vertices of the state or market, away from their voluntary roots and into deeper hybridity. Billis and Harris reflect on the risks to the 'essence' of the sector, its voluntary characteristics and its "authentic core" or "soul" (1996, p. 244 in Cairns 2009). Similarly, the Independence Panel argued that a loss of independence would diminish the features that make the third sector "special" (2011, p.5).

These concerns have led some authors to speculate as to whether the third sector is becoming divided. Most famously Knight's (1993) report for the think-tank Centris concluded that there was one group of large, professionalised organisations, and another distinct group consisting of small scale voluntary activism. This idea has become labelled as the 'bifurcation' of the third sector (Macmillan, 2010). The NCIA (2013a) too questions whether professionalised and managerialised organisations should be considered voluntary and part of the same category as more radical groups. Seddon (2007) goes as far as to suggest a threshold for conceptual eviction from the third sector. He argues that any organisation receiving over 70% of its income from the state is beyond any hope of independent action or voice and is a de facto QUANGO. Interestingly a similar categorisation and threshold of 80% was once expressed by the Chief Executive of NCVO, Stuart Etherington (1996). There is not much evidence that the sector can be qualitatively separated in this way either conceptually or empirically, but it is indicative of a desire to maintain a pure field of voluntary action without the more professionalised or state funded hybrids.

The motivation for maintaining this unadulterated realm of voluntary action remains unaddressed, however. Why does it matter that the third sector retains its distinctive identity? The first possible explanation is that the specific organisations may have distinctive qualities, which are undermined if they become subject to interference from the state. Rochester warns that state funding could undermine the characteristics for which TSOs are apparently valued for in the first place (Rochester, 2013; also Billis, 2010).

The wide range of claims made about the distinctive qualities of third sector organisations have been reviewed and evaluated in a number of different places (Audit Commission, 2007; PASC, 2008; Buckingham, 2011; Macmillan, 2013a and DiMaggio and Anheier, 1990 in the US). Some of the most common claims identified in these sources are that TSOs exhibit superior user involvement, specialist knowledge and skills, trust from communities and hard to reach groups, flexibility and responsiveness, innovation, a holistic approach, cost effectiveness, voluntary resources, and provide value driven, informal and personalised services.

Claims of distinctive characteristics are often made by advocates or representatives of the sector and as such can be slightly evangelical in their tone (Macmillan, 2013a). Establishing distinctive qualities may help these organisations to strategically distinguish themselves individually or collectively in the hunt for resources within their field (Chew and Osborne, 2009). Sometimes claims may be accompanied by the familiar critique of public agencies, as inefficient, ineffective, paternalistic and open to corruption (HMG, 2011; Bartlett and Le Grand, 1993).

Overall, however, the evidence base for such claims and comparisons, based on the findings of the above reviews, is not strong (WPSC, 2009; Davies, 2008). Amongst the best of the many research studies conducted is a report by the National Consumer Council (Hopkins, 2007). Users of services provided by organisations from different sectors were surveyed in three service areas: social care, housing and employment services. But a distinctive, user focussed approach was found only in the lattermost case. Even in this study, however, a relatively small group size within each service area (ranging from 92 to 218), combined with a vast array of potential confounding factors, frustrates attempts at causal inference. It is simply not possible on the basis of such small scale survey research to say whether any observed differences are due to the sector of the organisation, or confounding differences in the client base, area of operation and so on.

Other examples, such as case studies conducted by Jochum and Pratten (2008), only look at providers from the third sector. While it is possible to explore the valuable characteristics of these organisations, it is not possible from a case study based approach to determine generalizable, sector wide distinctions.

These issues tap into the wider problem with cross-sector research. The great variety and diversity of the sector as a whole, arguably a strength in its own right, makes meaningful generalisations all but impossible without focussing in on extremely limited criteria in just a few organisations (e.g. Leat 1995b). Comparisons between sectors are therefore extremely difficult due to the great diversity within sectors, and the huge cross-sector similarities between organisations from different sectors, particularly amongst those operating within the same localised field (Kramer, 1994; Audit Commission, 2007). These challenges led the Public Administration Select Committee to describe much of the debate on sector distinctiveness as “hypothetical or anecdotal” (PASC, 2008, p. 3). Kramer, writing in the US, described sector based theories as invidious stereotypes, based on distrust of government and exaggerated, idealised notions of the third sector (1994). DiMaggio and Anheier (1990, p. 149) similarly condemned decades of US research as “vast and inconclusive”.

Beyond the characteristics of any specific organisations, however, there is a second explanation for why the third sector is valuable as a whole. These are the systematic benefits that can be attributed to a distinct body of organisations, operating independently from the state for the public good.

From a service delivery perspective, independent organisations are able to offer provision in ways that lie outside mainstream thinking, due to their innovativeness, ideology or specialist nature. This is the main line taken by the NCIA (2013a), who suggest that independence allows TSOs to test new approaches and ideas, challenge orthodoxies, or prioritise groups excluded from the mainstream. The NCIA (2015) adds to this list by pointing out that some services require independence in order to be credible, such as independent advice and advocacy concerning the state system. Arguably TSOs are unable to perform the role of an advocate, critic or innovative outsider if they are themselves acting as an agent of the state (Jones, 1996). Independent voluntary action does not need to be universal or democratically sanctioned in the same way as state funded services, allowing less popular causes or innovative approaches a chance to become established (Smith and Lipskey, 1993; Seddon, 2007).

If services are genuinely independent and voluntary then they also arguably provide an expressive function that strengthens and nurtures pluralistic democracy. By taking action as volunteers or campaigning collectively against the state, individuals are able to act as citizens and participate in their democracy (Seddon, 2007). By working as advocates, they can also help ensure that minority views and interests are heard within the public forum, acting as a counterpoint to more dominant social forces (NCIA, 2013a). More prosaically, the Independence Panel claim the sector is able ‘to give a voice to the voiceless’ (2012).

State funding may undermine the ability of TSOs to perform these functions for a range of reasons. In theory, there is nothing stopping state finance from being used to fund independent action, for example if it is provided as part of an unrestricted grant. But as discussed earlier, grant funding appears to have been declining and contracts have become more specified and restrictive, reducing the ability of providers to operate according to their own agenda (Aiken, 2014). Rochester (2013) argues that the scope and terms of state funding have steadily narrowed since the Efficiency Scrutiny of Government Funding of the Voluntary Sector review, published by the Home Office in 1990. Under contracting it is the funder that sets the priorities and strategic direction.

The impact may also be felt beyond just those contracted services, if they are cross-subsidised at the bidding or delivery stage by other sources of funding. This creates an opportunity cost as the funds are then not available for more autonomous forms of activity (Flynn, 1996; M. Harris, 2010). Of course this need not necessarily be the case and it is perfectly plausible that TSOs are able to continue innovative or independent services alongside their state funding services, using voluntary income (Jones, 1996).

4.4. Critique of the independence threat

So far we have heard arguments from a number of sources that claim the independence of the third sector is being undermined and that this has a number of negative consequences. Based on the above discussion it would appear that the third sector is a diminished force, unable to act according to its values or speak out against perceived injustices. Perhaps unsurprisingly, however, not all commentators agree with this worrying outlook. We now, therefore, turn to some of the criticisms aimed at this narrative.

Specifically, a number of authors argue the independence debate is “too simplistic” and based on an “exaggerated” threat (Kramer, 1990 in Leat, 1995a, p. 174). Crouch (2010), for example, found that independence was generally seen as too abstract for the participants within his research to meaningfully apply to their day to day life. Chater (2008), similarly, found that few of his case studies felt dependence upon Government was a major threat and senior managers felt able to navigate the funding environment reasonably successfully. Blackmore (2008) concludes: “Many of the concerns about threats to VCS independence are accepted as truths without sufficient questioning” and that “There is little real evidence to suggest that the sector has become an arm of the state, that it is starting to function more like government agencies, or that it has lost its voice” (p. 38). To Kramer, the debate around independence and the idea of a controlling, contaminating state is ideological, impressionistic and based on weak evidence (1994). These arguments suggest that there is a risk that TSOs adopt a self-fulfilling victim status and sense of entitlement, undermining public trust.

Many point out that the exchange of resources between third sector providers and state funders is far from a one way affair. There is ample evidence that many commissioners value the contribution of external providers and rely on them for a variety of tangible and intangible resources, beyond finance (Alcock et al. 2004; Chater, 2008). A US study by Saidel (1991) found these resources included political support, legitimacy, information and of course delivery capacity. Overall, he found that the public sector and third sector participants rated themselves as similarly dependent upon one another, and tended to underestimate their own sector's perceived influence. Saidel and others since have therefore suggested that mutual-dependence or inter-dependence may be a more fruitful way of conceptualising the provider-commissioner relationship (Saidel, 1991; Crouch, 2010; Chater, 2008).

There is probably some truth on both sides of debate, with examples and evidence available to support either case. Achieving a conclusive or generalisable understanding is difficult, first, due to both the diversity of the sector, and second; because it is impossible to know what might have occurred without the increase in the contracted delivery of state services. What is clear is that there are a wide range of experiences within the third sector, from highly cooperative and mutually beneficial relationships, to exploitative and destructive. Examples can be found at either end of the scale (Audit Commission 2007; WPSC, 2013).

The statistical evidence available has also found differing experiences. A 2008 survey of organisations involved in the National Programme for Third Sector Commissioning found that 37% of TSOs were worried about a potential loss of independence: a considerable proportion, though still a minority (Shared Intelligence 2008). A 2006 survey of all charities, by the Charity Commission (2007), found that only 26% 'agreed' that they were free to make decisions without pressure from funders, though a further 50% 'mostly agreed'.

If the extent to which independence has been damaged by contracting is less than clear, then so too is the case that this is an unmitigated disaster for those organisations involved. The potential advantages of independence must always be considered as part of the wider context. First, TSOs' mission will not always conflict with the Government's goals, especially when they concern providing services for the most marginalised individuals (Alcock et al., 2004). The state may enable TSOs to offer services in pursuit of their mission for which they previously lacked the resources (Alcock et al., 2004; Chater, 2008).

Cooperation, partnership, or even acting as an agent of the state may sometimes be the most effective means of a charity serving its beneficiaries. Public criticism of Government partners in these circumstances may also be counterproductive to both TSOs and their users (Blackmore, 2008). In some circumstances, the TSOs themselves may also benefit from increased security and stability, a more equal relationship with a state funder, and improved quality services (Young, 1995; Lewis 1993, 1996; Chater 2008; Buckingham, 2010, see Chapter 6).

If they do conflict, the goals of the state should also not be viewed as normatively inferior to those of the third sector. Whereas TSOs can draw legitimacy from their community links and minority representation, the Government draws its own legitimacy from the democratic process, which aims to balance competing interests in a way that is at least tolerable to the majority of voters. Democratic accountability is the essential counterbalance to mandatory taxation, and both Blackmore (2008) and the Baring Independence Panel (2011) accept that independence should not trump this requirement.

While acknowledging their strengths, Salamon also points out that without the state to compensate and provide funding, voluntary services can be amateurish, paternalistic, lacking in resources and unevenly distributed (1987). The public sector, on the other hand, is in theory required to ensure efficiency, equity, accountability and at least a minimum level of standards (Smith and Lipskey, 1993; Le Grand, 2007).

Whatever the balance of positive and negative outcomes of state funding, it is also important that they are considered relative to those of other potential income sources. It is often said that voluntary income, including private donations, offers organisations greater potential for independent action (Buckingham, 2012; Etherington, 1996; Jones, 1996). Organisations may prefer donations because they generally come with fewer strings attached, or because the risk of conflicting goals is lower than with Government funding, due to their ‘opt in’ nature (Cairns, 2009; Najam 2000). But dependence on the public can bring its own pitfalls, as public donations can be irregular, short term and difficult to attract (Foster and Bradach, 2005). According to Leat (1995a), they are uncertain, fluctuate, and are labour intensive to generate. Public support tends to focus on certain topics, particularly those that provide the most powerful images, which may exclude more administratively based activities or less popular service areas. In other words donations may be least available where they are needed most (Salamon, 1987).

Other potential funders, including grant making bodies or corporate institutions, are also likely to have their own agendas, which may conflict with TSOs. A focus on earned income, such as sales from shops or service fees, has also been accused of drawing TSOs away from their mission and community roots towards the market, despite the unrestricted nature of any surpluses (Eikenberry, 2009; Bruce and Chew, 2011). An excessive focus on the impact of state funding may therefore obscure a more holistic picture: third sector management, members and users, trustees and volunteers, the public, the media, businesses, government departments and local authorities are all enmeshed within a constantly shifting web of relations and dependencies, causing different degrees of tension at different times (Kramer, 1994). Overall, Kramer argues that a degree of independence must inevitably be sacrificed in order to secure external resources, and that the challenge is for TSOs to secure the right compromise between their different relationships and sources of support, their independence and their resource needs (1994).

4.5. Chapter summary

A number of inquiries and reports have forcefully made the case that third sector independence is under threat. They also suggest that the loss of independence may mean that the distinctive qualities of these organisations are being lost as well as their ability to speak out on behalf of their communities. Alternatively, there may be a risk to the systemic benefits of an independent third sector.

Both the veracity of a wholescale loss of independence and detrimental impact of such a loss are not fully accepted by all commentators. The potential loss of independence must be weighed against the potential advantages of state funding, particularly compared to alternative sources. There also seems to be a reasonable amount of variation in the experiences of those in receipt of state funding, which is not always fully acknowledged within the debate. In general there is frustration over the lack of empirical evidence available through which to view the bigger picture of the state's financial relationship with TSOs.

The issue of independence and the implications of state control have so far been couched in fairly abstract terms. If state funding has undermined the independence of its recipients, then how have these organisations changed as a result? The next two chapters address this issue. Before the empirical evidence is reviewed in Chapter 6, the following chapter, Chapter 5, identifies a range of organisational theories that support the idea that financial dependence results in organisational change.

CHAPTER 5 : A REVIEW OF ORGANISATIONAL THEORIES OF CHANGE

5.1. Introduction

The previous chapter outlined various criticisms of state funding for TSOs, as well as some of the counter arguments. Those critical of the status quo suggested that state funding may have negative implications for the independence and commonly valued characteristics of TSOs.

A number of different theories developed within the discipline of organisational studies would support the general idea that a change to an organisation's resource base might result in other organisational changes. They include strategic choice, ecological, resource dependency and new institutionalist theories. There are also newer theories that combine insights from these approaches.

The purpose of this chapter is, therefore, to show that there is a strong theoretical basis for expecting organisational change as a result of changes to funding. Specifically, it aims to show that in additional to the empirical evidence in Chapter 6, there is a sound theoretical basis for exploring the relationship between state funding and other organisational factors in the later analysis chapters.

Exploring the wider theoretical background also links the research to other more general studies on organisational change, and helps to elucidate which mechanisms might underlie any empirical relationships uncovered in the results.

This thesis does not, however, attempt to test these competing theoretical frameworks. Many of the theories that follow could all potentially justify the same set of empirical hypotheses and would be consistent with the idea that state funding morphs TSOs into new forms.

5.2. Strategic choice theory

Strategic choice theories are at the individualistic end of a spectrum, with environment focussed approaches lying at the other extreme. Common within business and management studies, strategic choice theories emphasise the role of internal decision making in organisational change. Organisations are seen as exercising largely autonomous choice over their own structures and behaviour, rather than these being imposed by their environment (Oliver, 1988). This suggests an internally driven, rational and linear conceptualisation of change, which can be planned and controlled by astute and reflexive actors (Bennett, 2013).

For example, Chew and Osborne (2009) adopted a largely agency orientated analysis when discussing the use of ‘positioning strategies’ by charities. They suggest that charities’ boards internally develop strategies to demonstrate a distinctive contribution to external audiences and funders. This contribution might be experience of working in a particular geography, with a particular beneficiary group, or special attributes such as volunteer workers (Chew and Osborne, 2009).

If the debates from the previous chapter are viewed through an agent focussed lens, it may be that TSOs are not obliged or coerced into structural or behavioural change by state funding. If organisations have chosen to operate in a different way in pursuit of grants or contracts, then that is a positive, rational and strategic choice.

It quickly becomes clear, however, that even in the most agent focussed description, strategic choice theory is not truly devoid of structural or environmental considerations. Continuing with the example of Chew and Osborne’s study (2009), compared to other organisations charities appear more likely to emphasise strategies based around a particular specialism, rather than based on price. Presumably this is because these strategies are perceived as more likely to be successful, given the expectations and limitations they face within their environment. Choices are made, but they are made within a wider context that supports some choices over others.

Rational choice theory lies at the extreme end of this spectrum. Although rational choice is ostensibly highly focussed on the choices of individuals, Hay points out that it is in practice extremely structuralist (2002). For any given context and environment there is only one rational course of action and agents are expected to follow it. The particular actors involved and their preferences are not particularly important.

Even avoiding this more deterministic reasoning, it is clear that an organisation’s choices are inevitably constrained by its context. Furthermore, these constraints differ between organisations.

Some options are cut off for TSOs in particular due to limitations on what is considered legal or legitimate. Leat describes how charity managers must maintain a 'myth of niceness' and avoid actions that could be seen as 'hard-hearted' (1995b). On the other hand, there are forms of legal and cultural capital that are in general *only* available to these organisations, such as donative income (Aberg, 2013).

As a result of these unexamined structural limitations, authors such as Hay (2002) have criticised overly agent centric and de-contextualised accounts as too descriptive and lacking explanatory power (Hay, 2002). Actors are made to appear as though they operate within a chaotic free for all in which all outcomes are equally likely and the differential power and positions of actors is left unexamined.

Pfeffer and Salancik (1978, p.1) stated in contrast that their "central thesis" was that "to understand the behaviour of an organisation you must understand the context of that behaviour". They suggested that management studies literature overly privileges the role of internal organisational structures, leadership, procedures and goals. This is despite the fact that internal actors are often very similar between organisations and despite the wide range of factors outside any individual organisation's control (Pfeffer and Salancik, 1978). They attribute this to a cognitive bias, which favours attributing outcomes to the actions of individuals (Kelley, 1971 in Pfeffer and Salancik, 1978).

Overall, the role of strategic actors and decision makers is an important factor when explaining organisational change, but it needs to be complimented with an understanding of the wider environment. Individual TSOs will pursue their own goals and strategies in response to the state funding environment they operate in, and this may lead to variation between organisations even when external circumstances are very similar.

5.3. Environmental approaches

In contrast to strategic choice theories, there are a range of approaches that *do* privilege environmental factors. One group of these operates primarily at the population level through the mechanisms of competitive selection (Hannan and Freeman, 1977). At the organisational level there are also a range of theories that can be termed 'adaptational'. These focus on how individual organisations change in response to environmental stimuli. They include Pfeffer and Salancik's resource dependency theory and the various forms of new institutionalism.

5.3.1. Ecological approaches

Hannan and Freeman (1977) famously argued in favour of a population level approach which made use of the insights from ecological research. While not ruling out organisational adaptation entirely, they suggest that there are major inhibitors to any significant change within individual organisations. These include the resources they already have invested in the status quo, limited availability of information on the environment, internal and external politics, normative path dependency and collective rationality problems. This is reflected in later work by Grønbjerg, who found that his case study TSOs remained largely unchanged over time once relationships with the environment were settled (Grønbjerg, 1993 in Kramer, 2000). Hannan and Freeman (1977) suggested instead that selective forces at the population level are needed to account for changes to the organisations within an environment.

The basic premise is that competitive pressures select out non-optimal organisational forms. This suggests a system marked by competition and transparent fitness measures: namely a free and open market (Slack and Hinings, 1994). Organisations facing the same environment compete for the same resources under a common set of constraints and poor competitors are forced to exit the field (Oliver, 1988).

Ecological theories have not, on the whole, received much attention in the field of third sector studies. This may be because of assumptions concerning the lack of market pressures these organisations face, or just because of a general lack of suitable longitudinal data. However, if the type of organisation most likely to survive differs depending on state income levels, then cross sectional correlations would be expected as a result. So it should be borne in mind, given the cross-sectional nature of the research in this thesis (discussed in Chapter 7), that ecology theories provide a feasible alternative explanation to the adaptation theories that follow.

5.3.2. Resource dependency

In contrast to ecological perspectives, resource dependency *does* operate at the organisational level. The theory's first major assumption is that most organisations are not self-sufficient. They require resources from their external environment in order to survive (Pfeffer and Salancik, 1978). Second, these resources are scarce, forcing organisations to compete (Verbruggen et al., 2009). This makes those resource flows uncertain, which gives power to those that control their supply (Pfeffer and Salancik, 1978, Hillman et al., 2009).

Dependency may allow a resource supplier to make irresistible demands (Aldrich, 1976). The level of vulnerability to these demands depends on a number of factors. These include the level of formalisation surrounding the resource relationship, its official backing, size, frequency, routineness, the level of reciprocity between the parties, and the degree of standardisation and planning already invested (Marret, 1971 in Aldrich, 1976). The most important factor, however, is the overall level of reliance upon a resource (Pfeffer and Salancik, 1978).

The scope for agency is not eradicated, however. Compliance with external demands is just one option and may simply lead to more demands later on (Pfeffer and Salancik, 1978). Mitchell (2014) suggests that those drawing on resource dependency theory often underestimate the capacity and desire of TSOs to protect their autonomy. He found through interviews with the chief executives of transnational TSOs that in practice they do make strategic choices to avoid, adapt to, or mitigate the demands that they face (Mitchell, 2014).

First, organisations might avoid dependency in the first place by avoiding certain forms of funding or obtaining a diverse range of resources from different suppliers (Pfeffer and Salancik, 1978, Mitchell, 2014). Alternatively, demands can be avoided through secrecy or obfuscation concerning internal affairs (Pfeffer and Salancik, 1978). Suppliers can be played off against one another or convinced that their demands are impossible. Compliance can also be hidden from external scrutiny, especially as enforcement and monitoring are often highly expensive activities (Mitchell, 2014). Tackling the problem more directly, Pfeffer and Salancik (1978) also suggest that a number of strategies are possible that absorb the dependency, such as mergers, joint ventures and the exchange of personnel. The leadership of an organisation may also be chosen to cement links with resource providers.

If all these strategies fail, the option remains for the organisation to leverage its own resources and retaliate against the resource supplier. Organisations may attempt to persuade, educate or negotiate in order to divert demands (Mitchell, 2014). Or, more confrontationally, external actors may be recruited into the fray. Laws and norms can be used to deter demands and limit enforcement. This may require forging political links in order to favourably shape the wider environment (Hillman et al., 2009). And as Saidel (1991) found in her research, resource dependency is also a two way street. The state may hold the trump cards with regards to taxation, legislation and electoral legitimacy, but it needs the capacity, knowledge and support of others to enforce its will.

Resource dependency theory is sometimes described as a rationalist or materialist approach, as successful transactions are secured through effective performance via the market and managing resource relationships (Bielefeld, 1992). In reality there is also ample room within the theory for the role of ideas, due to the need for strategic interpretation. Pfeffer and Salancik (1978) acknowledged that resource environments are not given realities and must be repeatedly interpreted by social actors. Agents must judge what information they consider important and how to respond, and they may misread their dependence, misinterpret demands, or fail to see conflicts. Complex and overlapping resource dependencies are not laid out on an easy to follow map.

As discussed in Chapter 4, therefore, there is clearly the potential for the government to use its resources to influence those dependent upon it for funding. Resource dependency theory therefore provides a valid theoretical basis for expecting organisational change as a result of higher state funding. Various resource dependency theorists, however, remind us that strategic action also remains a factor, and that there is the potential for organisational resistance. The government requires sufficient motivation to overcome any attempts to mitigate its demands made by third sector recipients of funding. Resource dependency therefore gives more emphasis to external factors than strategic choice theories, but retains a strong emphasis on the agency of individuals and organisations.

5.4. New institutionalist theories

Perhaps the most commonly cited theories in the context of state funding to the third sector, and even more environmentally focussed than resource dependency theory, can be grouped under the 'new institutionalist' umbrella. New institutionalism covers a number of different schools of thought, loosely united by a shared emphasis on social structures, known as institutions, and a rejection of individualistic approaches such as behaviouralism or rational choice (DiMaggio and Powell, 1991).

There are disagreements over what should count as an institution (Zucker, 1987; Scott, 1995; Lowndes, 2010). Perhaps most usefully, institutions can be broadly defined as the 'rules of the game' which guide actors' behaviour. Lowndes (2010) claims that to qualify rules will be explicitly or tacitly agreed upon by actors as applying in certain settings and contexts, even if they are not always followed in practice. The rules can be more or less formal, and vary between the different broad camps of new institutionalism: rational choice, normative, and cognitive.

5.4.1. Rational choice institutionalism

At the more rationalist end of the spectrum is rational choice institutionalism. Scott (1995) also refers to regulatory institutionalism, which appears to be broadly similar. These variants maintain the assumptions of traditional rational choice theory: that individuals are instrumental, utility maximise and have stable and consistent preferences (DiMaggio and Powell, 1991). They accede, however, that individuals have cognitive limits and incomplete access to information. Actors therefore set up institutions to help cope with these limitations, by tying actors into more predictable behaviour. Doing so is rational as it reduces the uncertainty all actors face. They also help to prevent actions that are irrational at a group level by altering the cost-benefit analysis for individual decision making (Lowndes, 2010). Institutions therefore bring benefits that outweigh the costs of negotiation and enforcement (Hay, 2002).

Institutions are again described as the 'rules of the game' (North, 1988 in Hay, 2006), but are likely to take the shape of explicit regulations. They are like the formal and informal rules of a team sport (Scott, 1995). Sanctions are incurred for transgression either indirectly through shaming and marginalisation, or directly through fines or litigation. In some respects, this is similar to the bounded or contextualised rationality displayed in resource dependency theory. The rationality and goals of the actors are still treated as a given, but the context of their choices is granted an important role.

In the context of state funding for the third sector, rational choice institutionalists might focus on the regulatory framework and legislation set up to manage funding transactions, including the enforcement of contract terms. If TSOs in receipt of state funding undergo changes, then they may have taken the rational decision to alter their internal practices in order to seek these rewards, or to avoid any negative sanctions.

5.4.2. Normative institutionalism

Normative institutions are perhaps those most commonly associated with the general label of new institutionalism. Normative institutionalism argues that political institutions influence actor's behaviour by shaping their 'values, norms, interests, identities and beliefs' (March and Olsen, 1984). Norms specify what should be achieved and how (Scott, 1995). Some are universal; others are attached to specific actors or roles. They shape what is considered rational and appropriate (March and Olsen, 1984) and this can act as a form of external pressure on actors (Scott, 1995). This 'logic of appropriateness' is often contrasted with the 'logic of calculus' found in more rationalist models (March and Olsen, 1984; Hay, 2006).

Perhaps the most famous explication of 'normative' institutionalist theory is the seminal article 'The Iron cage Revisited' by DiMaggio and Powell (1983). In explicit contrast to earlier accounts by Weber (1952 in DiMaggio and Powell, 1983), the authors argued that bureaucratisation and homogenisation were occurring in organisations due to normative institutional pressures (DiMaggio and Powell, 1983). Organisations were adapting in order to obtain legitimacy from other organisations within their field and society.

Meyer and Rowan (1977) described some of these social institutions, or 'myths', as norms that have taken on a rule-like status to regulate behaviour. These myths endorse certain goals as desirable, and certain behaviours as an appropriate and rational way of achieving those goals. Legitimacy is secured by organisations when they are seen to apply these myths to their own behaviour and structures, making their actions appear desirable, rational and appropriate to others (Meyer and Rowan, 1977). Examples of myths include the use of certain professions or organisational structures.

TSOs provide a good example of how myths concerning appropriate behaviour may differ between classes of organisations. Aberg (2013) argued that Swedish study associations were expected to incorporate features such as a federative structure, internal democracy, links to a popular movement and a strong presence in local communities, in order to qualify as legitimate members of civil society. They are also expected to at least ostensibly shun market logics in favour of their social missions (Aberg and Von Essen, 2010). Leiter (2005) argues that third sector legitimacy brings material resources, legal standing and cultural status, but that in return TSOs have to 'look' like an archetypal voluntary organisation.

In contrast to rationalist approaches, legitimacy is seen as the most important currency for success and survival within normative institutionalism (DiMaggio and Powell, 1983). Legitimate behaviour *may* be efficient and effective, as routines can reduce search and evaluation costs, promote certainty and stability and ensure access to resources and survival (Zucker, 1987). But it can also bring costs as more efficient alternatives are overlooked and initially rational innovations later transfer to inappropriate contexts (Meyer and Rowan, 1977).

Normative institutionalism would therefore suggest that TSOs in receipt of state funding might act in certain ways, not because they are forced to do so through the threat of sanctions, but because it is expected of them. They follow what appears to be the appropriate mode of behaviour for an organisation of their kind within their environment. This may be what leads some organisations to focus on 'professionalising', or acting as a 'social enterprise' in order to appear as legitimate contractors and recipients of state funding (Bennett, 2013).

5.4.3. Cognitive institutionalism

A third 'pillar' of institutionalism is identified by Scott (1995) as cognitive institutionalism. Cognitive institutions are defined as the concepts social actors use to interpret the world (Searle, 1969 in Scott, 1995). Together they are often described as forming cognitive frames or lenses. In this form of new institutionalism, therefore, the 'rules' are constitutive in nature. That is, they relate to what things *are* not just how they should be.

The term constructivist institutionalism is also used, reflecting its ontological foundations, though this definition appears somewhat broader. Hay defines constructivist institutions as "codified systems of ideas and resulting practices (Hay, 2006). Lowndes refers to the cognitive ideas that are "used to explain, deliberate or legitimise" action (Lowndes, 2010). The focus on social construction means there is clear overlap between cognitive and normative institutionalism. Both focus on socially constructed and ideational factors (Parsons, 2010).

Although these cognitive rules are determined and adapted through social interaction with others, they are usually taken for granted by individuals (Scott, 1995; Zucker, 1987). They are so pervasive and fundamental to our experiences that they appear part of common sense and alternative conceptualisations are often inconceivable to actors. They help to constitute not just what action makes sense, but also what interests, identities and conceptualisations of 'self' actors adopt (Zucker, 1987).

Zucker (1977) supports a cognitive explanation for the persistence of social institutions, rather than regulated practices or internalised norms, which she claims are a result, not a cause of persistence. Actors from one generation socialise the next and transmit what is accepted as real, meaningful and taken for granted. The more objective, impersonal and external an idea becomes, the more institutionalised it is. De-personalising behaviour or responsibilities in the form of official roles and duties therefore increases institutionalisation. Repetitive tasks become institutionalised over time as they become routinized, formalised, and invested with greater sunk costs (Zucker, 1987).

Again there is clear overlap visible between the normative and cognitive strands. Many normative theorists also emphasise that institutions are taken for granted (Bielefeld, 1992; March and Olsen, 1984; DiMaggio and Powell, 1991). A distinction is more easily drawn with the more materialist, rational choice institutionalism, which takes interests as given and has little to say on ideas or perceptions at all (Marsh, 2010). These rules are unlikely to be taken for granted as they are regularly and explicitly enforced.

The distinction with normative institutionalism is therefore subtle in practice, but a constructivist institutionalist might draw attention to the role of taken for granted understandings about what constitutes a TSO, state funding, a contract or a service. A third sector provider may act in a certain way because of norms relating to what a third sector provider *is*. A state funded contractor may continue to seek more state funding and to deliver similar services, simply because an alternative course of action is inconceivable.

5.4.4. Isomorphism

New institutionalist inspired work often focuses on the closely connected concept of isomorphism. As Zucker points out, isomorphism can have two related but distinct meanings. Sometimes it is used to refer an outcome of institutional pressures: namely homogeneity between organisations (Leiter, 2005; Oliver 1988). Other times it is used to indicate a process or mechanism, with homogeneity a separate but related outcome (Scott, 1995).

Given the goal of this chapter is to explore some of the theoretical mechanisms involved in funding driven organisational change, it is worth focussing briefly on isomorphism as a process. Whether changes that occur due to institutional pressure do result in greater field homogeneity, and how this might be measured, are interesting questions but beyond the central scope of this thesis.

When referring to a mechanism, the term isomorphism identifies the constraining processes that force organisations to adapt to their environment (Hawley, 1968 in DiMaggio and Powell, 1983). In other words isomorphism is the mechanism by which institutions are shared (Zucker, 1977, 1987, 1991 in Ramanath 2009). DiMaggio and Powell (1983) identified three kinds: coercive, normative and mimetic.

First, coercive isomorphism is a direct pressure to conform exerted by powerful external actors. Compliance may be enforced through direct sanctions, such as litigation, law enforcement, explicit grant conditions or regulatory powers. Or it can be enforced through indirect sanctions, such as being frozen out of access to decision makers or resource streams (DiMaggio and Powell, 1983; DiMaggio, 1983).

The emphasis on enforcement unsurprisingly links coercive isomorphism to regulatory new institutionalism. Because the power to exert coercive isomorphism is associated with control over an organisation's resources, it is also often associated with resource dependency. It fits less well with normative or cognitive varieties of new institutionalism which focus on taken for granted ideas. The very need for coercion suggests that there are viable, rational and conceivable alternatives (Zucker, 1977). Again, therefore, the mechanism for TSOs adapting to state funding would be the rational avoidance of sanctions and pursuit of material rewards.

Second, mimetic isomorphism is a result of organisations copying those they perceive as successful. It is most likely when the environment is uncertain, goals are ambiguous, or the link between goals and methods is unclear (DiMaggio and Powell, 1983). In this case TSOs that appear particularly successful at receiving state funding, perhaps by altering their external image and rebranding as a social enterprise, are likely to be mimicked by other TSOs that would also like access to state resources.

Third, normative isomorphism (not to be confused with the broad approach of normative institutionalism already discussed), is the process by which institutions are transmitted via individuals between organisations. In particular, professionals are said to form a homogenised group due to their shared education, training, networking and career paths, carrying the same norms with them between organisations (DiMaggio and Powell, 1983). As staff transfer between TSOs or attend similar training courses and networking events, they may come away with shared ideas of what their organisation should be doing in order to receive state funding, or even what their identity as a TSOs means.

Some have suggested that TSOs are more subject to isomorphic pressures than those in the private sector (Frumkin and Galaskiewicz, 2004). DiMaggio and Powell (1983) claimed institutional isomorphism was most likely in environments where competitive pressures and accountability on the basis of efficacy were weak. Many TSOs have separate funders and users, somewhat amorphous missions and goals, and technologies with uncertain efficacy (Leiter, 2005; Bielefeld, 1992). They are therefore potentially more likely to be evaluated on the basis of legitimacy and institutional compliance than more tangible performance outcomes (Slack and Hinings, 1994).

Not all TSOs are likely to experience the same institutional pressures or respond in the same way, however. Belonging to the third sector provider is just one aspect of an organisation's wider identity. Organisations have very different starting points in terms of values, ideologies, boards, strategies, resources, power, and their perceptions of the environment (Leiter, 2008). Ramanath (2009) found diverse responses to similar pressures amongst NGOs in the Indian housing field. As Lowndes (2010) puts it, "Institutional rules may produce variation and deviation as well as conformity and standardisation" (p.100).

Importantly, actors may also actively resist or subvert the pressures exerted onto them to conform to institutions or ideas of appropriate behaviour, with varying degrees of success. New institutionalism has been repeatedly identified as providing an overly deterministic account of organisational change (Fligstein, 2001; Fligstein and McAdam, 2011; Zucker, 1987). Arguably it focuses excessively on environmental pressures, without a consideration of how those organisations help to shape their environment (Hay and Wincott, 1998; Coule and Patmore, 2013). Just as strategic choice theories required an account of contextual and environmental factors, new institutionalist theories need to be counter balanced by a consideration of power, resources and agency. A wider theoretical framework is arguably needed that can take account of both structure and agency, and both diversity and homogeneity.

5.5. Strategic action theories

5.5.1. Strategically selective context

A number of writers have attempted to provide a more comprehensive account of organisational change that combines some of the insights from the previous theories (Coule and Patmore, 2013). At a broad level, the issues involved relate to the timeworn structure and agency dualism. Theorists have attempted to steer a course between the structuralist determinism of new institutionalism and the weak explanatory power of strategic choice theories. Both Hay (2002) and Marsh (2010) have argued for an approach that takes into account the interaction between structure and agency.

Hay's 'strategically selective context' (2002, 2006) suggests that actors are attempting to achieve strategic goals in an environment that favours some strategies over others. Strategic actions are therefore constrained and these constraints will result in some outcomes occurring more often than others. Despite these patterns, social processes are never deterministic and variation should be expected (Hay, 2002). Some actors also have more access to resources and more knowledge of their environment than others, allowing a greater range of strategic choice and a higher likelihood of success (Marsh, 2010).

This interaction is conceived of as a system of constant feedback cycles. Any action taken by an actor is likely to alter the strategically selective context both for themselves and for others. At the same time the structure will influence actors as they learn from the outcomes of their actions and shift their expectations and perceptions as a result (Hay, 2002; Hay and Wincott, 1998). Actors are conscious, reflexive and strategic; they are aware of the selective context and modify their behaviour accordingly. Such a formulation is therefore path dependent, as previous outcomes influence future choices. Nevertheless there are always options to select between and the potential for change exists within the system, without the need for exogenous shocks to explain major change (Hay, 2006).

This context and the likelihood that different strategies will bring about change are not necessarily always obvious to actors. They interpret this context through their ideas, perceptions and interests: their cognitive filters (Marsh, 2010). These ideas have their own discursively selective context, which selects for and against particular ideas, narratives and constructions. There therefore exists a shared framework of meaning within any system, which forms a central part of the strategically selective context and limits the actions of agents. Again, however, there is the potential for change as reflexive actors make choices that can alter the dominant paradigm (Hay, 2002).

Overall Hay's account offers a useful framework for balancing agency and choice against the constraints on action, whether they are material, social, informational, cognitive, biological or something else again (Pfeffer and Salancik, 1978). It also manages to combine both material and ideational factors within a single framework.

TSOs may have choices about which funding streams they pursue, how they respond to demands from their funders and even their underlying goals. But these are constrained choices. If the level of unrestricted funding declines or state actors begin to act more aggressively, then TSOs may find themselves with limited room to manoeuvre. If many TSOs are constrained in the same way then we will start to see correlations between state funding and other variables. However, varying goals, resources, power and a host of other factors ensure this is not a deterministic process. The potential for strategic agency, no matter how imperfect, always remains.

5.5.2. Strategic action fields

Hay's framework takes us a considerable way towards combining many of the insights from earlier adaptation and strategic choice theories, and incorporating both agency and structural factors. A major limitation, however, is that the nature of the environment is not considered in depth other than its general role as an inhibitor or enabler to the individual actor. Nor is the position of an organisation within the environment a particularly explicit factor.

A more wide ranging model that operates at the field level is provided by Fligstein and McAdam (2011). The authors introduce strategic action fields as socially constructed arenas in which actors with varying levels of power, resources and interests interact and compete. Actors share a common understanding concerning the purpose of the field and what is at stake. They are aware of their own position and power and that of other field actors, as well as the rules of behaviour that define what is legitimate, rational and conceivable.

This draws on Bourdieu's idea of a field being 'the totality of actors and organisations involved in an arena of social or cultural production and the dynamic relationships among them" (DiMaggio, 1979). Within this arena, players compete for various stakes as part of a complex game governed by a set of rules (Swartz, 1998 in Bennett, 2013).

Fligstein and McAdam (2011) argue that actors' power is determined by their position within the field. They distinguish between incumbents and challengers. Incumbents are powerful and the rules of a field help to provide them with resources and legitimacy. Challengers are comparatively disadvantaged and weak. They recognise the rules and generally abide by them while constantly agitating for change.

The authors draw particular attention to the idea of a shared interpretive frame which actors use to make sense of others' behaviour and positions in the field, a 'domain consensus'. These field conceptions embody the values and power dynamics of the field, even if they ostensibly appear neutral.

One of the main contributions of strategic action field theory is the emphasis on agency and power, even if the challenger-incumbent dichotomy is perhaps overly simplistic in practice (Taylor et al., 2016). Applied in the context of the third sector, it helps to counter the impression that TSOs are passive objects of Government policy or that changes to a field are the result of some form of agentless process. It acknowledges that the state is an overarching, powerful actor, but also that TSOs are themselves able to constantly agitate and attempt to bring about environmental change. It also suggests that some TSOs, those with more power, may fall closer to the incumbent camp and have more power to make their own choices. Those with fewer resources at their disposal, in contrast, may fall more firmly within the challenger camp, forced to begrudgingly accommodate the status quo.

Fligstein and McAdam's (2011) work is perhaps less convincing in its description of social change. They maintain that piecemeal change in fields is common but that major change is rare. Actors jostle for position and make strategic moves and countermoves but the overarching framework usually remains undisturbed. This leaves the obvious question, however, of when and why these major overhauls occur. The authors focus mainly on the idea of exogenous shocks. These originate outside a field and disrupt normal institutional maintenance (DiMaggio and Powell, 1991). In contrast to Hay's more internal, iterative explanation of change, it places the emphasis firmly outside the field (Fligstein and McAdam, 2011).

An exogenous shock may lead to an episode of contention where the established order is challenged and power relations become uncertain. Once the 'logic of appropriateness' is destabilised, there is space for deliberation between competing norms and values. Usually incumbents are able to reassert their dominance, but occasionally a new field system may supplant the status quo (Fligstein and McAdam, 2011). Regardless of what causes an episode of contention, applying the theory to state funding of TSOs usefully reminds us that organisations are not making changes within a vacuum. The recession and subsequent cuts to public services can arguably be conceptualised as a huge, system wide exogenous shock, which is still being played out across society and public service fields. Under the period of study, therefore, TSOs may still be gradually adjusting to, and jostling for position within, a new regime in which state funding for contracted services has become the norm but is now under pressure.

To summarise, combined with Hay's strategic selectivity, strategic action field theory takes into account the wide ranging starting points of TSOs and their differential levels of power. Organisations may change because they have no choice, or in order to pursue their strategic goals, but they do so with limited options depending upon their position within the wider field and environment.

5.6. Chapter summary

The theories presented in this chapter are often presented as though they exist in competition. In fact, higher levels of state funding in a field could simultaneously cause change within organisations in a number of different ways.

Higher state funding levels may lead to greater levels of dependency on the state, and external demands or regulation as a result. But it may also encourage professionalization and the cross-fertilisation of specialist staff. Or it may furnish some organisations with greater legitimacy, causing others to view them as exemplars to imitate. In general, TSOs may compete to show their legitimate standing as recipients of state funding. With a centralised resource base to compete over, especially when resources overall are becoming more scarce, interaction between actors may increase in general allowing institutions to transfer more easily via any of these mechanisms.

Some organisations may be sufficiently unsuccessful in their endeavours that they are forced to leave the relevant field entirely or even close down. Other organisations will be established or enter the field with resources developed elsewhere. It may be that only certain types of TSO are able to secure state funding in the first place, reversing the often supposed direction of causation.

This sets the scene in which actors will attempt to pursue their strategic goals via their internal decision making processes, with varying degrees of success depending on their power and position within their field. Some changes will be forced upon organisations while others they will enact willingly in pursuit of their goals. And some organisations will be able to successfully ward off these demands if they wish to, while others have no choice but to acquiesce. Both environmental factors and a consideration of agents' intentions may be necessary to gain a full understanding of the situation. All of these pressures on organisations will occur in the wider context of their field, whether the third sector as a whole or a more narrowly defined industry. If a field is changing, due perhaps to decreasing amounts of state funding, then the context of strategic action will also change.

For the purposes of this thesis, however, the message is clear. There is ample precedent within organisational theory literature to expect that changes to the level of state funding will have major implications for individual TSO. This means that for any relationships identified in the bivariate analysis chapters, Chapters 9 to 11, a range of plausible, causal mechanisms have been identified.

CHAPTER 6 : EVIDENCE REVIEW

6.1. Introduction

The discussion so far has centred on the relationship between the third sector and the state at a fairly high level of abstraction. Many commentators clearly believe TSOs' autonomy to act or organise in particular ways is in peril, but we have not yet addressed the specific changes that they expect to occur at the organisational level. This section presents the findings of an evidence review conducted to establish exactly what is known, or claimed about, the level of state funding for TSOs and its effects.

The main literature search method was through snowballing references, taking a previous review of third sector service delivery by Macmillan (2010) as a starting point. The scope of the literature review was mainly focussed on the UK, although a few prominent US studies have also been referenced. 'State funding' was broadly conceived, even if in practice most of the literature concerns the impact of increased contract income. Many, though not all, of the studies are also focussed on the service areas of health and social care, probably because these are the areas in which contracting is most established.

Some of the literature is published within peer reviewed journals and books, but there is also a substantial amount of grey literature in the form of reports by infra-structure bodies or specially established committees. There is a great deal of material in the literature about all aspects of the commissioning relationship, but the focus of this review was firmly on changes to organisations' observable characteristics and ways of organising.

The reviewed literature falls into three broad types. First, there are a number of articles and book chapters that offer commentary on policy developments, and speculate on the implications for third sector providers (examples include Taylor, 1996; Jones, 1996; M. Harris, 2010; Benson, 2014). The evidence presented ranges from reviews of existing research findings, to anecdotal evidence, through to polemic assertion. In any case, the goal of these articles is not to present new primary research, but they nevertheless remain useful for examining some of the claims made in this area.

The second group consists of relatively small scale qualitative projects, consisting of a number of case studies (examples include Lewis, 1993, 1996; Alcock et al. 2004; Chater, 2008). Interviews are commonly conducted with the senior management of third sector providers or occasionally operational staff. Representatives from public sector commissioning teams are also sometimes included in smaller numbers. The usual strengths and weaknesses of small scale qualitative research apply. The level of detail and nuance is far greater than quantitative research can provide, but the applicability of the results to the wider population is not as clear. While qualitative research can therefore identify valid and detailed examples of the relevant phenomenon, it is not so strong at identifying overarching trends.

In theory, large sample quantitative research should provide a complementary stream of evidence on the average level and variability of changes to TSOs that might occur due to state funding. Quantitative research in this area, however, has faced a number of limitations (Tarling, 2000 in Clifford and Mohan, 2016). The UK Statistics Authority identified "a shortage of regular and timely published statistics about the voluntary sector" (2012, p. 1; see also Salamon et al., 2012). This gap is particularly stark at the non-aggregate, organisational level. Westall (2009) suggests that statistical research has been further hampered by a lack of agreement over key definitions, the limited breakdown of official statistics by sector and changes to data recording over time.

Nevertheless, the quantitative evidence base is not a completely blank sheet. The third group of literature consists of research on a range of data sources outlining the prevalence of state funding for TSOs and providers' perceptions of the funding relationship. At the sub-national level, this includes small-scale, primary surveys covering a range of locations and service areas (e.g. Rees, 2008; Leman, 2007). The charity commission also conducted a one off national scale survey published in 2007, and the Government's National Survey of TSOs and the National Survey of Charities and Social Enterprises were published in 2008 and 2010 respectively.

Administrative datasets provide the other main data source. Most obviously, the charity register provides limited financial data on all registered and non-exempt charities in England and Wales, though the most useful research data is restricted to the largest organisations. The dataset used in this thesis (see Chapter 7 on the thesis methodology) provides more detailed information using data taken from charities' accounts and is also used to compile the NCVO Almanac (Kane et al., 2013). The Almanac is probably the best known, regularly produced statistical analysis on the third sector. It provides a range of aggregate figures on sector income and other structural measures. These sources therefore provide some information on the level and distribution of state funding, but not its effects. No quantitative studies were found that examined the effect of state funding on TSOs using bivariate analysis.

The results of this review are discussed in a number of different sections. As with all research that examines the effects of some change or social phenomenon, the first step is to verify that such a change has actually occurred. The following section therefore considers claims about the overall level of state funding to the third sector and what this has meant for individual organisations. It also explores claims that the distribution of this funding has been highly uneven, falling to some parts of the third sector in far greater quantities than others. The third section is the largest and directly examines the effects of state funding on organisations. Finally, the fourth section looks at the factors that have been found to mediate the impact of state funding.

6.2. How dependent is the third sector upon state funding?

A number of authors participating in the debate outlined in Chapter 4 draw attention to changes to the level of state funding for the third sector (Snowdon, 2012; Independence Panel, 2013). Seddon (2007), for example, remarked upon "state money flushing into voluntary and charitable organisations" (p. 19) and the "injection of wads of cash" into the sector (p. 27). The implication is that state funding is becoming an ever more important income source for the sector as a whole and for TSOs individually. The subsequent logic seems to be that if there is more state funding available, it has a greater potential to bring about organisational change.

With this in mind it is worth assessing what we actually know about state funding levels for the third sector, before moving on to consider what effects it might have had. The most detailed evidence is provided by the NCVO almanac. This confirms that state funding has increased in absolute terms over the last decade. The NCVO almanac estimated that the amount of state funding the UK third sector received in 2012 was £13.7 billion, compared to £9.4 billion in 2001 (Figure 3.1). This was down slightly compared to a peak of £15 billion in 2011, presumably due to the Coalition austerity agenda beginning to take effect. This figure includes grants and contracts, but not indirect funding via individuals' benefits, or national lottery funding. Other income sources, including individuals and investments, are shown to provide a comparison.

The longer term trend is more difficult to identify precisely. The NCVO figures prior to 2001 are not directly comparable due to methodological changes and it is difficult to compare to other studies as the range of organisations they include often differs. The general picture provided by Kendall (2003), however, is that a growth in government income in both absolute terms and as a proportion of sector income was also experienced during the 1990s. Seddon references an article by The Times that suggests the importance of state funding was much lower in the mid-1980s (1984 in Seddon, 2007). This would make increased state funding quite a long term trend.

Although state income has seemingly increased in absolute terms, the proportion of total third sector income coming from this source has not changed nearly as substantially since 2001 (Figure 6.1). State funding accounted for 35% of total income in 2012, compared to 32% in 2001. This is largely because funding from individuals has also increased substantially in absolute terms over the relevant period (Figure 3.1). While government spending has gone up, therefore, this does not necessarily mean that TSOs now have less funding from other sources.

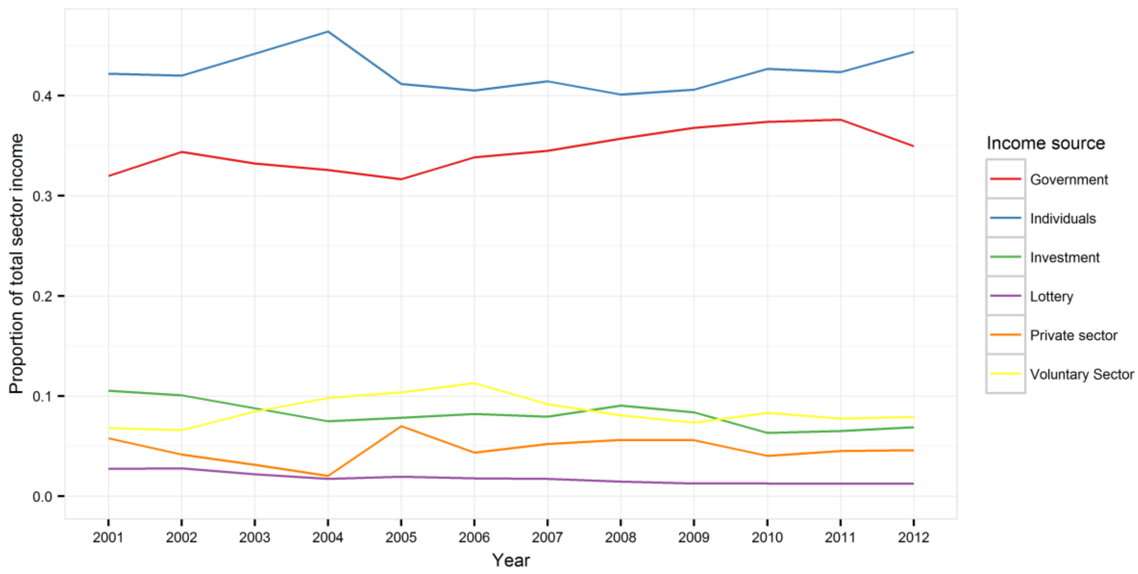

Figure 6.1: Proportion of total third sector income by source, 2000/2001 to 2011/2012. Based on NCVO (2014)

In a similar vein, it is not clear how changes to total state funding within the third sector will have translated into to changes at the organisational level. First, we do not know what the average amount of state funding is, how much this varies between different organisations or how either of these statistics will have changed in the past few years. Some organisations may have seen big changes, others none at all. Second, it is similarly unclear what the average *proportion* of total income received from the state is for individual organisations, how this varies, and how this has changed. And third, the increases in state income in Figure 3.1 may have flowed disproportionately into new organisations. This would mean that there is little change to the state funding levels of individual organisations.

The detailed picture could be complex. The proportion of income an organisation receives from the state, its absolute amount, and the amount it receives from all other sources are all clearly interconnected. All three factors are needed to gain a full understanding. Summary statistics alone also have the potential to be misleading as they fail to show the variation within a cohort.

There is not currently much research into individual TSOs' internal funding with which to explore these possibilities. Clifford and Mohan (2016) have looked at reliance on different funding streams, but only for a single year and only organisations with an income over £500,000. 32% receive the majority of their income from government, 22% receive at least 75%, and 13% receive at least 90% (Figure 6.2). This makes government income the most relied upon source, but only because the analysts have divided individual income into donative and commercial sources.

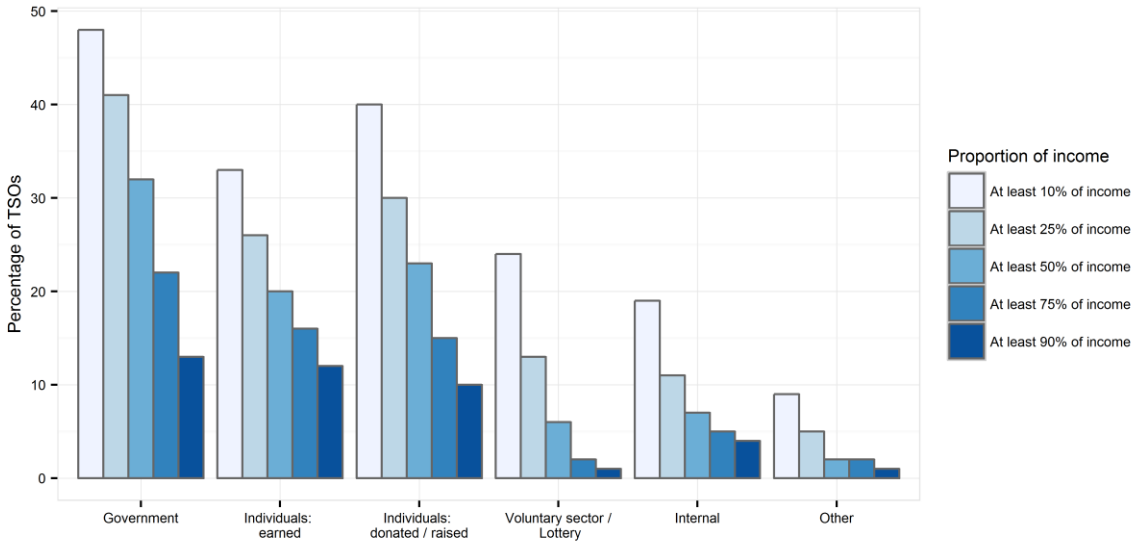

Figure 6.2: Percentage of TSOs receiving different percentage levels of each income source, April 2009-March 2010 (based on analysis in Clifford and Mohan, 2016).

In terms of the number of organisations receiving any state income at all, Clifford and Mohan found a figure of 48% for their sample of larger charities, the highest level of any income source. This level of reliance upon state funding is likely to be an overestimate for charities as a whole, however, due to the unrepresentative size of the sample organisations. The NSCSE (Ipsos MORI, 2010), in contrast, included a wider range of TSOs, of all sizes. 16% of respondents claimed that they had received grants or core funding, implicitly from the state, and 14% that they had received earned income from contracts (Figure 6.3). Taken individually, these sources did not rank particularly highly compared to others in terms of the number of organisations receiving any such income, or the number listing it as their main source. Using the raw data, Clifford et al. (2012) estimated that 36% of TSOs received public income in 2008 from at least one source, though it is not clear why this seems to differ so much from the information in the NSCSE report. The figure was considerably lower than funding from donations and fundraising, or membership fees and subscriptions. The Charity Commission survey (2007) and Rees 2008 also made estimates, but they are likely to suffer from significant response bias.

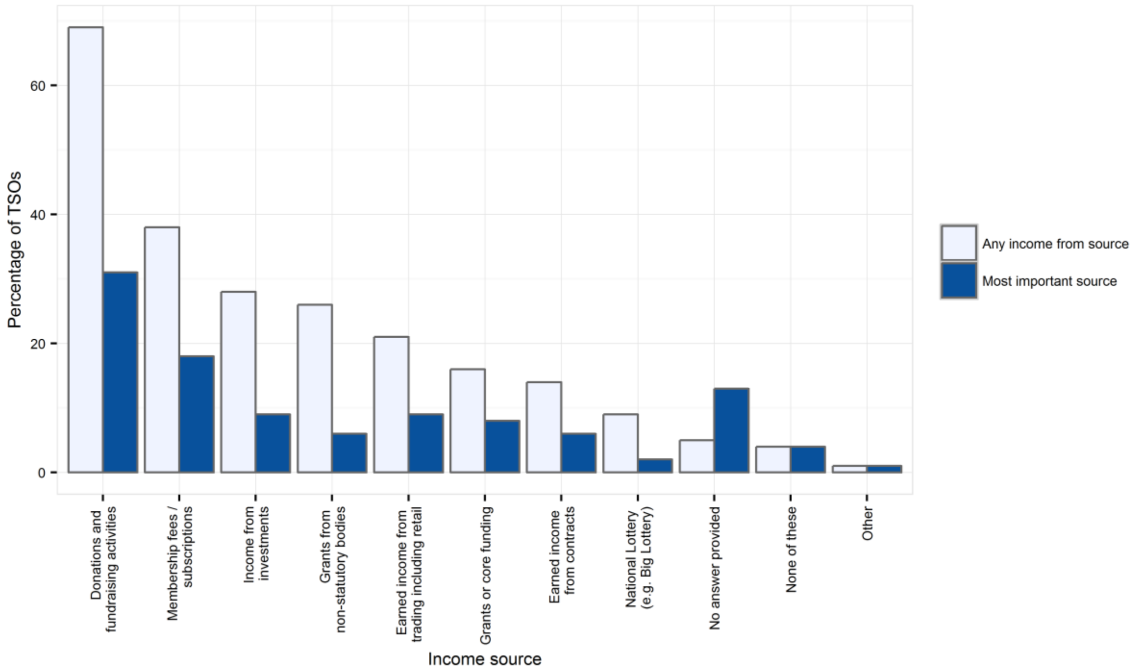

Figure 6.3: Percentage of TSOs that claim to receive at least some of each income source and the percentage rating it as their most important source. Based on data from the NSCSE 2010 report

To recap the picture so far, it is clear that a major change has occurred within the third sector. Absolute levels of state funding at the sector level have increased substantially while proportional levels have increased much more modestly. There remain large gaps in our knowledge, however. This includes how the changes to state income have played out over time at the organisational level.

It is also far from clear who the main beneficiaries of these increases in state funding are. We do know from existing evidence, however, that at the aggregate level the current distribution is likely to be far from even across the sector. By far the most commonly cited distinction in the literature is that larger charities receive more state income than their smaller counterparts (Kramer and Grossman, 1987; Knight, 1993; Morris, 2000; Chater, 2008; Independence Panel, 2012). Clifford et al. (2012) found that at each increase in size, larger organisations were consistently more likely to receive government income. In her qualitative research, Buckingham (2010) also found that almost all the homelessness providers in her study had incomes over £1 million. And finally Seddon (2007) claims that the concentration of income in larger charities is becoming more severe over time, as larger charities are growing faster due to their success at contracting.

This is undesirable, according to a number of authors, as the valuable characteristics of TSOs, such as flexibility and community involvement, may be most commonly found in smaller organisations (Richardson, 1993; Knight, 1993; Seddon, 2007). For example, OVCA (2008) warned that larger, national organisations may have less local accountability, contacts and knowledge than smaller, local organisations. Without state funding these organisations may lack the support that they need to survive and flourish. There is clearly something of a paradox here though, as these smaller organisations may be small in the first place precisely because they do not receive any state funding.

The data presented in the NCVO Almanac does present a stark picture for the distribution of all income sources combined (NCVO, 2013). The smallest charities dominate in terms of their frequency, but their collective income is dwarfed compared to that of the small minority of larger organisations. The precise picture regarding state income specifically is not yet known, as until now it has been difficult for researchers to disaggregate by income source. Clifford and Mohan (2016), however, suggest that the levels of concentration are similarly high. It is also backed up by a wealth of qualitative evidence that shows smaller organisations find it more difficult to win contracts with the state.

As Buckingham (2010) points out, the demands of bidding for contracts place a much higher proportional burden on smaller organisations, which are likely to have fewer resources (Nicholls, 1997; Scott and Russell, 2001). This situation is exacerbated further if purchasing authorities consolidate contracts into larger lots in order to reduce the amount of administrative and transaction costs for themselves (Audit Commission, 2007; Benson, 2014).

Of course what is not clear is whether any of this is particularly unique to state income. Raising voluntary income from individuals can also be an arduous affair, and personal relationships with major donors or grant makers are likely to be just as critical (Leat, 1995a). As Knight (1993) pointed out, larger organisations tend to dominate all income types. Once again, therefore, we must draw a line between absolute levels of state funding, and proportional levels. It seems highly likely that larger charities dominate in terms of absolute amounts, but it is less obvious that they are more dependent on state funding as a result.

It is also worth considering whether smaller organisations are being barred from participation or are choosing to opt out. Smaller organisations may not have the desire to engage in contracting, which is why they have self-selected to remain small in the first place (Audit Commission, 2007). Buckingham's (2010, 2012) study identified a group of organisations for whom state contracts were not feasible, but also not particularly desirable. These small, community and faith based organisations operated on a largely voluntary basis, delivering services that fell outside the remit of the state.

Some have suggested the concentration of income in the sector, and therefore perhaps the concentration of state income as well, is getting worse (Seddon, 2007; Duncan-Smith, 2005 in Backus and Clifford, 2013). This ostensibly appears to be the case, as charities categorised as 'large' are growing faster than those categorised as small. When Clifford and Backus (2013) explored this relationship, however, they found that the overall impact on income concentration in the sector was counterbalanced to some degree by a minority of small organisations growing extremely quickly.

The second major distinction that has been linked to varying levels of state funding is the service area, or type of activity, of TSOs. Kendall (2003) argues that TSOs must be considered not only from a 'horizontal', sector wide perspective, but within their 'vertical' service delivery fields, such as housing services, or social care. The policy and funding environments within these different service areas can differ significantly. The Independence Panel (2013) suggest that in some fields state funding is the only major source of funding available, as the cause is insufficiently popular with the donating public to fund sustainable services.

Health and social services are amongst the most prominent areas of state funding for charities (Charity Commission, 2007), probably due to the long incubation period within which contracting has developed since the 1990 Health and Social Care Act. IFF (2007) research found that 35,000 TSOs delivered health and social care in England, with aggregate funding of up to £12 billion in 2005/2006. Other areas with reportedly high numbers of state funded TSOs include education, children's services and advice (Charity Commission, 2007).

Beyond stating that there is more state funding overall in some fields than others, however, there is a lack of detailed evidence on the differences between fields. There is a need for comparisons that dig beneath aggregate totals to consider mean amounts, mean proportions, quantiles, the proportion of organisations with at least some state income, and so on. There are also limitations to the categories used to identify service fields in third sector datasets, which will be discussed within the methodology chapter (Chapter 7).

During the following discussions on the effect of state funding, however, it should be borne in mind that not all parts of the third sector receive the same levels of state funding. Some service areas, and larger charities, receive much more than others. In turn this may mean that any impacts of state funding that are uncovered have far greater implications for some parts of the third sector than others.

6.3. What is the impact of increased state funding on third sector organisations?

This section draws out specific claims in the literature about the impact of state funding upon TSOs. The first issue concerns whether TSOs have lost their previously held voluntary characteristics as a result of contracting, such as donative income and volunteers, and whether they have consequently become more dominated by professional staff. The second issue concerns whether the financial security of TSOs has been damaged by reliance on state funding, or conversely, whether it has in fact improved. And the third issue is whether TSOs have become more bureaucratised as a result of state funding. This could be reflected in an increased amount of resources spent on administrative tasks, more formalised management structures, or more corporate like behaviour. The following methodology chapter (Chapter 7) will consider which of the various hypotheses and claims that follow can be most fruitfully explored in more depth as part of this thesis.

6.3.1. De-voluntarisation

The first broad area of research findings relates to whether TSOs may lose their 'voluntary' characteristics while at the same time becoming more professionalised. Most obviously this relates to the participation of volunteers, but could also include a shift away from voluntary donations and a risk to any voluntary sector 'ethos'.

Starting with volunteer involvement, Seddon (2007) complains specifically that contracts marginalise volunteers in favour of paid staff and managers. Qualitative research by Alcock et al. (2004) did find a move away from volunteers towards paid staff, with some organisations using no volunteers other than trustees (Alcock et al., 2004). Buckingham (2012) found voluntarism was low in the organisations most integrated into the contracting regime; Chater (2008) found that volunteers were 'marginal' in the larger publically funded organisations; and Lewis (1996) found that voluntary managers were becoming alienated by the bureaucracy of contracting. Finally Russell and Scott (1997) suggested that turnover of volunteers and trustees had increased for some of their respondents, that recruitment was becoming more difficult, and that there was an increase in the reliance upon paid staff.

Regarding the cause of a potential conflict, Hedley and Davis Smith (1994) suggest that volunteers are being forced to fit into a commercial model not designed for their participation. Common and Flynn (1992) suggest that a flexible resource such as volunteering fits poorly into the level of specification inherent in contracts, while Russell and Scott (1997) blame marginalisation on a delivery orientated and managerialist environment. Volunteers do not appear to be commonly acknowledged within contracts, making it unlikely that their training or supervision costs will be funded or that their contribution to delivery will be fully recognised (Hedley and Davis Smith, 1994; Morris, 1999). At the same time, contracts may increase these costs if additional training and support is needed for volunteers to participate (Scott and Russell, 2001).

Either directly or indirectly, a number of authors seem to suggest that a potential 'de-voluntarisation' of the third sector is linked to its simultaneous 'professionalization' (Brown et al., 2000 in Bennett, 2013). Whether or not this is the case, it is certainly true that the paid workforce in the third sector increased significantly between 2001 and 2010, with a slight dip in 2011 (Skills-Third Sector et al., 2013). This increase also largely correlates with the longitudinal trend for state income. Chater (2008) therefore infers that the increase in the workforce has been primarily driven by service delivery and a need for qualified, specialist staff. According to Smith and Lipsky (1993), state funding facilitates professionalization by meeting the high costs of salaries and training, as well as requiring professionalization due to regulation and contract requirements.

An increased reliance upon paid staff may extend to the leadership level, as voluntary trustees become subsidiary to paid executives (Russell and Scott, 1997). This may be because trustees lack the necessary skills, or are intimidated by the legalistic nature of contracting (Hedley and Davis Smith, 1994; also Lewis, 1993; Smith and Lipsky, 1993). The risk is that organisations lose a previously important link to their communities via voluntary representatives on the board and are managed in a more top down fashion by paid executives (Benson, 2014; Smith and Lipsky, 1993).

Taken together, however, the qualitative studies mentioned do not present an entirely equivocal picture on the relationship between volunteers and contracting. In the US, Young (1995) criticises Smith and Lipsky's claim that volunteers are being displaced as lacking any substantive evidence, especially when volunteering rates had not been declining nationally in the US. The now discontinued UK citizenship survey similarly showed that volunteering rates had not changed by significant amounts in the UK, between 2001 and 2011, despite the fact that state income has increased substantially (DCLG, 2010). Even if there had been a major change, further research would be needed to determine that this was due to contracting and not because of other changing societal factors. The number of volunteers in the third sector as a whole also continues to dwarf the number of paid staff (Scott and Russell, 2001).

If volunteers do choose to stay in an environment with increased contracting, however, then some studies have found that their role is likely to become more formalised (Scott and Russell, 2001; Hedley and Davis Smith, 1994; Russell and Scott, 1997). This could mean increased training and supervision in order to perform more demanding tasks and an increase in work load. These studies found that for some of these volunteers this was not a burden, but proved a welcome opportunity (also Lewis, 1996). Changes to the role of volunteers could therefore be positive, though the line between volunteers and paid staff may become more blurred as a result (Russell and Scott, 1997).

There are limits to the involvement of volunteers in frontline delivery, however, in a regulated and potentially litigious environment (Leat, 1995a; Chater 2008; Lewis, 1993). Users with the most severe problems were seen by some on both sides as best dealt with by qualified, paid, professional staff (Nicholls, 1997; Smith and Lipsky, 1993). As a result a number of studies note a shift in volunteer roles away from the front line, towards more administrative or support roles (Alcock et al., 2004; Smith and Lipsky, 1993).

Concern about a decline in volunteers is matched by a concern that state income displaces or leads to a decline in voluntary or donative income. Hanvey and Philpot (1996) suggest that government income is often used to replace a decline in donations, while Seddon (2007) argues that donors are less likely to support organisations perceived as too close to the state, or offering state services. The evidence for these claims is not very strong, however. As identified earlier, there is little quantitative information available on the income mix of individual TSOs, let alone that state income reduces donative or general voluntary income. Teasdale et al. (2013) found that only a small number of TSOs with significant levels of both donative and commercial income in 1998 maintained this mixed resource base in 2007. Their study was not able to examine state and individual donative specifically, however, and does not show that either income type was forcing out the other type.

There is also an underlying concern with something less quantifiable related to the third sector. Specifically, some see a marginalisation of volunteers as symptomatic of a deeper moral malaise, in which TSOs lose their altruistic ethos and values. Billis (2010) argued that TSOs have entered into a Faustian pact by accepting more resources from the state and delivering more public services. Benson (2014) argued that user needs and preferences become side-lined as TSOs become more corporate. Buckingham (2010) speculated whether contracting will privilege means rationality over value rationality, and interviewees in the OCVA study (2008) were concerned that the giving, caring or voluntary ethos was at risk. As Chater (2008) points out, however, it is far from certain that paid, professional staff are any less committed to an organisation’s mission than volunteers. Many of the respondents to these studies also saw positives in professionalization in terms of service quality (OCVA, 2008; Buckingham, 2012; Chater, 2008).

6.3.2. Financial insecurity

Another potential impact of contracting concerns the financial stability and security of the TSOs involved. Many research participants have reported a negative impact from contracting upon their financial health but there are also some reasons why state funding could plausibly improve financial security.

Uncertainty seems to be an intrinsic part of the contracting process (Leat, 1995a; Martikke, 2008; Smith and Lipsky, 1993; Scott and Russell, 2001). Partly due to the incumbent advantage, the success rate for organisations bidding for re-tendered contracts is high (Richardson, 1993; Kramer and Grossman, 1987). This does not stop organisations suffering from chronic short term insecurity, however, as multiple short term contracts may be constantly expiring and organisations never know for certain that they will be renewed (Alcock et al., 2004). Scott and Russell (2001) describe a patchwork of funding, leading to uncertainty, volatility and underfunding. The result was a constant and burdensome distraction. Uncertainty can make it difficult to recruit and retain staff, obtain credit, or plan over the long term (Martikke, 2008; Cunningham and James, 2007; Richardon, 1993).

The situation can be exacerbated by the specific circumstances. Shorter term contracts obviously result in higher levels of insecurity. The Charity Commission survey (2007) found that over two-thirds of all public service funding agreements lasted less than one year, with only 13% lasting over three years. This is despite three year contracts potentially offering better value by maintaining reasonable flexibility but lower contract administration costs (CPA, 2006; Unwin, 2004). It would seem that purchasers are willing to pay a premium in order to maintain the ability to cut costs at short notice (Leat, 1995a; Morris, 1999). This inevitably passes risk, and uncertainty, onto the contractors. Reductions in local authority budgets will be felt relatively quickly in the form of lost contracts or a downwards pressure on prices (Hedley and Davis Smith, 1994; Cairns et al., 2006).

The form of contract also makes a difference. Payment by results is a less secure form of funding as income is not guaranteed even once the contract is secured. For example, some third sector providers in the Pathways to Work scheme made a loss on their delivery (NAO, 2010). A fixed price, block contract also carries higher risks, as greater than expected demand or rising costs are borne by the provider (Common and Flynn, 1992). Even if providers are paid according to the level of work carried out, this still depends upon a reliable flow of referrals, introducing another layer of uncertainty (Flynn, 1996).

Beyond uncertainty, the financial situation of TSOs is further undermined if organisations are unable to cover their full costs with their contract funding, including administrative overheads and management time. According to the respondents to the Charity Commission survey (2007), so called full cost recovery is rare. Only 12% of service delivery charities reported full cost recovery in all cases and 43% reported it was never achieved. TSOs often complained about this problem in the various qualitative studies (Scott and Russell, 2001; Morris, 1999; Martikke, 2008, Alcock et al., 2004).

In complete contrast, the Audit Commission (2007) found that full-cost recovery was usually accepted in principle at the local level, and commonplace in practice. They pointed out that the market ought to set the price above the full-cost level, unless organisations were subsidising services in order to secure greater market share. The extent of cross subsidisation is an unknown, though qualitative studies do suggest it occurs within at least some organisations some of the time (Buckingham, 2010; Scott and Russell, 2001).

Part of the problem with the concept of full cost recovery concerns what costs should be included. Bidding TSOs may fail to identify costs clearly associated with delivery, such as training volunteers (Lewis, 1993). Some costs such as inflation, incremental pay rises or the costs of reporting monitoring information may be less obvious, and open to negotiation (Leat, 1995a). An NAO (2007) report found that there was a gap between the interpretation of commissioners and the expectations of some TSOs.

On the positive side, many organisations felt that state income remains a relatively secure form of income, if compared in relative terms to other sources such as donations (Alcock et al., 2004). Contracts can at least guarantee some work over a specified period, and cannot usually be withdrawn with no notice whatsoever (Common and Flynn, 1992; Martikke, 2008). This is particularly true in the cases where longer contracts are achieved (Buckingham, 2012; Nicholls, 1997).

It is also undeniable that government funding can provide organisations with funds and capacity they would otherwise lack. Alcock et al. (2004) report how increased state funding allowed organisations to operate on a far greater scale than was previously possible. Cairns et al. (2006) similarly found organisations that had grown significantly and were delivering a wider range of services due to contracting. Martikke (2008) too found organisations that had achieved a growth in their activities. The pattern is clear, increasing state funding through new contracts provides at least one way that organisations can rapidly grow and increase their capacity. This might partly explain why larger organisations tend to have more state income; it is the state income that has made them large. But this is speculative, and it less clear is whether growth is an inevitable consequence of contracting, or whether organisations feel pressured into expanding to deliver services (M. Harris, 2010).

It is also possible for state funding to help organisations achieve a financial surplus in some cases. Chater's research (2008) focussed on a group of organisations that seemed to be coping very well with contracting, making surpluses and in some cases growing. Bennett's (2013) case study was also able to reinvest large surpluses in some cases. Overall the financial impact of state funding is therefore likely to be varied, and in the face of a general lack of evidence, the overarching trend is as yet unknown.

6.3.3. Bureaucratisation and formalisation

State funding is often associated with the bureaucratisation of TSOs. Bureaucratisation in this context usually refers to a general increase in administrative and non-frontline activity rather than a hierarchical internal structure. It often appears implicit in the literature that this is a negative development, though this may not always be justified. Bureaucratic activity has been linked to three main components of the contracting process: bidding, monitoring, and market participation.

First, a huge amount of time and resources appear to be consumed by the process of bidding for and negotiating contracts. Multiple studies have found the transaction costs of responding to a tender and negotiating any subsequent contract are onerous (Common and Flynn, 1992; Bennett, 2013; OCVA, 2008). Performance data needs to be compiled, services priced, and new approaches researched (Buckingham, 2010). As a result of these tasks, Gutch (1992) described the contracting experience in the US as a 'vast bureaucratic paper chase'.

These costs are often seen as unnecessary or excessive and the bidding process as overly complex and legalistic, with poor communication from purchasers (Audit Commission, 2007; Alcock et al., 2004; Martikke, 2008). The time and energy involved in responding to tenders may be disproportionate to the capacity of the organisations bidding and the level of funding on offer (Scott and Russell, 2001), and to compound matters, timescales may be unnecessarily short (Leman, 2007). When the same issues are faced across multiple, often short term contracts, the result can be a constant cycle of bidding (Cunningham, 2008; Alcock et al., 2004).

The administrative burden continues once the contract has been secured. The purchasing authority will usually demand a range of financial and administrative data from providers in order to ensure accountability. Bennett (2013) reports that the DWP demands 'self-assessment, action planning, monitoring and review, external inspection', and so on. Specialist computer software or hardware may also be needed to comply with these requirements (Buckingham, 2009; Bennett, 2013).

As with bidding, reporting requirements are sometimes seen as disproportionate to the services involved (Blackmore, 2008; NAO, 2007; Cairns et al., 2006). Measurement was perceived as target and output driven, without any direct link to service quality (Alcock et al., 2004). Morris (1999) and Martikke (2008) both found that their research participants were sceptical of the rationale behind much of the data collection, and whether it was actually utilised once delivered. Again, multiple short term contracts increased the burden further, as different requirements were often needed for different funders (Morris, 2000; Alcock et al., 2004; Martikke, 2008).

Finally, there are costs and administrative activities that cannot be attributed to any one particular contract, but are necessary just to remain as legitimate actors within a quasi-market. They include gathering intelligence on competitors and purchasers, attending consultation events and conferences, and joining professional associations (Bennett, 2012, 2013; Martikke, 2008). Marketing an organisation is a particularly intensive activity within quasi-markets (Bennett, 2012). Time and resources are also spent on staff training and development, learning skills such as pricing, bid writing and legal understanding, and building relationships with staff from purchasing authorities (Leat, 1995a; Nicholls, 1997).

The net result of all this administrative and support activity could be a reduction in the time available to spend on frontline activities. This is difficult to determine, however, as it depends on the counter factual. Without all the bureaucracy of bidding, negotiating and reporting on a contract, a service may otherwise not be funded at all. Alternatively similar levels of bureaucracy may be required for other forms of funding. As discussed below, the more relevant comparison is perhaps with a less administratively intensive form of grant funding that allows more discretion on how the money is spent. It is also possible that increased administration serves a useful purpose, making the frontline activity that does occur more efficient and accountable.

Beyond simply a higher level of administrative spending, there are other potential implications of state funding for the way TSOs organise themselves. One manifestation may be recruitment into specialist staff roles in order to cope with the financial, legal and operational complexities of contracting described above. In smaller organisations the director will either have to cope as best they can, or seek external support (Cunningham and James, 2007; Richardson, 1993).

The changing demands brought about by contracting are reportedly felt particularly strongly at the top of the organisational tree. Scott and Russell claim that contracting increases the responsibilities of management committees significantly (Scott and Russell, 2001). First, they found that the workload of trustees increased as a result of contracts (see also Lewis, 1996). Second, the legal, management and business skills required also increased. Kramer and Grossman (1987) claim that the leader of a contracting TSO must become part sales person, part lobbyist and part weather forecaster.

As a result, Russell and Scott found that both directors and trustees with professional and commercial skills were being specifically sought out by some organisations, making recruitment more challenging and selective (Russell and Scott, 1997; Scott and Russell, 2001; Morris, 2000). Increased competition for top performing leadership may be one of the factors increasing the salaries of executive staff (Richardson 1993; Seddon, 2007).

These changes may in turn alter the management style of an organisation and the entire manner in which it operates (Leat, 1995a). In order to deliver services within a quasi-market, or even interact with state agencies, they may need to develop the 'paraphernalia' of modern management systems such as mission statements, strategy documents and logos (Morris, 2000), as well as formal systems for recording and monitoring activities, performance targets, financial auditing, strategic planning and positioning, marketing and risk management (Bennett, 2013; Chew and Osborne, 2009; Bruce and Chew, 2011). Bennett (2013), for example, describes how a range of 'policies' were developed in a contracting organisation, on things like conflicts of interests, whistle blowing, human resources and equal opportunities.

Many describe these formalised activities as 'business-like' and associate them with the private sector (Bennett, 2013; Bruce and Chew, 2011; Blackmore, 2008). Others refer to the idea of managerialism, in which managers focus on measurable targets and quantifiable outcomes (Chater, 2008; Blackmore, 2008; Eikenberry and Kluver, 2004). There is therefore a perceived risk that these activities are not compatible with a traditional third sector approach or values. Volunteer involvement, flexibility and staff autonomy are amongst the characteristics that may lose out (Leat, 1995a).

Eikenberry (2009) suggests that modern governments have a normative commitment to markets and business-like behaviour that they pass on through contracting. Government requirements for formalisation and commercialisation amongst contractors can be both passive and active. Efforts at capacity building actively offer and encourage these forms of development through loans and grants (Cairns et al., 2005). More indirectly, it may be necessary to formalise in order to bid for government funding in the first place, or even to interact with government bureaucracies. One study reports how a formal constitution, regular committee meetings and formal leadership model were necessary even to exist officially in the eyes of the government (Harris and Young, 2009). Charities may become incorporated as much for the legitimacy of being a formal organisation, as for the liability protection (Morris, 2000).

What is not entirely clear, however, is whether this trend towards organisational formalisation could be part of a wider phenomenon affecting all sectors, rather than a direct impact of state funding on TSOs. Observing the changes discussed does not necessarily make contracting the main cause. Knight (1993) described how norms were spread between TSOs via networks of free-lance trainers and consultants and common training courses. This appears more in line with a model of social, normative isomorphism, rather than a coercive form of state driven isomorphism.

6.4. What influences the relationship?

According to the literature, the impact of commissioning upon TSOs is mediated by a number of factors. The first of these is the context within which the funding relationship takes place, and in particular the level of competition involved. The second is the form that the funding relationship takes and the process of awarding the funding. The third is the organisational context and in particular the power of the recipient organisation. And finally there is the level of dependency of the TSO upon the funding.

6.4.1. Funding context and competition

Firstly, the current and historical context surrounding a funding relationship may have a major impact upon how changes to that funding are experienced by the recipient organisation. Common and Flynn (1992) found that in some cases contracts were a reformulation of existing funding, while in others they specified new services to fill gaps in provision. Richardson (1993) found that in the US many of the early contract specifications were co-written with existing grant recipients, possibly to achieve a reduction in transaction costs and risk. More recently, contracting may have been used as a means to rationalise services, or drive down the cost of existing provision (Buckingham, 2010). Each scenario results in a different flavour of funding relationship (Lewis, 1993, 1996).

One of the most important contextual factors that may influence these relationships is the level of competition between providers. The theory behind quasi-markets suggests that competition will be able to drive up standards and keep costs close to their marginal level (Bartlett and Le Grand, 1993). But a number of studies at different stages of the outsourcing reforms have raised doubt over whether this is in fact the case. Hedley and Davis Smith (1994) found little evidence of competition in their qualitative research, and in some cases TSOs were holding a near monopoly. The Audit Commission (2007) found that competition with the private sector was limited to a small number of large social care contracts. Even competition between TSOs was limited to the fairly mainstream, more profitable services. Alcock et al. (2004) also found competition varied, with less found in specialist fields and rural areas where provision is less profitable.

Competition in quasi markets may be inevitably limited for a number of reasons. In order to have meaningful competition, providers must be able to enter and exit the quasi-market (Le Grand, 2002). Market entrance is in practice limited by the skills and capacity needed to bid, win and compete, combined with the incumbent advantages discussed earlier (Nicholls, 1997). Allowing organisations to shut down or exit the market can also be politically costly for purchasing authorities and disruptive to services (Smith and Lipsky, 1993; Martikke, 2008). As well as the supply side, there also needs to be a sufficient diversity of demand from different sources. This allows a sustainable ecosystem of providers to develop, as organisations can win and lose contracts over time without catastrophic consequences. This lack of demand is why specialist and rural services have less competition (Alcock et al. 2004).

If competition is very low, then a commissioner may find itself forced to accept whichever organisation is available, rather than dictate the terms of changes (Cunningham, 2008; Alcock et al., 2004; Audit Commission, 2007). Kramer (1994) suggests that in practice it may therefore be the funder that finds its flexibility and ability to act constrained, reducing public accountability.

When competition does occur, the context can still differ markedly. A number of similarly positioned local providers may compete for a local authority contract, or a local provider may be undercut by national or regional organisations 'parachuting in' (Nicholls, 1997; OVCA, 2008). In some circumstances, competition can intensify suddenly, creating a new power dynamic between commissioners and providers. Buckingham's (2009) research occurred in two local authorities at a time when budgets overall were being cut. This meant that there was a surplus in potential suppliers, allowing the purchasing authorities to push through changes to services, the tendering process, and prices. As Buckingham points out, this form of competition for survival may alter behaviour in a very different way to the pursuit of profit in more favourable market conditions.

6.4.2. Funding process

A second major influence on the impact of state funding is the nature of the funding relationship itself. The form that the funding takes may be just as important as its quantity (Rees, 2013; Buckingham, 2009). Unwin (2004) distinguished between giving, shopping and investing forms. She argued that different styles of funding, with different expectations placed upon the funder and recipient, were more suitable for different goals and would have different implications for recipients. Along these lines, many authors distinguish between grant funding, associated with unrestricted giving, and contracting, associated with tighter specification.

To Benson (2014) the distinction is primarily one of control. Grant funding places the design of the service in the hands of the provider, rather than expecting them to respond to a pre-specified tender. Despite the risks of stagnation, dependency or inefficiency, he suggests that grants allowed TSOs to provide an independent vision of delivery outside the state orthodoxy. Contracts, in contrast, supposedly introduce a far greater degree of legally enforceable control over the provider, and more explicit, rigorous performance requirements (Chater, 2008).

Commentators such as Benson (2014) mourn a decline in grant funding in favour of contracts over the past two decades. The Audit Commission, however, suggested that the distinction was always confusing and that rather than a dichotomy there was a spectrum of specification. And many of the problems associated with contracts, such as a bureaucratic application processes and incentives for gamesmanship were found across this spectrum (Audit Commission, 2007; Chater, 2008). Morris argued that legal enforceability was also a potentially misleading means of distinguishing between the two forms of funding. A much wider range of funding agreements were legally enforceable than many participants realised (Morris, 1999). In any case, legal redress is likely to be an exceedingly rare option when an ongoing relationship is involved, and arguably the critical factor in terms of control is the receipt of funding in the first place, rather than the legal formalities. This leads Batsleer and Paton to argue that the idea of a 'golden age' of grant maintained organisations is largely specious (in Chater, 2008).

The evidence on whether contracts have in fact displaced grants is also mixed (Macmillan, 2010). Margaret Harris (2010) suggests that generalised grants have been replaced by competitive contracts, pushing TSOs towards a profit driven environment (also Benson, 2014). Lewis (1993, 1996) also argued during the rise of the contract culture that although the distinction was difficult to quantify, many local authorities had cut grant funding, and that this marked a shift in culture away from a previously 'special relationship' between the state and the third sector. The Audit Commission (2007), on the other hand, suggested that although contracts had increased, and some grant funded services were now contracted, there was no evidence of a decline overall.

The NCVO has attempted to clarify the situation using its Almanac data. Based on their distinction, grant income has steadily declined since 2004, while contract income has increased dramatically until the drop in the most recent year (Figure 6.4). Mckay et al. (2011), also suggested that earned income from all sources *does* tend to displace voluntary income at the organisational level. Nevertheless, it should be noted that the rise in contract income is too large to be accounted for entirely by a shift in income from grants alone. The difficulties of definition discussed above, combined with the challenge of categorising thousands of funding streams in the Almanac data, also mean we should consider such findings as somewhat provisional. The changes are large enough, however, that we can be fairly confident in the direction of travel, even if not the specific estimates.

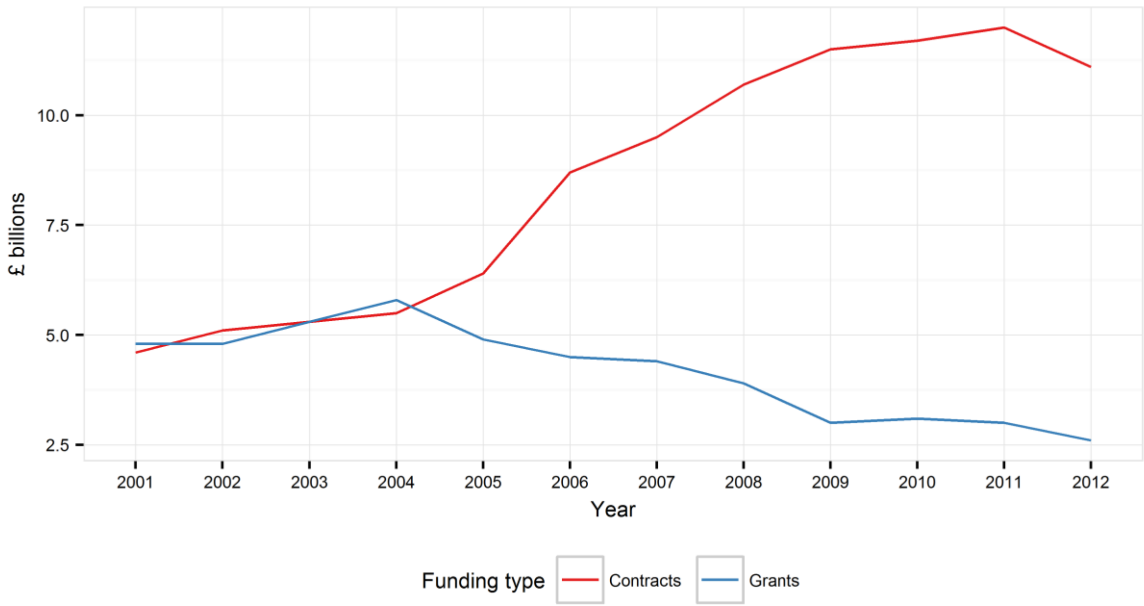

Figure 6.4: **Total third sector income from grants and contracts, 2001- 2012. 2012 prices, based on the data from NCVO (2014).**

Part of the problem with a dichotomy between grants and contracts is that it conceals a huge amount of variation within contracting relationships. A review of commissioning practice found great variation in how different councils and purchasing authorities responded to the contracting agenda (Bovaird and Downe, 2006). Tanner (2007) also found variability, with some LAs running centralised commissioning departments and others a more devolved model.

Contracts also differ in some other aspects, which offer more or less security to providers. Some services to users are grouped together in a single 'block' contract, while in other cases providers are utilised and paid on a more ad hoc, spot purchase basis (Alcock et al., 2004). The latter clearly provides a less stable form of income. Similarly, longer contract lengths are generally seen as providing more security than those that were annually renewed. There is also huge variation in the level of specificity between contracts, and even between different criteria within the same contract (Lewis, 1993).

6.4.3. Organisational context

It is not just variation between commissioners and contracts that influences the resulting relationship. Different organisations are also embedded in their own history and context, including their values, technologies, knowledge and supporting structures, and will respond differently to the contracting agenda and ostensibly similar changes to funding (Ramanath, 2009). Buckingham (2012) distinguished between four different types of TSOs on the basis of how 'comfortable' they are with contracting. This varied according to their size and financial security, their values and ethos, their voluntary resources and their level of professionalism. This is similar to the distinction Smith and Lipsky (1993) make between traditional philanthropic agencies, specially established contractors, and voluntary community organisations. They claim that each will be affected by government actions differently. Finally Cunningham (2008) also categorised social care organisations on their ability to withstand cost cutting measures from purchasing authorities. ‘Inside trackers’ held various advantages in size, specialism, income, geography or market position. Those ‘holding their own’ may be protected by some of these features, but not others, while those ‘struggling to care’ had been utterly subjugated.

What determines a TSO’s response to contracting depends on a number of factors. Some organisations are likely to value the added capacity to develop and deliver services that comes from state funding over the potential costs. Others, due to their values and history, will be more determined to resist externally driven change. For example, Buckingham (2012) found that faith based organisations tended to be more resistant to the contracting agenda. Besides their motivations, however, organisations are also likely to differ in their levels of power and capacity to resist interference from commissioners even if they wanted to.

Far from being a one-way street, TSOs do have their own sources of power that they bring to the relationship (Blackmore, 2008). As alluded to in the discussion on competition above, some TSOs’ characteristics give them a form of scarcity power, due to their advantageous position within the quasi-market (Kramer 1994; Chater, 2008). Scarcity power can be achieved by obtaining a market niche in terms of the service, client group or location (Scott and Russell, 2001). In some cases a TSO may possess a virtual monopoly of supply in its field (Morris, 1999). To compound this scenario, state agencies are often obliged by statute to ensure a service is provided, whereas a TSO, at least in theory, has the ability to walk away (Kramer, 1994). Even without a monopoly position, however, an organisation that can offer something valuable and scarce to a commissioner can exert some power, whether it is their reputation, physical assets or experience (Chater, 2008).

Another form of power is more political. Some organisations are extremely well connected and able wield significant influence over their environment (Scott and Russell, 2001; Chater, 2008). Organisations can lobby to influence negotiation procedures, service design, or budgetary decisions (Smith and Lipsky, 1993). This influence is more likely if organisations are working in areas with high public support and who can mobilise powerful communities to their defence. The Independence Panel (2012, 2013) claims legitimacy and ‘brand’ power can be drawn from the support of members, volunteers, supporters and community links. Sometimes coalitions of organisations can ally together or utilise infrastructure bodies to negotiate with funders (Crouch, 2010; Cunningham, 2008).

All these forms of power and protection, whether financial or political, appear to be heavily mediated by the size of the organisations involved (Independence Panel, 2013). Morris (1999) found that the size of the charity was an overriding theme in her study, while Cunningham (2008) found larger organisations could afford to be much more assertive with their funders. Partly this is a matter of capacity. Greater size allows organisations to cross subsidise or pool funds from different services, allowing specialist staff for negotiations or lobbying activities (Kramer and Grossman, 1987; Seddon, 2007). These are both resource intensive activities that require capacity and organisational persistence (Martikke, 2008). On the other hand, there is a risk that these larger organisations become fragmented, torn between a plethora of competing demands and priorities (Kramer and Grossman, 1987).

6.4.4. Organisational dependency

The power balance within a relationship is also contingent upon how vital the resources involved are to an organisation's survival (Saidel, 1991). In some cases, a move to contracting may feel coerced if an organisation feels unable to turn down proposals from their funder (Lewis, 1996). While in theory a TSO can always walk away from a service, staff's livelihoods may be on the line, making the potential costs severe compared to those risked by the funder. In Buckingham's qualitative research (2010), TSOs appeared to be in a relatively weak position due to their dependency upon local authority contracts. Similarly, Bennett's (2013) case study became increasingly dependent on central government resources over time, and was obliged to undergo organisational changes in order to preserve this income stream when it became scarcer. Cunningham (2008) identified dependency upon the funder as a key determinant as to whether organisations could resist pressures to drive down working conditions for staff.

Conversely, one of the clearest conclusions from the literature on contracting is that a diverse funding base reduces an organisation's dependency upon funders (Flynn 1996; Morris, 1999; Martikke, 2008). This may mean cultivating alternative income streams such as donations or sales from shops. Buckingham (2012) describes how possessing some voluntary income allowed organisations greater leeway to carry on with their agenda. Similarly Chater (2008) suggests that voluntary income gave organisations the ability to carry out extra activities or go beyond the contract.

Beyond the value of these alternative sources for their own sake, a mixed portfolio of funding prevents the dependency that would make the loss of a contract catastrophic (Smith and Lipsky, 1993; Flynn 1996). In some circumstances, sufficient reserves could similarly buffer an organisation. Equally, diversity could be achieved by securing a wider range of different sources within the state system. Headline percentages of 'state funding' can conceal funding from a number of different relatively autonomous agents of government, offering different forms of funding (Leat, 1995a). This may mean operating across multiple local authorities, primary care trusts, central government departments, or more specialist bodies such as Drug Action Teams. Generally, these organisations do not represent a single coordinated entity capable of centralised co-option (Chater, 2008).

In order for this diversity to translate into greater security against outside interference, however, an organisation must at least in principle be willing and able to walk away from unsuitable funding (Cunningham, 2008; Blackmore, 2008). Although the decision may come at a cost, TSOs do not ultimately have to accept state funding. A number of Chater's (2008) case studies were able to give examples where they had done just this without catastrophic consequences, due to a clash of aims, or an inappropriate client base or geography (Chater, 2008).

6.5. Chapter summary

6.5.1. Levels and distribution of state funding

The aggregate level of state funding has increased significantly since 2001, and probably for at least a decade before that. It has only increased slightly as a proportion of total sector income over the same period, however, as income from individuals has largely kept pace. A detailed breakdown on how dependence upon state funding has changed at the organisational level is not available from currently published evidence.

Larger organisations dominate the share of total income available within the third sector, and this appears likely to apply to state funding. Whether larger organisations are also disproportionately *dependent* upon state income is less clear, however, as they also dominate in other areas of funding. Some service areas or 'fields' also receive more state funding than others.

It is also not known whether these unequal distributions, in terms of size and field, are getting worse. There is some evidence, however, that larger organisations in terms of overall income are in general growing faster than smaller ones.

6.5.2. Impact of state funding on TSOs

A wide range of research has identified various observable impacts that state funding, and contracting in particular, may have on TSOs. They relate to de-voluntarisation, impacts upon financial security and bureaucratisation.

6.5.3. De-voluntarisation

There have been multiple claims that increased state funding shifts organisations away from the use of volunteers. Volunteers may be less willing to participate or more difficult to fund and incorporate into services. Their role may also shift away from the front line towards supporting activities. The flip side of the alleged phenomenon is an increase in reliance upon paid staff and paid executives. This in turn may affect how TSOs are run, moving them away from a previously distinctive ethos. Finally, de-voluntarisation may also include a potential reduction in organisations' reliance upon donative income.

6.5.4. Financial insecurity / security

The impact of state funding on the financial security of TSOs appears to vary. Contracts do often provide a relatively large degree of resources which are generally secure at least for the length of the contract. On the other hand contract lengths tend to be short, which introduces a high degree of uncertainty and risk into organisations' finances. Organisations may also struggle in some cases to cover all of their costs from the funding available, eating into surpluses from other areas or reserves.

6.5.5. Bureaucratisation

State funding may result in TSOs spending a larger proportion of their resources on administrative activities, in particular those related to generating income such as contract bidding and marketing. The nature of staff, managers and organisational leaders may change in order to accommodate the new demands. More amorphously, the way in which an organisation operates and is managed may shift towards a more managerialist or 'business like procedures.

6.5.6. Mediating factors

As well as these potential impacts upon TSOs, the literature provides a range of factors which may extenuate, mitigate or mediate the suggested changes. Firstly, state funding can occur in a context of wider growth or cuts in public spending, varying levels of supply and demand for provision, and hence varying levels of competition. The funding itself can come in the form of a loose grant relationship, a tightly specified contract, or somewhere in-between. Organisations will individually differ in how they respond to external pressures, depending on their individual capacity, history, values and especially size. Some organisations are in a more powerful position than others, and are able to resist or shape external demands. Finally, organisations less reliant upon any one state funding source may be less subject to externally driven changes.

CHAPTER 7 : METHODOLOGY

7.1. Introduction

This chapter outlines how the thesis will add to the debates reviewed in the previous chapters. First, some of the specific research questions that have arisen from these discussions are outlined. Second, the dataset selected for this study is introduced along with its background and information on how it was originally constructed. Third, the general methodological approach to the research is discussed, identifying its strengths and weaknesses and its applicability to this research. Overviews are also given of the general approach to statistical significance and causation within the study.

7.2. Research questions

Following the evidence review, a number of specific research questions were developed, which this study will aim to address:

- How much state funding do TSOs receive and how dependent are they on that income?
- How has state funding changed between 2009 and 2013?
- How is state funding distributed between TSOs?
- What is the relationship between state funding and TSOs':
    - voluntary characteristics?
    - financial security?
    - level of bureaucracy?

The first three questions address some fairly fundamental gaps in our knowledge about state income within the third sector. They help to provide the context for the remainder of the questions, which address bivariate relationships between state income and other features of charities. In each case there is some evidence from the review in Chapter 6 to suggest that state income *may* be associated with another variable or set of variables, but little existing quantitative evidence on what form this relationship takes across the population as a whole. This means that at a quantitative, aggregate level we generally know very little about how widely any relationship applies, its strength or its linearity. The remainder of this chapter addresses how this study is intended to fill some of these gaps, and so to answer the research questions.

7.3. The accounts dataset

The broad aim of this thesis is to provide a foundation of new quantitative evidence about state funding to the third sector. In order to achieve this goal, a suitable source of data was required. As discussed in the previous chapter, there have up until now been two major sources of nationally representative, quantitative data on charities and other TSOs. First there are the two government surveys, the National Survey of Third Sector Organisations and the National Survey of Charities and Social Enterprises, conducted in 2008 and 2010 respectively. The surveys both provide a nationally representative sample of TSOs. One of the main strengths of these surveys is that they asked recipients to identify which, from a wide range of different sources, they received any income from. This makes it possible to identify recipients of different forms of state income.

On the other hand, this information was only weakly quantified. We only know whether an organisation received any funding at all from a particular source, and whether or not that source was considered a main source of funding. Operationalising outcome variables to address the specific research questions in this study would also be challenging, as the data lacks the detailed structural information charities submit to the charity commission, and there is no way of linking the two sources. The information may also now be slightly out of date, given the impact of government policy and austerity over recent years.

The charity register, in contrast, provides a range of information on the finances and characteristics of charities, particularly for those with an income over £500,000. This includes information on things like the number of volunteers and employees that form part of a charity's workforce. In contrast to the national surveys, however, it does not allow a detailed disaggregation of income sources. Young et al. (2010) identified an inability to distinguish between government contracts and privately paid fees in particular as a "problem that plagues researchers" in the US and UK (p. 167). This means that it has not previously been possible to identify state income specifically or explore its impact upon other charity characteristics.

This thesis is therefore fortunate to benefit from a relatively new data source that combines the strengths and mitigates the weaknesses of the national surveys and charity register, albeit with its own challenges. The Third Sector Research Centre (TSRC) at the University of Birmingham and the National Council of Voluntary Organisations (NCVO) began investing in this new dataset in 2010 (Kane et al., 2013). Referred to from now on as the 'accounts dataset', it was created by extracting information from charities' accounts and classifying items of income and expenditure into further sub-categories. It also contains information linked from a range of other sources to expand the number of available variables, including the information from charities' annual returns.

The accounts dataset provides two main improvements on the other sources. First, the classifications allow the income of a charity to be broken down into different sources, such as the state versus individuals, rather than just the previous distinction between 'earned' and 'voluntary' income provided by the annual returns. And unlike the national surveys, this data specifies not just whether a charity receives a particular source of funding, but how much it receives. Another advantage is that the accounts dataset goes some way towards rectifying the previous restriction of the most useful analysis to the largest charities only. The caveat is necessary as the dataset is still arguably *most* suitable for studying these larger organisations, as discussed further below.

Despite the clear advantages, however, the dataset has not yet been significantly utilised for multivariate research. Its most prominent use has been the NCVO Almanac, which aims to identify aggregated totals. Given its potential and under-utilised nature it was the obvious data source for this study, and in particular for an exploratory data analysis to lay the foundations for a new evidence base.

7.4. Accounts and annual return data

Because the accounts dataset is relatively new and under researched, it is worth elaborating briefly on how it is constructed and its strengths and weaknesses. This information is not available in great depth elsewhere. First it is worth reviewing the original source of the data, which comes from charities accounts and the linked in annual returns.

Charities' accounts provide the bulk of the variables available. All registered charities are required to prepare accounts, though only Charitable Incorporated Organisations and those with an income over £25,000 must routinely submit them to the Charity Commission. There are also income thresholds that determine the degree of scrutiny a charities' accounts must be subjected to, and the format they must take. Charities with an income over £250,000 must produce accounts on an accrual basis, in accordance with the Statement of Recommended Practice (SORP) (Charity Commission, 2005; 2015). These guidelines provide a certain amount of consistency between accounts. Smaller organisations can submit accounts in a simpler format if they wish, with more potential for variation. Only the largest organisations with an income over £1 million require external auditing (£500,000 prior to 2015). In general, the larger the charity the more confident we can be in the integrity of the accounts.

The information that charities must submit to the charity commission on their structure and activities as part of their annual returns also depends on their size and whether or how they are incorporated. The details of these requirements are quite convoluted, with numerous sets of parallel thresholds, but can be read within the Charity Commission's published guidance (2013a). Generally speaking, the larger the income of a charity, the more information it is required to submit. In particular, with the exception of Charitable Incorporated Organisations, charities with an income under £10,000 are not required to submit an annual return at all. Only charities with an income over £500,000 are obliged to fill in the financial section of the annual return known as 'Part B', which has a more detailed breakdown of income, assets and expenditure.

To complicate matters further, the reporting requirements for charities also appear to be subject to near constant change, whether in terms of the information required in annual returns, changing size thresholds, or the new SORP which came into practice from 1st January 2015. This presents a difficulty from a research perspective, as it makes it harder to ensure consistent, like-for-like comparisons over time. On the more positive side, however, the quality of the data included in annual returns is likely to have improved in 2013 when online submission become obligatory. Useful variables for research, such as the number of volunteers a charity uses, have also been made compulsory for the first time.

7.5. The sample

Given the high number of organisations and the level of labour involved in data extraction, a census of all charities' accounts is not yet feasible. The accounts dataset is therefore a sample of the charity population as a whole. The charity register provided the initial sampling frame, from which a probability sample of charity accounts was derived. The sample is designed to be representative of all 160,000 registered charities operating in England and Wales. There are some exceptions in the case of charities that are not required to register, including those regulated by other bodies or with an annual income under £5,000 (Charity Commission, 2013a). The sample has been repeated over a number of years, at around 10,000 charities, except for 2013, the latest year, which is about 25% smaller.

The sample design used strata based upon NCVO's size classification system, which is mainly formed of equally sized categories a log10 scale. Using strata can decrease the uncertainty of statistical estimates by reducing the amount of sampling variation. The sample size within each stratum is a compromise regarding the number of charities within the population stratum, the variation in their values, the type of estimates planned, and the likely degree of subgroup analysis (Lumley, 2010). Weights are used to ensure unbiased estimates in the analysis for this thesis, taking account of this design. Adjustments to the estimates and standard errors were applied using the 'Survey package' in 'R', including a finite population correction where necessary (*ibid*).

In this case the creators of the dataset have opted to oversample the largest charities considerably, to prioritise the accuracy of estimated totals (Kane et al. 2013). They also claim that they have sought to ensure all strata were well represented for use in other forms of analysis such as identifying proportions. During the analysis this did generally prove to be the case when using the sample as a whole. In most cases efficient estimates are provided and a reasonable degree of disaggregation could also be applied between subgroups. As discussed below, however, major problems did result when including the very smallest organisations in the analysis.

7.6. Data extraction process

Having constructed the sample, the next stage in the development of the accounts dataset was to extract the raw data from charities' accounts and classify it into a useful form. There is no standardised accounting procedure or layout for all charities' accounts, and the PDF format in which the accounts data is published is not amenable to automatic data extraction (Kane et al., 2013). TSRC and NCVO therefore funded the Centre for Data Digitalisation and Analysis (CDDA) to extract the accounts data manually into an electronic format. A range of methods were then applied to categorise this electronic data into subcategories for further analysis. Generally speaking the categories used are derived in one way or another from the guidelines and examples provided in the SORP (Charity Commission, 2005).

The sheer amount of data involved means that only the largest items were manually classified, or those of the largest organisations, again prioritising the accuracy of aggregate totals in the analysis. For the remainder various forms of automation were used, combined with some degree of manual classification to aid the computer learning process (Kane et al. 2013). The dataset's creators state that they are confident in its quality and that its results are consistent with other sources of information on the third sector (Kane et al. 2013). Besides the odd inevitable human error in the data entry, however, there remains considerable scope for errors to have entered the dataset at multiple stages of the process.

There is no completely standardised method for recording accounting data, and individual charities will choose to phrase the same item of income or expenditure differently. In some cases there may simply be insufficient detail to make a classification or the information provided may be ambiguous. Those organisations that are subject to SORP will at least organise their items under certain defined headings, which are reflected by the variables in the dataset, but this only applies to charities with an annual income over £250,000. It is also only the very largest organisations with an income over £1 million that are legally required to have their accounts externally audited. Smaller organisations in contrast have considerable latitude.

Even if we assume that the raw accounts data is reliable, there remains the problem of classifying these items into analytically meaningful categories. This would be a difficult task even if conducted entirely manually, and the automatic matching involved only exacerbates the challenges. The machine learning processes used are sophisticated, but they cannot apply discretion and judgement in the way a human coder can. This is especially the case given that some of the theoretical distinctions involved are quite blurred to begin with. For example the distinction between voluntary grant income, and earned contract income, is in reality something of a continuum, with considerable overlap between the two categories.

Morgan (2011) has argued that analysis of charity accounts data should be limited to those required to follow SORP, and to longitudinal analysis tracking change within individual charities rather than comparisons between charities. Whilst this would indeed be the safest course of action, however, it would also greatly inhibit the usefulness of the dataset to address some of the most important questions facing the third sector. I argue that given the status quo, in which little or no large scale quantitative research is available on the impact of state funding, the accounts data provides a substantial improvement. Uniformly restricting the analysis to only the largest charities would unnecessarily rule out a substantial amount of useful data, particularly on medium and smaller charities for which even less data has previously been available.

The limitations identified can also be at least partially addressed through careful analysis. For example the results in this study are always disaggregated by size, so that the most reliable data of the largest charities can be considered independently if desired. The classification difficulties should also not be overstated. Although many cases will be ambiguous or debatable, there are likely to be many more that are relatively uncontroversial. The correspondence with other datasets noted by the dataset authors (Kane et al. 2013) can also increase our confidence in the results, as can the accuracy of sample estimates when measured against known population parameters such as total income for all charities.

Overall, the dataset as it stands provides by far the most robust and detailed database of charity financial data available in the UK, and probably the world. It is certainly far superior to the status quo, in which supposition fills in the wide gaps in our understanding (UK statistics authority, 2012). While the results should be treated with caution and prudence, therefore, it would remiss to neglect the potential of the dataset to address the ongoing debates about the relationship between the third sector and the state. This thesis should therefore be regarded as an initial exploratory analysis that aims to shed light upon these debates, using the best data source currently available.

7.7. From population to sample

Chapter 2 discussed the various definitions and concepts used to discuss and debate the idea of a third sector within the welfare mix. It concluded by outlining the population of most interest to this study: organisations that deliver personal services, are formally constituted and legally registered, are independent and self-governing, are non-profit, and operate instead for a social mission. As outlined above, the accounts dataset is designed to be representative of all charities in England and Wales. These two populations are not necessarily the same, but they do overlap considerably. Inevitably the end result is a compromise, but the following section will show that with some adjustments, the accounts data can provide a sample reasonably close to the original theoretical population.

As Kendall and Knapp have suggested (1995), an operational definition of mission or value driven TSOs is difficult to implement. The most promising option in the UK context, though undoubtedly imperfect, is to start with the legal charity definition. In order to register as a charity, an organisation must have charitable purposes. The 2006 Charities Act lists a wide range of potential purposes, some of which are very broad such as the promotion of education or health. In addition, a purpose can qualify if it has previously been established by case law, or if it can be considered analogous to and in the spirit of an existing purpose.

Above and beyond this requirement, an organisation must be considered by the charity commission to operate for the 'public benefit'. Detailed guidance on this point is available from the commission (Charity Commission, 2013b), but the key point is that a reasonable case must be made that the charity provides a benefit, on balance, to either the entire public or some disadvantaged subsection. While there are clearly subjective and idiosyncratic components to this process, the commission claims that in practice, disagreements are rare and public benefit is self-evident in most cases. As Hands et al. (2008) suggest, the combination of charitable purposes, the public benefit test, and the non-distribution constraint make it reasonable to assume charities meet the 'value driven' requirement of the third sector definition, at least to a sufficient degree.

Most organisations registered as charities also meet the criteria of the structural operational definition (Kendall and Knapp, 1996). By virtue of the registration requirements they can be considered self-governing, formal organisations and not-for-profit. Voluntarism is not a requirement for inclusion in this study, but all charities also have at least some voluntary trustees and many have donations or other voluntary input. However, some charitable organisations do arguably fail the requirement that TSOs are self-governing and independent. In an attempt to develop a sampling frame along the lines of the government's definition of a TSO, Hands et al. (2008) identified a number of ambiguous cases that might fail one or other of the criteria and made sensible recommendations for restrictions which are followed here. In particular, non-departmental public bodies are excluded on the grounds that they are not sufficiently independent of the government.

The general charities restriction used by the NCVO also excludes these organisations, as well as NHS charities, on the grounds of a lack of independence and because they do not have complete control of their board. But it also goes further and removes others because, somewhat ambiguously, they 'belong elsewhere in civil society' (NCVO, 2012). This latter restriction removes housing associations and independent schools amongst others, so is similar to the narrow definition used by Kendall and Knapp (1996) to reflect public perceptions of charities.

Providing that they are charities and have passed the charity commission's requirements, however, there does not appear to be a consistent theoretical justification for removing these groups without, for example, also removing social care providers that rely on fees. In the absence of a stronger rationale for their removal they are therefore retained within this study as suggested by Hands et al. (2008). A further restriction to the population for conceptual purposes reflects the largely UK focussed nature of the debates discussed. This does not mean that the findings do not have relevance to a much wider international audience, but it does mean that it takes the UK context as its main case study and statistical population. Charities that do not operate within the UK are therefore not part of the population for this study and were removed from the dataset.

Finally, as discussed in Chapter 2 this study is limited to charities providing services to individuals, as in keeping with most of the main academic and practitioner debate. The information charities provide in their annual returns provides scope to remove charities on the basis of their listed purposes, beneficiaries or activities. As some of the options listed are quite vague or broad, however, this risks inadvertently excluding valid cases. To avoid this, charities were removed only in the quite clear cut case that they *only* list 'other organisations' as their beneficiaries. Further restrictions using these variables may be justified in future research, if more detailed information becomes available on how charities interpret these categories when completing their annual returns.

In contrast to the opinion of Knight (1993), therefore, it seems that by removing some problematic cases where necessary, using charities as the object of study does take us a considerable distance towards identifying a theoretical sub-population of third sector organisations. A second set of considerations, about which it is harder to do much about, relate to those organisations that appear to meet the criteria of the structural operational definition, the public benefit test, and deliver services to individuals, but are *not* registered charities.

This includes various social enterprises that reinvest some or all of their profit back into their business. As part of a more widely drawn definition, organisations that reinvest at least a majority of their profits towards a social mission could be included (BIS, 2011). The difficulty, however, is in empirically identifying these organisations. Legal forms such as Industrial Provident Societies, Community Interest Companies or Companies Limited by Guarantee provide potential proxies, but do not go far enough to satisfy the non-profit constraint and, more importantly, are not subject to the public benefit test. It may be that some of these organisations are *primarily* mission driven and non-profit, but it is not possible to tell from their legal form and organisational type. Partly as a result of this difficulty, there is also little publically available data for these organisations compared to charities, making their exclusion both a theoretical and pragmatic necessity.

This means that the sample is an inevitable compromise that looks at a large subsection of all third sector organisations, rather than the whole sector. For clarity, and the analysis and discussion that follows will tend to refer to 'charities' rather than 'TSOs', including references to the research questions. This makes it clear that the dataset is not representative of the entirety of TSOs, even though it is still hoped that the results can shed light on the issues concerning the third sector as a whole. On the subject of terminology, it is also worth noting that those charities with an income over £500,000, which are required to submit Part B of the Charity Register annual return, are referred to throughout as 'larger charities'.

The final restriction of the dataset is also more pragmatic in nature. In early stages of the analysis for this thesis major problems began to occur due to the inclusion of the very smallest charities with an income under £25,000. These organisations are not obliged to routinely submit their accounts, so the charity commission collects a small sample of around 400 to check regulatory compliance. These are then the only accounts of this kind used for main sample, meaning that the resulting sample size for this strata is relatively very small, especially for state funded charities. Only 143 charities represented all micro charities in the original 2010 sample (with an income less than £10,000).

In practice, combined with the very high levels of variation in these charities, this had a markedly negative impact on some of the standard errors and estimates that were calculated, particularly when looking within subgroups. Removing these charities improved the certainty of estimates by a very large degree due to the reduction in variation. To compound matters further, exploring the accounts of these organisations individually also raised a number of concerns relating to data quality over and above those of even the slightly larger charities.

The end result is that these very small charities, with incomes under £25,000 were not included in the population for this research. This is unfortunate, as this is arguably one of the least researched groups of registered charities, despite accounting for a significant proportion of the population. It also seems plausible that in the relatively rare cases where these organisations have state funding, the impacts may differ compared to organisations. Nevertheless in order to maximise the potential for the remainder of the dataset, further exploration of this subgroup is by necessity left for future research.

After all of these restrictions and modifications Table 7.1 shows the final sample size for each stratum in the financial year 2012-2013, the latest available at the time of the analysis. The names of the strata match those used by NCVO for their size categories in their Almanac (2013).

Table 7.1: Sample size for each size stratum in the 2012-2013 accounts dataset

Size category	**Unweighted n**	**Population n**
Small2 (£25,000 to £100,000)	765	19,350
Medium 1 (£100,001 to £500,000)	699	12,771
Medium 2 (£500,001 to £1,000, 000)	655	2,692
Large (£1,000,001 to £10,000,000	3,235	4,155
Major 1 (£10,000,001 to £100,000,000)	660	790
Major 2 (£100,000,001 plus)	43	47
Total	6,057	39,805

* Small 1 and Micro charities have incomes below the £25,000 threshold

* During the analysis, finite population corrections were applied by the 'Survey' Package in R where the proportion of the population stratum sampled was sufficiently high

7.8. Secondary data analysis

Given the accounts dataset was not originally produced for this specific project, this study can be considered a form of secondary data analysis. An inevitable challenge for this kind of research is to match the available data to the theoretical aims of the research (Arber, 2001). In this case, further research was at least always intended when the dataset was constructed, so as many variables as possible have been derived from the accounts data. The limitations are generally posed by the contents of the accounts themselves.

Inevitably, many of the impacts of state funding identified in the literature review are either impossible to operationalise in this dataset, or in some cases to operationalise quantitatively at all. For example, the issue of a voluntary 'ethos' is likely to always require a more in depth, qualitative consideration than accounts data can provide. Unsurprisingly, the data that is included in the accounts is instead predominantly financial.

There is of course a risk that by focussing on what others have decided is important to measure for accountability purposes, or on what is quantitatively measurable, our research interests become drawn away from what is most important (Gorard, 2001). This is why for the sake of transparency the full findings of the literature review were presented in the previous chapter, not just those areas that can necessarily be addressed within this study. If some areas cannot be successfully explored using this particular dataset, however, then this is not a good reason for not pursuing those that can.

There are strong arguments for exploiting existing data sources to their maximum potential. Creating data is expensive, yet their potential is often underutilised (Arber, 2001). Using existing data, researchers can make more progress on analysis without having to invest scarce resources in primary data collection, which in any case is unlikely to be of comparable quality if conducted by a lone researcher (Gorard, 2001). This means that secondary research allows objectives to be accomplished that would otherwise be neglected were we to exclusively rely on primary data (Arber, 2001).

Where a seemingly appropriate variable is available, however, care is still needed to identify exactly what has been measured. To some degree this is unknowable; especially where it relies on the interpretations of individual charities and accountants. On the other hand, we do have access to the same SORP regulations and guidance notes as these practitioners (Charity Commission, 2005), so it is certainly possible to make a reasonably informed judgment.

In practice, it is necessary to be flexible about the hypotheses and areas of interest addressed in the research. Arber (2001) suggests that imagination, compromise and a generally iterative approach are needed to ensure a suitable fit between the data and theoretically informed research questions. Exploring the data that is available rather than focussing on tightly preconceived hypotheses is entirely appropriate with an exploratory study such as this, where little large scale quantitative research has already been conducted. The exact variables chosen to explore are outlined at the beginning of each of the analysis chapters and their limitations and advantages are discussed further.

7.9. Exploratory data analysis

As well as a secondary data analysis, this study falls within the methodological paradigm of Exploratory Data Analysis (EDA). EDA is most closely associated with the foundational work of John Tukey, who introduced it as a counterpoint to what he termed the traditional 'confirmatory' paradigm. The confirmatory paradigm deductively tests models specified in advance of the analysis. Often the outcome of these tests are determined by null-hypothesis testing and statistical significance testing.

EDA in contrast is defined rather loosely, but there are two recurring, characteristic features. First, Tukey emphasised a different attitude and analytical ethos. He described EDA as "an attitude, a state of flexibility, a willingness to look for those things that we believe are not there" (in Brillinger, 2011: p.531). He often used the metaphor of a detective searching for clues (Tukey, 1977). Following Tukey's lead, Hartwig and Dearing described EDA as "a state of mind, a way of thinking about data analysis and a way of doing it. It requires the principles of scepticism and openness" (1979, p.9). In general, EDA is a relatively inductive approach. Rather than testing an entirely pre-specified model, EDA allows the researcher to approach the data with an open mind to see what patterns it might contain and what they can tell us about a given relationship.

The second major component of EDA is a predisposition towards data visualisation and graphing. Data visualisation is complementary to the exploratory attitude. Visualising a relationship in a variety of ways can help to reveal unexpected patterns and structures that weren't initially anticipated (Tukey, 1977). Relatively simple visual representations of data, such as scatterplots, can communicate a huge amount of numerical information, making them powerful analytical tools (Tufte, 1983). In particular, we can see the structure of the variables and their inter-relationships, such as whether they are linear or heteroscedastic (Cleveland, 1993). This is in contrast to pure reliance upon numerical summaries such as the mean or correlation coefficient, which while useful, can on their own obscure a large amount of important variation (Hartwig and Dearing, 1979). Once the structure of the data is understood, this allows basic models to be fitted visually and incrementally, laying the foundations for more complex model development and later confirmatory analysis.

A caveat is necessary about the distinctiveness of EDA as an approach. As with much inductive qualitative research, researchers are unlikely to come to the data without any prior expectations. At the very least the researcher will have some reason for coming to a particular set of data and variables in the first place. As such, exploratory data analysts always strike a balance between following a pre-planned direction of enquiry, while maintaining the flexibility to take interesting detours or change route (Hartwig and Dearing, 1979). Every study will fall somewhere on a spectrum of inductive to deductive, exploratory to confirmatory.

The literature review of this thesis has identified a range of areas where there are reasonable grounds to expect a relationship between certain variables, and in many cases even the potential direction of that relationship. Because this is the first time this dataset has been used in this way, however, and there is little comparable quantitative research in this area, there is still a great deal of prior uncertainty. We do not know for certain if there will be a relationship or in what direction; we do not know how strong it might be; whether it is linear, monotonic or curvilinear, or how it might depend on other variables and differ between subgroups. EDA can help fill in these gaps (Hartwig and Dearing, 1979).

Approaching the issue from the other direction, high quality confirmatory analysis will also involve a good deal of initial exploratory analysis to test whether the assumptions the researcher is making about the model and the associated significance tests are valid (Cleveland, 1993). Adjustments to the model may then be made if necessary. The distinction may therefore be one primarily of emphasis.

To be more specific about the work undertaken within this EDA, a typical phase of analysis for this study proceeded as follows. First, a univariate exploration of each of the relevant variables was undertaken. This would involve looking for any erroneous or extreme cases, as well as getting a feel for the different parameters of the distribution such as its range, centre and most common values. Next would follow a bivariate analysis to explore the relationship between the different outcome variables and the different measures of state income. The third stage would then involve exploring how each relationship differed between different subgroups, and at different levels of the various control variables that were of interest. This approach is similar to that outlined by Hartwig and Dearing (1979), and allowed the strength and shape of each relationship to be assessed, as well as how widely it applied once disaggregated.

The primary tools for the analysis were a wide range of graphs produced using the GGPlot2 package within the R programming language. Often a number of different graphs were produced to explore the same relationship, though only a minority of the graphs produced are presented in the text of this thesis. In addition, more conventional measures such as correlation coefficients and simple linear models were also often calculated, to help clarify and quantify the relationships uncovered or help trace changing averages visually on the graphs.

EDA is a good fit for this study because it is the first of its kind in this area and it uses a relatively new data source, so a more inductive approach is entirely appropriate. The aim is to provide a reasonable body of quantitative evidence with which to provisionally answer the current research questions and move forward the debate on the impact of state income on charities. This will then provide a solid foundation for any future research that wishes to explore potentially more complex or developed models.

7.10. Approach to statistical significance

As outlined above, Exploratory Data Analysis tends to focus less on null-hypothesis significance testing than other forms of analysis. These classical tests are part of the frequentist probability paradigm and are designed to be used primarily as part of a deductive approach. The researcher specifies a null-hypothesis in advance of the analysis and then collects relevant data. They then assess the probability that they would have found a relationship at least as large as the one in the sample due to random sampling variation, if the null-hypothesis were true. If that outcome was very unlikely, the null hypothesis is rejected and a statistical relationship is seemingly confirmed.

A proponent of the classical approach might criticise EDA due to the large number of relationships and minor variations explored as part of the analysis. If relying on null-hypotheses tests, then the familywise error rate (the risk of falsely rejecting the null-hypothesis on one or more occasions) is going to be high. Whether or not these tests are used explicitly, the risk is that an inductive approach will end up identifying specious relationships based on sampling error is a valid concern, and explains why the results of an EDA are always provisional until confirmed by new data.

Null hypothesis significance tests specifically are currently fairly ubiquitous in the social sciences but there have been long standing debates about their validity, at least as they are commonly applied, and the perverse analytical consequences they can engender (Cohen, 1990). Furthermore, these debates appear to have become increasingly mainstream in the past few years (Ziliak and McCloskey, 2008; Field, 2013). Some of the most pertinent criticisms revolve around misunderstandings related to frequentist probability and conditional probabilities in particular, and regarding the all or nothing thinking involved in significance levels. Although I do not enter into the specifics here, I believe that these arguments are on the whole convincing.

There remains, however, a clear need to take into account potential sampling error and the uncertainty it introduces into statistical estimates. Regardless of the merits of the null-hypothesis approach, the underlying, core premise of sampling theory remains important. The higher the variation within the data, the smaller the sample, and the smaller the effect size, the more likely it is that an apparent result occurred by chance in a random sample.

In this study, therefore, I have relied mainly upon confidence intervals to show this sampling uncertainty when interpreting and presenting the results. Although these also fall into the frequentist probability paradigm, and to some extent use the same logic as null-hypothesis testing, they do not rely fully on the same reasoning, or encourage the same all or nothing thinking (Field, 2013). They are essentially a visual representation of the standard error, which in turn is an estimate of how far, on average, sample statistics are estimated to be from their true population value, across multiple samples. This estimate is a function of the variation in the sample and the sample size.

Much of the same information as a null-hypothesis test can be derived by looking at how much confidence intervals overlap (or the width and angle of a confidence band for estimates of models). But in contrast to a null-hypothesis test they maintain a visual link to the size of the effect, and avoid any arbitrary division between significance and non-significance. In general terms, the greater the level of overlap between the intervals, the less certain we can be in that the relationship shown is not a fluke resulting from sampling error. If readers do wish to infer whether results are 'significant' or not in the traditional binary sense, then it is important to note that 95% confidence intervals can overlap by up to around 25% and still be found significant using a suitable null-hypothesis test (to the .05 significance level) (Field, 2013).

All the confidence intervals in this study are at the 95% level, which means that if we were to conduct multiple random samples, we would expect the population value to fall outside the confidence intervals around 1 in 20 times. Most of the time this will be by a small amount, more rarely it may be by a large amount. Even when not referred to explicitly, this inevitable uncertainty should be borne in mind when considering the results of this thesis. None of the results can be considered the final word and should where possible be built upon by future studies using confirmatory analysis. As Cohen (1990) recommends, there is no magic bullet to overcome the difficulties around null-hypothesis testing. Instead researchers must carefully and visually inspect their data, confidence intervals and effect sizes, and ultimately rely on replication and repetition to help determine generalisability.

7.11. Research design and causation

At the time of writing, four years of data had been collected for the accounts dataset. This study, however, is predominantly cross-sectional, relying on the most recent data available for 2012-2013. There are a number of reasons for this restriction.

First, although the data is designed to form a panel, in reality the turnover in the cases included each year is rather high, which makes it more difficult to track change within individual organisations. The reasons for this turnover are not entirely clear. A handful will be replacements due to charities going bust or failing to submit accounts on time, or due to newly established charities, but ad hoc exploration seems to suggest there are many charities where this is not the case. Second, it seems likely that if state income and specific organisational characteristics are related, the relationship will play out over a longer time frame than 3 or 4 years. To some degree it is probably still too early to maximise the longitudinal potential for the data. The third reason is pragmatic and perhaps the most important. There is a limit to the amount that any one study can realistically achieve. The general approach for this research was to prioritise the breadth of relationships whilst maintaining a reasonable level of depth in the analysis. The cross sectional relationships that prove most promising can then be explored longitudinally in the future as more data becomes available within the panel.

In the meantime there are quite clear limits as to what any cross sectional correlations can tell us about the causal link between state income and different variables. It is well known, if not always well observed, that correlation does not equal causation. Cross sectional designs measure differences, not change, and as such cannot establish a causal link or the direction in which causation might travel (De Vaus, 2001). Some form of correlation is a pre-requisite for establishing causation, however, as without it there is no way of observing the relationship (Gorard, 2002). Whereas correlation provides evidence consistent with causation, a lack of correlation is a more conclusive indication that there is no causal link. It is therefore useful to have even fairly loose models established a priori that can be potentially disproven by the data. Rather than proving causation, in any case an epistemologically doubtful proposition, cross sectional studies can therefore help to make a case for it by feeding in new, consistent evidence and by ruling out alternatives (De Vaus, 2001).

More alternatives can be ruled out by attempting to control for potential confounding variables. In many cases an apparent association between two variables can be caused by a third variable. This third variable is related to both of the other two, giving the false impression of a causal link. As well as introducing control variables into any linear models that are calculated, the main means of controlling for potentially confounding variables in this study is the use of conditioning plots. Relationships are 'conditioned' by examining them in separate graphs, at different levels of the third variable. If the relationship disappears within these graphs then this is evidence consistent with the idea of a confounding relationship. If instead the nature of the relationship changes at different levels of the third variable, this is known as an interaction effect. The control variables used, based on the findings of the evidence review, are discussed in the following chapter.

In this way, by finding evidence that is either consistent or inconsistent with the idea of causation, and by attempting to rule out alternative explanations, cross-sectional studies such as this one can act as the first step towards an understanding of causation. It should also be remembered that many of the claims recorded in the literature and evidence reviews are about correlations, rather than necessarily about causation, even if this is implied. State funded charities are said to be different in a number of ways, and these differences can be assessed in the following chapters. At the aggregate level state funded charities either have fewer volunteers or they do not, for example. And if knowledge of this kind can be provided by this study, then that in itself is a significant step forward and an empirical contribution to the wider debate.

7.12. Chapter Summary

This chapter outlined the research questions for the study, as well as the methodology chosen to obtain relevant results. In particular, the charity 'accounts dataset' established by NCVO was discussed in some depth. Its strengths were outlined, including the ability to identify the overall level of income received from different source categories, and providing information on a much wider range of charity sizes. Some of the difficulties with the data were also outlined, such as the poor coverage of the very smallest charities, which necessitated their removal from the analysis. Some challenges regarding the quality of the data were also identified, though the dataset as a whole remains a significant improvement for third sector research compared to previous sources.

Following on from the outline of the study's population given in Chapter 2, the specific sample selected from the accounts dataset was discussed. Inevitably this was a compromise based on the available data, but the end result provided a good representation of at least a large sub-section of the relevant population. Given the use of the charity register as the original sampling frame, the main exclusions are unsurprisingly those TSOs that are not registered charities.

Because the dataset was not constructed for this study, some of the challenges surrounding secondary data analysis were also considered. While certain relationships identified in the evidence review cannot be operationalised within the accounts dataset or annual returns, there are plenty that can be. Furthermore it makes sense to explore those variables that are in the existing data to the maximum degree possible, before investing in further data collection.

The overarching methodological approach for this study draws on the exploratory data analysis (EDA) paradigm and the work of John Tukey. In practice this means a strong emphasis on data visualisation and graphing, as well as a much more inductive and flexible approach to analysis. At the same time, it was acknowledged that all research lies on a spectrum from deductive to inductive, and that the broad parameters of the investigation were derived in advance. The provisional nature of EDA, given the inflated potential for type one error due to random sampling variation, was also stressed.

Next, the general approach to statistical significance within the study was discussed. Specifically confidence intervals are the primary device used to show sampling variation and the risk it poses to the interpretation of the results.

And finally the role that cross-sectional analysis can play in establishing causation was considered. This role is inevitably limited but not insignificant.

CHAPTER 8 : STATE FUNDING FOR CHARITIES - A DESCRIPTIVE ANALYSIS

8.1. Introduction

This chapter presents a range of univariate and grouped univariate findings relating to state funding for the charities. It has two main goals. First, it aims to fill in some of the gaps identified in the evidence review in Chapter 6. That review established from the literature some estimates of the overall level of state funding to charities and found that this had increased significantly since the start of the new millennium. At the same time the proportion of all charity income coming from the state remained relatively constant. Beyond this starting point, however, the review identified a number of gaps in our understanding. In particular there is a lack of existing evidence on state funding at the organisational level, in terms of average amounts or proportions, or the number of charities in receipt of at least some state funding. Finally, comparisons between groups of charities based on size and service area need extending beyond an analysis of aggregate totals.

This information should help to answer the first three specific research questions outlined in the methodology chapter:

- How much state funding do charities receive and how dependent are they on that income?
- How has state funding to charities changed between 2009 and 2013?
- How is state funding distributed between charities?

A second goal, as appropriate for an exploratory data analysis, is to improve our understanding of the main input variables used throughout the study (Hartwig and Dearing, 1979). A preliminary univariate exploration is important to provide an initial overview of the variables involved before considering how they relate to others.

8.2. How much state funding do charities receive and how dependent are they on that income?

The first stage of the analysis sought to establish some of the basic figures concerning state income, using data from the financial year 2012-2013: the most recent available from the accounts dataset. The great strength of the accounts dataset is that it allows us, for the first time, to isolate income from particular sources. The source categories available are quite finely grained, however, so in order to derive a variable for 'state income' a number of categories must first be combined. The sources included are central, regional, local, and town and parish government, NHS trusts and devolved administrations. More independent or peripheral bodies such as the European Union, international government agencies, foreign governments, public corporations, the Arts Council and the National Lottery were not included. These institutions were judged too distinct from the core concept of the state, as it is commonly used within the debates on third sector independence.

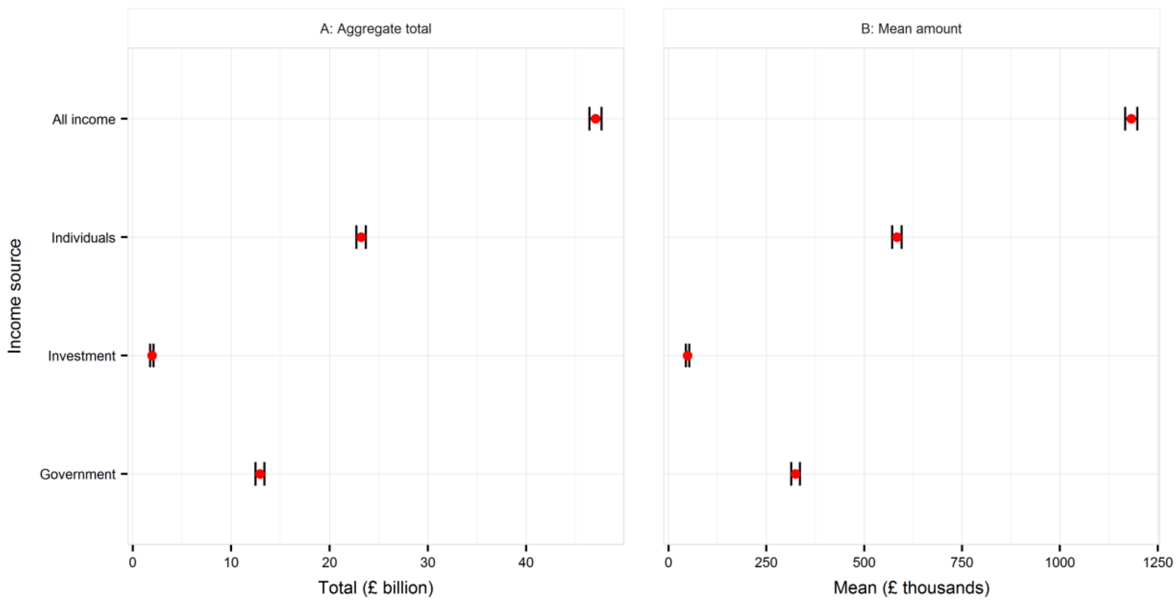

Figure 8.1: Total and mean levels of charity income sources. The left panel (A) shows total charity income from the three largest income sources, and overall total sector income. The right panel (B) shows the mean amount received from each source and the overall mean of sector income. Error bars show 95% confidence intervals.

Figure 8.1 provides a range of information on state income using this new variable, alongside income overall, investment income and income from individuals. It shows that total government funding to the population of charities is estimated at around £13.5 billion (Figure 8.1a). As a source of income it is second only to income from individuals, which stands at £23.2 billion.

The mean amount of state funding is £339,339 (Figure 8.1b), but this includes a large number of charities with no state income at all. In fact, only around 50% of the research population received any state income in 2013 (Figure 8.2a). This is much lower than the estimated proportion of the population that receives income from investments or individuals, at 77% and 94% respectively.

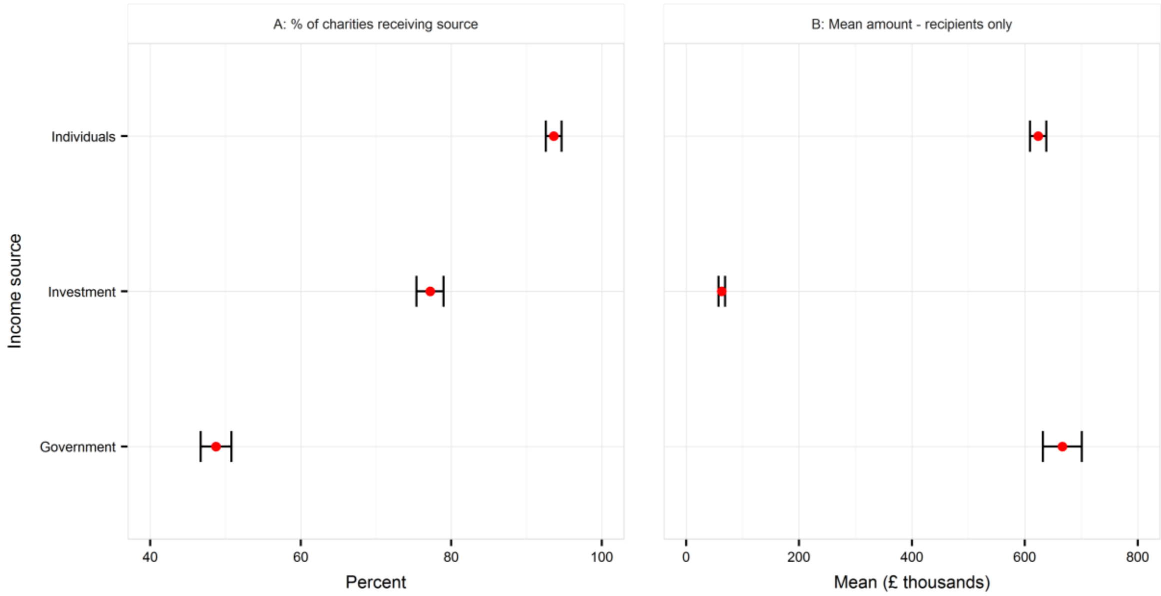

Figure 8.2: Percentage of charities receiving each source and mean amounts excluding zero values. The left panel (A) shows the percentage of charities that receive any of each of the three largest income sources. The right panel (B) shows the mean amount received from each source, but only for charities that receive at least some of that source. Error bars show 95% confidence intervals.

If all these zero values are stripped out, then the picture changes considerably. The mean level of state funding for those with at least some state income is £674,417 (Figure 8.2b). By comparison the mean amount of funding from individuals, for those with at least some of this income, is similar at £623,646. The respective figure for investment income is only £63,183. Taken together, this tells us that charities are less likely to receive state income than some other income sources, but they receive relatively large amounts of it when they do. The picture is similar if medians are used instead (not shown), though given the skewed nature of the data they are lower than the means. The median level of state income is £48,969 for those that receive at least some income from that source.

It is worth noting that the means used throughout this study are sample estimates of the population arithmetic means. Statistical summaries, like the arithmetic mean, are in general useful for making comparisons between different distributions because they provide an easily interpreted snapshot of where the centre of a distribution lies. The downside is that the same summary can represent extremely different distributions, and the arithmetic mean in particular is vulnerable to very high values pulling the summary away from the majority of cases.

Some solutions involve using more 'robust' summaries that are less strongly influenced by extreme values. The median, as described above, is one such commonly understood measure and was used routinely in this study to cross-check the results shown by the arithmetic means. Another option would be to use a weighted mean, which would give more weight to the very large scores, but represent the smaller cases even less well. These were not used in this study, as given the focus of the debates outlined on the third sector as a whole, I think readers will be more interested in changes and comparisons based 'democratically' on the more numerous typical cases, rather than those that account for most of the overall variable total. This decision did mean, however, that it was necessary to carefully examine the underlying distributions to ensure that the means and medians provided results in line with the majority of the cases, rather than just those with the highest values. Where they did not, this is flagged explicitly.

The literature review established the clear distinction between an organisation's absolute level of state income, and its state income as a proportion of its total income. Clearly absolute state income and proportional state income are related, along with total income, and these links can be explored to some extent by controlling for size. Nevertheless, to gain a full understanding of what is going on within the data, state income as a proportion needs to be considered separately and is used as the second of the two main explanatory variables throughout this study.

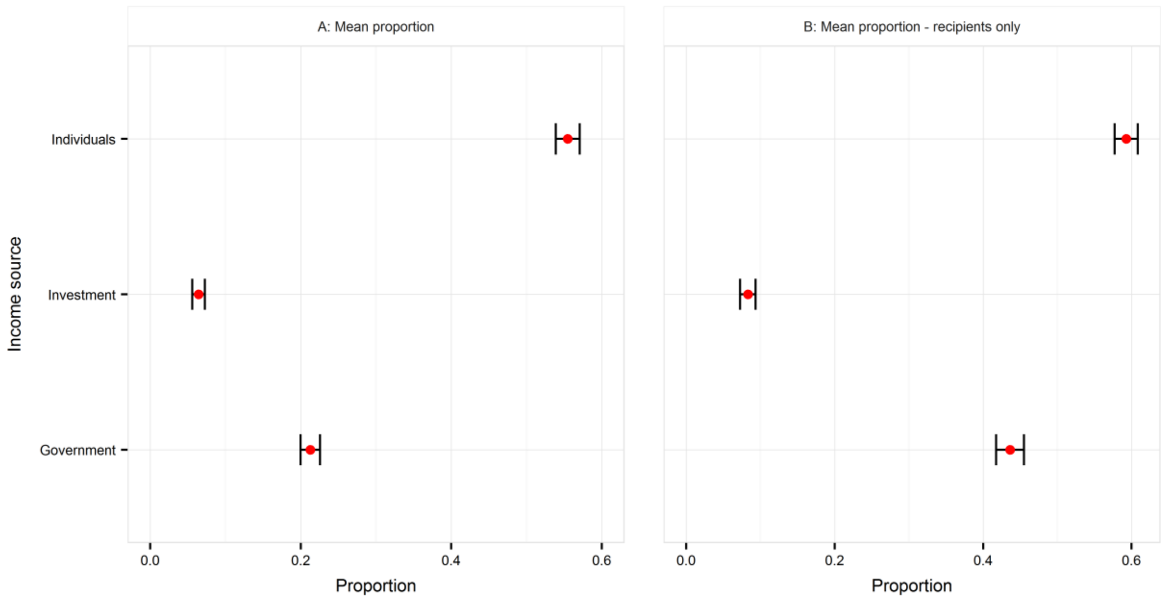

Figure 8.3: Mean proportion of income received from different sources and mean proportions excluding zero values. The left panel (A) shows the mean proportion of their income that charities receive from each of the three largest income sources. The right panel (B) shows the mean proportion they receive from each source, but only for those that receive at least some of that source. Error bars show 95% confidence intervals.

Figure 8.3 therefore explores state income as a proportion of total income. Figure 8.3a shows that on average charities receive only 23% of their income from the state, compared to 55% from individuals and 6% from investments. The picture is similar if once again we just consider those with at least some of each income type. The averages are 46% for state income, 59% for individual income and 8% for investment income. The overall message is that charities tend to be more reliant on individual funding than state income, even if we exclude zero values from the comparison.

Means provide a useful summary for making comparisons between groups but they obscure the underlying distribution and can be disproportionately influenced by extremely high or low values. It is important, therefore, to examine the entire distribution of state funding as a whole, including its variance. State income levels, like almost all the financial variables within the accounts dataset, are extremely positively skewed. This means that the distribution is highly a-symmetric, with a long tail of high values spread over a wide range. This can make displaying the distribution visually a challenge as many of the more common graphs become uninterpretable with this level of skew.

In addition to this we have noted above that there are a high number of zero values in the distribution. This makes visualisation even more challenging. Attempting to explore the variable with these values included may also obscure the potentially distinct impacts of having any state income at all, and having larger amounts of it. Having any state income at all is therefore usually considered separately as the third main input variable for the study.

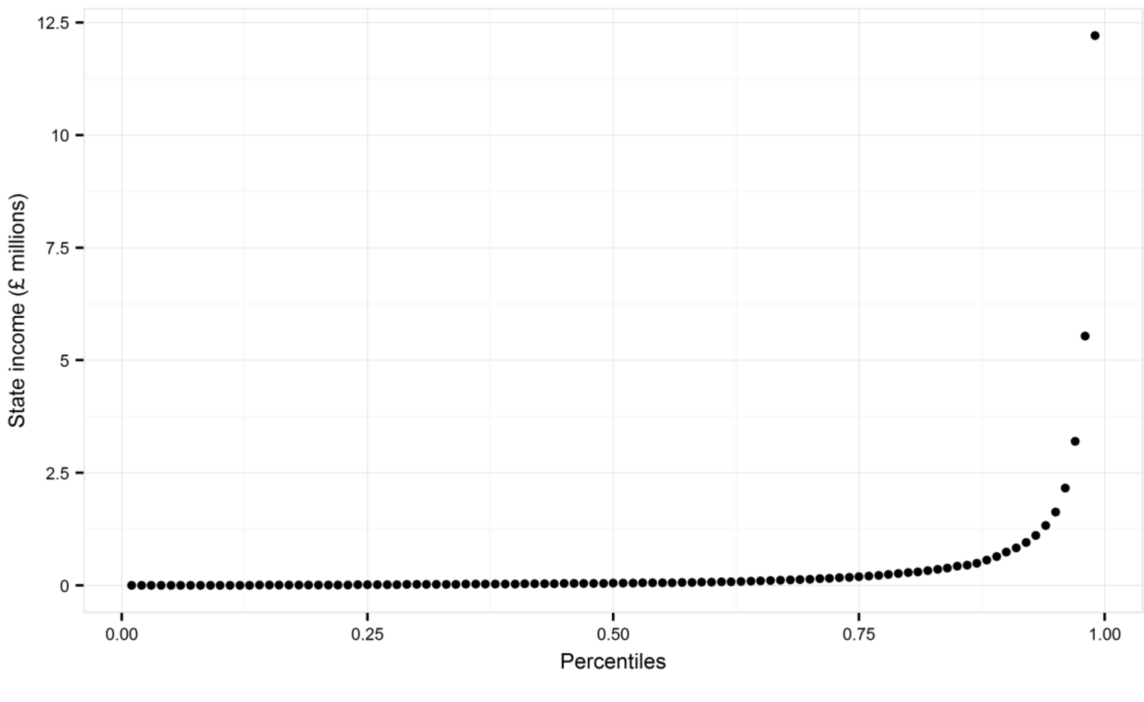

Figure 8.4: State income percentiles up to the 99th percentile

Figure 8.4 therefore shows a percentile plot of the skewed continuous data, without the zero values. This means that the state income values for the 1st through to the 99th percentiles are shown on the y axis. 1% of all cases have a value that falls below the 1st percentile, 55% below the 55th and so on. It is clear that the lower quantiles increase gradually, while the larger quantiles increase explosively at ever greater intervals, towards the right hand side of the graph. The highest value, the 100th percentile, is not shown. It is so high that it renders even this type of graph uninterpretable. As a point of interest, within this sample the case with the most state income is Cardiff University, which received £239 million from the state in 2013. The central message is that while lots of charities have relatively small or medium amounts of state income, a few receive huge levels in comparison.

The highly asymmetric distribution of state income also results in a very high level of concentration. Figure 8.5 shows ten groups each containing a 10th of state funded charities, ordered according to their state income levels. The 10th decile group, with the highest state income scores, accounts collectively for 86.7% of all state income. The next 10th of state funded charities collectively account for only 6.6% of the total. In other words, state income is highly concentrated within its biggest recipients.

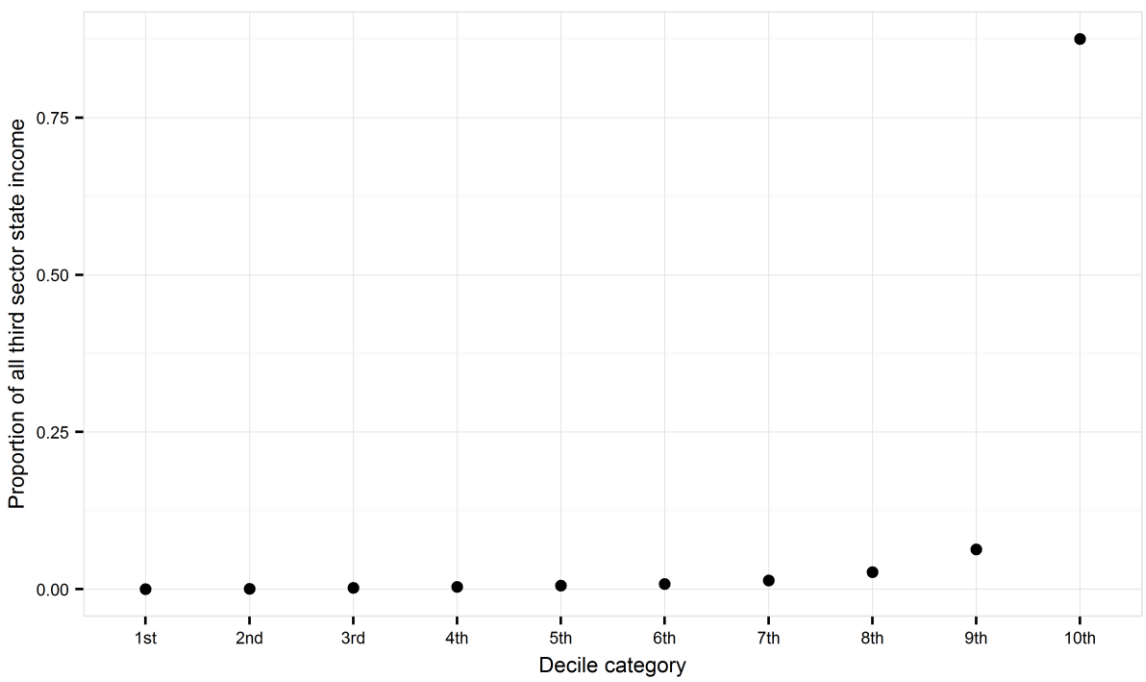

Figure 8.5: Proportion of all charity state income held by each state income decile group. Each decile group represents one-tenth of charities in the population, ordered by their state income level.

The distribution of state income as a proportion of total income is much less skewed, as it is obviously constrained between 0 and 100. So long as the zero values are not included it can easily be displayed on a histogram as shown in Figure 8.6.

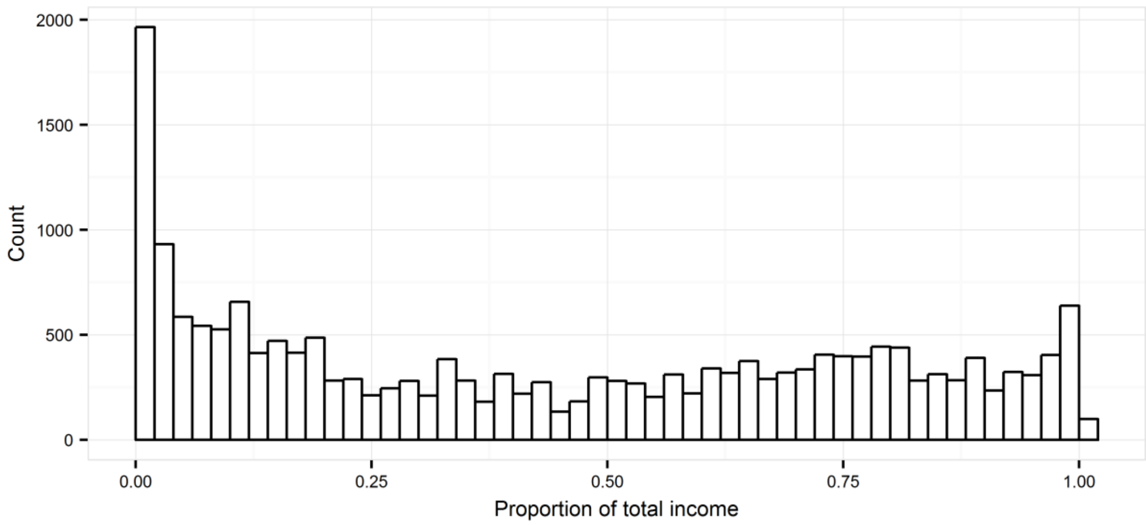

Figure 8.6: State income as a proportion of total income histogram, for charities with at least some state income. Bin width equals .02. Bins are right-open, but charities that receive all of their income from the state have been included in their own bin on the far right.

The results are reasonably spread out along all possible values. The most common outcome is for a state funded charity to receive only a small proportion of its overall income from the state, perhaps less than 10%. The majority of cases are still spread out at all the levels above this, however. The bin at the far right of both graphs has been added specially and contains only those charities that receive 100% of their income from state sources. This is the case for very few charities. Almost all receive at least some income from other sources.

8.2.1. Section summary

We have so far helped to estimate the basic parameters concerning state income amongst charities. In doing so we have established that state income is a major funding source. Only individual income accounts for a higher amount of all charities' funding. State funding is received by around half of charities, which is less than the proportion that receive individual or investment income.

Those that do receive state income tend to receive relatively high levels of it, however, similar to the levels recipients of individual income receive from that source (though the two groups clearly overlap). State funded charities tend to be less reliant upon their state income, however, than recipients of individual income are on that source.

State income is very skewed, which means that a small minority of the largest cases receive far more state income than the much more common, smaller charities. This means that the cases with the highest state income levels account for a large share of the total available. In contrast the proportion of total income received from the state varies fairly evenly across all possible values, though the most common scenario is to receive only a small proportion.

8.3. How has state funding to charities changed between 2009 and 2013?

This section moves on to consider how state funding has changed over the five years for which data is now available. Although most of the analysis in this thesis is cross sectional, as outlined in the methodology, it is helpful to contextualise how some of the summaries explored in the previous section have developed over recent years.

Figure 8.7a shows the changes to the total level of state funding. The NCVO (2015) estimates for this period are shown in red, and despite the slight differences between the target populations used for the Almanac and for this study, they are clearly very similar. Unfortunately the data doesn't allow a longer term comparison with the evidence provided by NCVO and discussed in the evidence review, which extended back to 2001. If the full data was available for this period then it would allow an exploration of what occurred during the period in which state funding saw large annual increases. Instead, as Figure 8.7 shows, we are considering a period in which total levels have fluctuated and fallen overall.

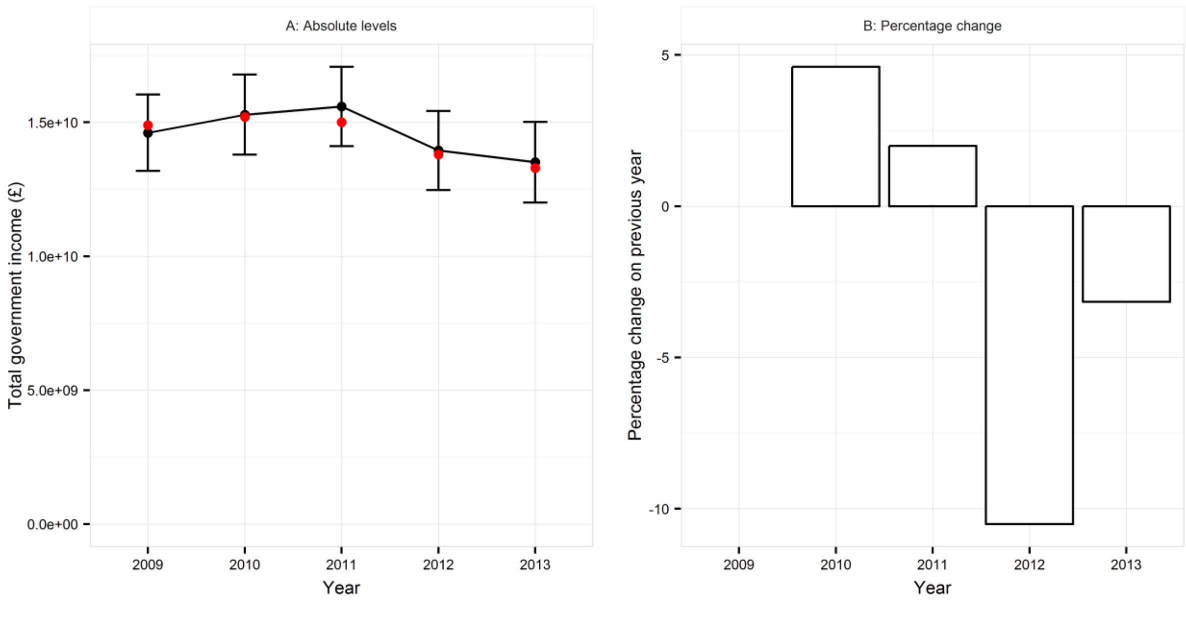

Figure 8.7: Changes to total government income levels in absolute terms and as a percentage change. The left panel (A) shows in black the total level of government income for charities each year. Error bars show 95% confidence intervals. The red points show the estimates provided by the NCVO Almanac (2015) for the same years. The right panel (B) shows the percentage change for the estimate each year compared to the previous.

According to the estimates from this study, state funding reached a peak in 2011 before a relatively sharp drop of around 10% in 2012 and a smaller drop the following year. The trend is rather uncertain due to the overlapping confidence intervals, but if correct then it suggests a drop of £1.7

billion pounds between 2011 and 2013. With such large sums of money across so many organisations, however, we need an indication of what this means for an average charity.

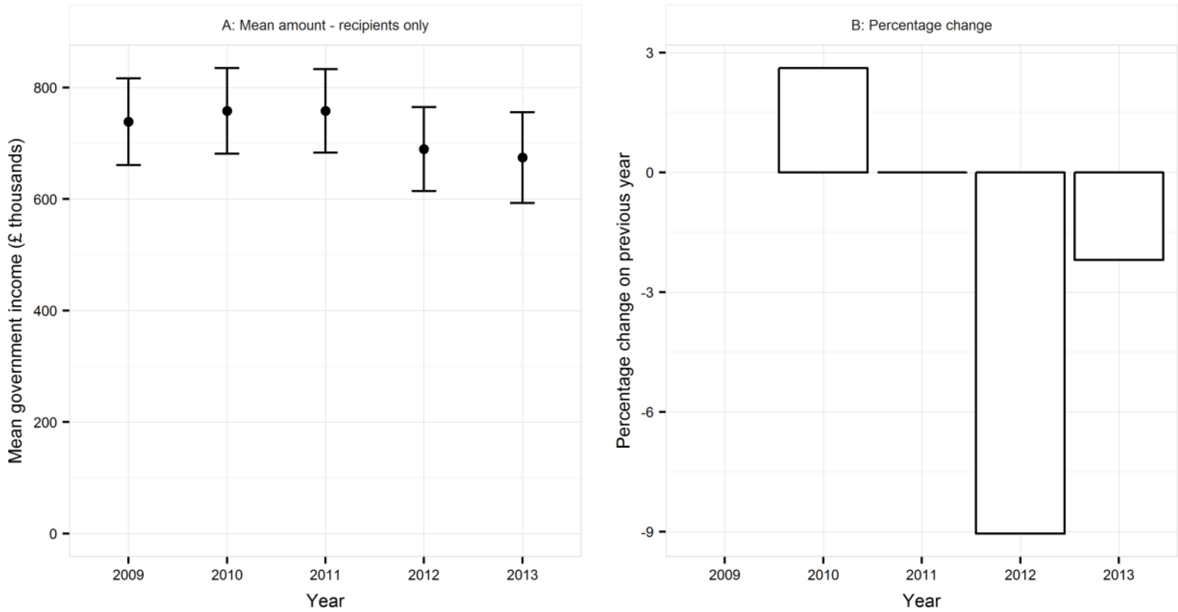

Figure 8.8: Changes to the mean amount of government income in absolute terms, excluding zero values, and as a percentage change. The left panel (A) shows in black the mean level of government income for charities each year. Error bars show 95% confidence intervals. The right panel (B) shows the percentage change for the estimate each year compared to the previous.

Figure 8.8 shows what has been happening to the mean level of state funding over the same five year period. It includes only those charities with at least some state funding. The pattern is reasonably similar to the changes to the totals, with two major drops recorded in 2012 and 2013. In 2013 the mean level of state funding stood at £674,417. As with the totals, the confidence intervals overlap considerably, so we cannot comfortably rule out that sampling error might be playing a significant role in the results. At least ostensibly, however, it does appear as though the average state funded charity has seen a fall in the level of its state income since 2011.

The mean state income is of course a function of both total state income and the number of cases this income is shared between. In this case, however, the fall in the mean incomes shown in Figure 8.8 is almost entirely due to the falling totals in Figure 8.7. The estimated total number of charities that receive at least some state income has remained relatively flat (Figure 8.9a). Specifically over the entire five year period the estimated number of charities that receive at least some state income has increased from 19,775 to 20,031, a relatively small shift. At the same time Figure 8.9a shows that the number of charities in the target population for this study has increased. Defunct charities tend to be removed from the register rather slowly, however, or if at all then in batches. This means that the apparent increase in total numbers should be treated with some scepticism. Nevertheless the ostensible result of these changes is shown in Figure 8.9b: a smaller proportion of charities are now in receipt of state income.

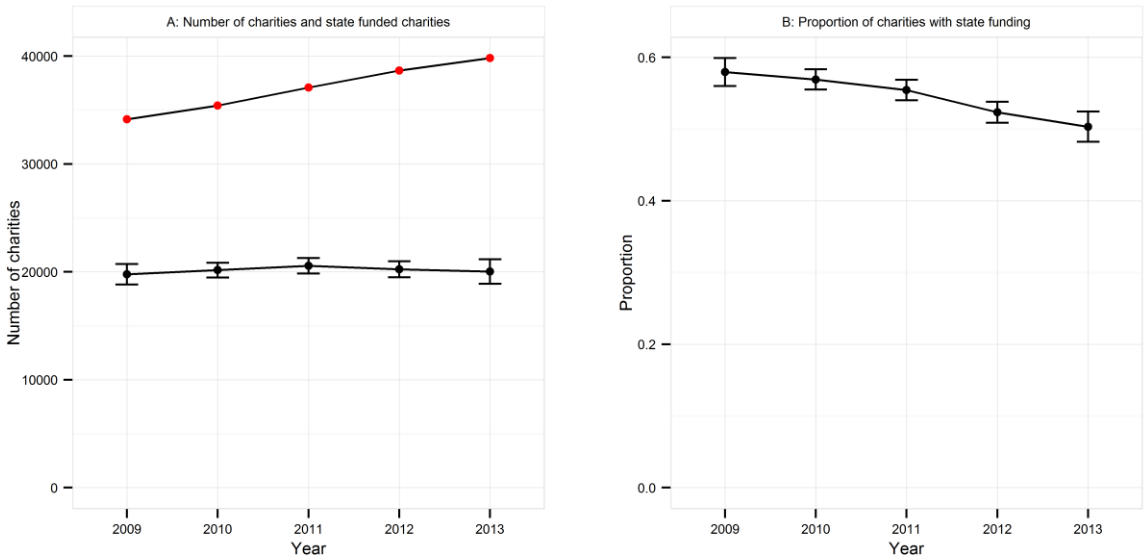

Figure 8.9: Changes to the number of charities and state funded charities, and the proportion of charities with any state funding. The left panel (A) shows in black the estimated number of charities in the population that received state income in each year. Error bars show 95% confidence intervals. The red points show the total number of charities in the population. The right panel (B) shows the estimated proportion of the population with state funding in each year.

Once again it is worth looking not just at the average level of state funding but across the whole distribution. This means looking at how the different parts of the state funding distribution have changed, not just the average. Figure 8.10 shows the absolute and the proportional change to the amount of state income accounted for by each 10^{th} of the distribution, between 2009 and 2013.

The results show that across every part of the distribution there has been a fall between 2009 and 2013, consistent with the overall fall shown earlier in Figure 8.7. In absolute terms, the higher groups have also fallen by much larger amounts than the lower quantiles (Figure 8.10a). Because the amount accounted for by the higher portions was obviously higher to begin with, however, this pattern is not matched in proportional terms (Figure 8.10b). There is no clear pattern as to which decile groups have fallen fastest in proportional terms, except that amount of income accounted for by the highest 10^{th} of the distribution seems to have fallen relatively slowly compared to the other parts of the distribution.

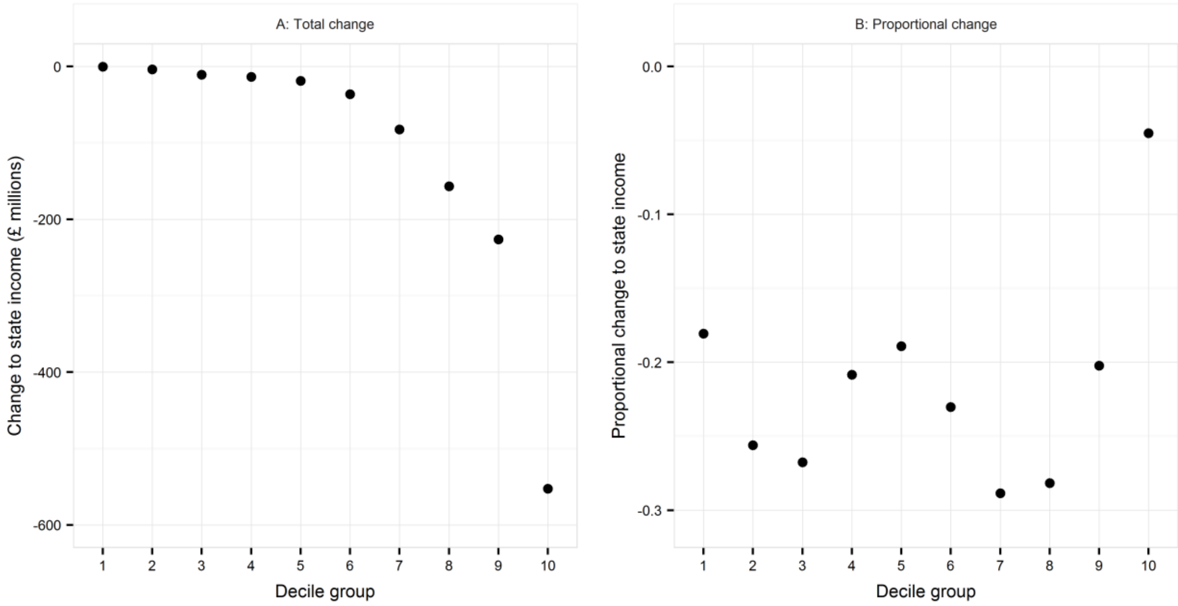

Figure 8.10: Absolute and proportional changes to state income levels for state income decile groups. The left panel (A) shows the gross change to the estimated amount of state income accounted for by each state income decile group. The right panel (B) shows the proportional change for each state income decile group.

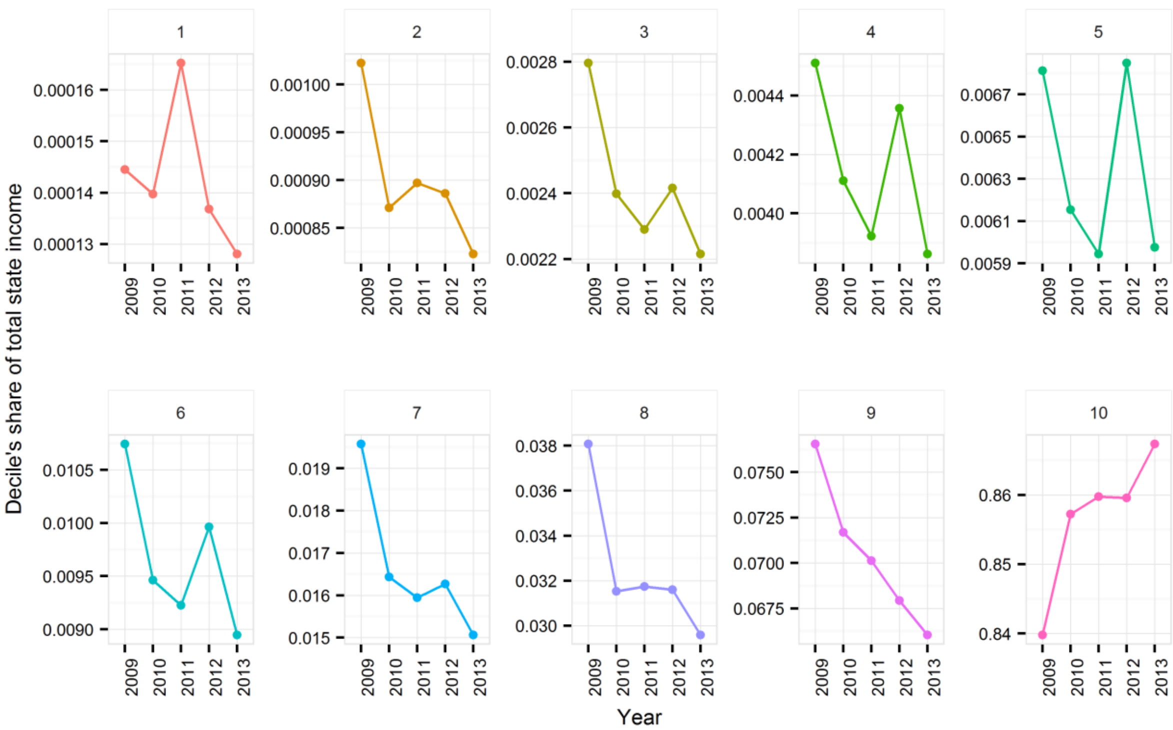

Figure 8.11: Changes to state income decile groups' share of total state income. Each panel shows the share of all state income accounted for by a different state income decile group, in each year from 2009 to 2013. Decile 1 is the lowest and decile 10 is the highest.

How has the concentration of state income changed as a result? Figure 8.11 shows the share of total income accounted for by each 10th of the distribution in each year. So for example, the red line shows the proportion of income accounted for by the bottom 10th of state income recipients and the pink line shows the amount accounted for by the top 10th. It shows that the top 10th of the income distribution is the only part of the distribution that has seen its share of the total state income pool increase between 2009 and 2013. The top 10th accounts for 86.7% of all state income in 2013, compared to around 84% in 2009. All the rest have seen their share of the total fall.

We now know that the average amount of state income has been falling, but that the number of organisations in receipt of at least some state income has not. We also know that the highest levels of state income have typically fallen more than the lower levels in absolute terms, but that the very largest recipients of state income typically account for more of all state income in 2013 compared to previous years. All that remains is an examination of what has happened to dependency upon state income over this period.

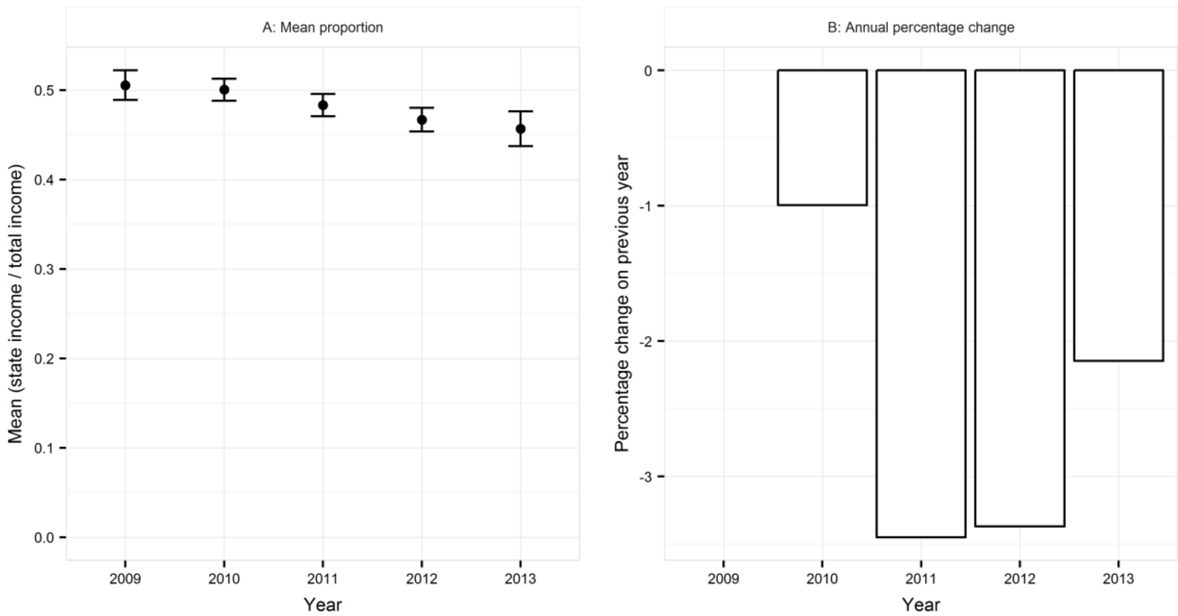

Figure 8.12: Changes to the mean proportion of income charities receive from the state, in absolute terms and as a percentage change. The left panel (A) shows in black the mean proportion of income charities received from the government each year. Error bars show 95% confidence intervals. The right panel (B) shows the percentage change for the estimate each year compared to the previous.

From Figure 8.12a and Figure 8.12b it appears that the average proportion of income that state funded charities receive from the state has steadily fallen over the five available years, though not by a huge amount. This suggests that state income has fallen faster than other sources over the period of study, and charities may gradually be becoming slightly less dependent upon their state income.

8.3.1. Section summary

Aggregate levels of state funding appear to have reached a peak in 2011 and fallen in the two following years. The same trend is evident in the mean level of state income, as the number of state funded charities has remained relatively flat between 2009 and 2013.

Although in line with the drop in state funding overall, the top 10th of the state income distribution receives less state income in 2013 than it did in 2009, this group now accounts for a slightly higher share of the remaining total state income.

As the average level of state income has declined, so too has the average proportion of charities' income that it accounts for. This suggests that other sources of income have not been falling as fast as the decline in state income.

We now have a clearer picture of what has been happening to state income over recent years, which in itself is a useful addition to the evidence base. Before moving on to explore the relationship between state income and other variables identified in the evidence review, however, it is worth taking a more in depth view of the distribution of state income between different parts of the charity sector in a single given year.

8.4. How is state funding distributed between charities?

The literature review found numerous claims to suggest some types of charity received more state funding than others, which may also mean that the impact of such funding is similarly unevenly distributed. In particular it was suggested that state income was concentrated within larger charities and certain service fields. This section explores what the data can tell us about these differences.

8.4.1. Size

The most prominent claim within the literature concerned the unequal distribution of state funding between large and small charities (Chater, 2008; Independence Panel, 2012). Total income was widely identified as the main predictor of who receives the most state income. The literature was somewhat ambiguous as to whether larger charities are more reliant upon state income, or just received larger amounts of it.

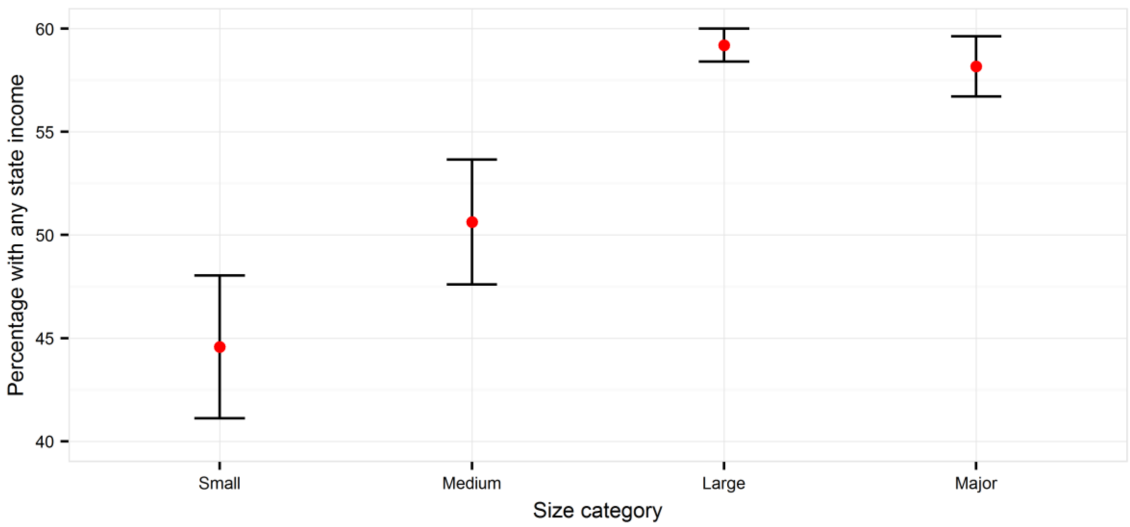

Figure 8.13: Percentage of charities with any state income, by size category. Organisations are categorised according to their total annual income (£25,000 to £100,000; £100,001 to £1,000,000; £1,000,001 to £10,000,000; and £10,000,001 plus respectively). Error bars show 95% confidence intervals.

Figure 8.13 shows how the probability of having any state funding at all changes between different total income categories. Clearly more of the large and very large (major) charities receive state income than the small and medium sized charities. Given the emphasis found in the literature, however, the difference is perhaps not as great as expected. There are certainly plenty of the smaller charities with at least some state income, though it is worth remembering that only those with an annual income of £25,000 are included in this study.

For those charities that do receive state income, the relationship between a charity's size and the amount of state income it receives is fairly straightforward.

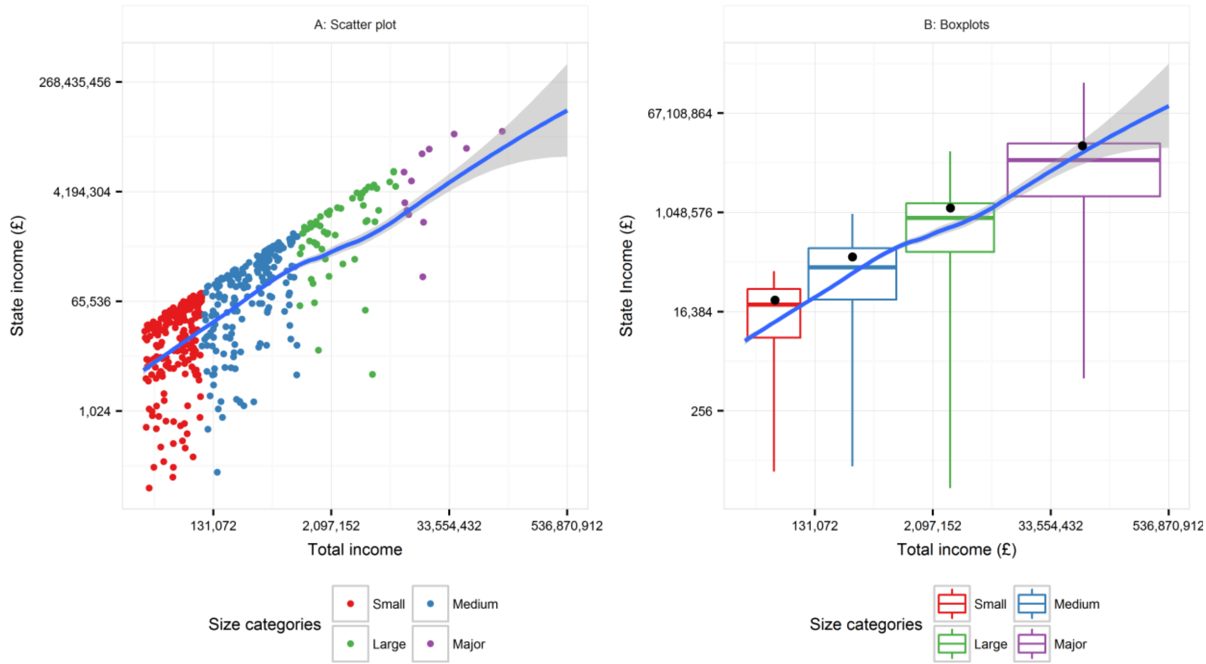

Figure 8.14: Government income versus total income. The left panel (A) shows total income versus government income for a subset of the sample, selected to be representative of the population. Points are colour coded by four total income categories *(£25,000 to £100,000; £100,001 to £1,000,000; £1,000,001 to £10,000,000; and £10,000,001 plus respectively)*. Both axes have been log2 transformed.

The right panel (B) shows colour coded box plots for state income within each of the size categories. The boxes show the median and the quartiles and the whiskers extend to the maximum and minimum values. The black points mark the mean state income for each size category. Both the box plots and means are positioned at the centre point of their size category. The blue line shown on both panels is a loess curve that traces the changing geometric mean of government income as total income increases, with a grey 95% confidence band. Both axes have been log2 transformed.

Figure 8.14a shows that the relationship between size and state income, each transformed onto a log10 scale, is clearly linear and positive. As total income increases, so too does the average level of state income. This is not wholly surprising as the two variables are by definition not independent; the former variable constitutes part of the latter. State income obviously cannot overtake total income, which is why there is such a marked diagonal cut off point at the top of the data cloud.

Returning to the organisational level, the picture is almost completely different when considering the relationship between size and state income as a proportion of total income. Figure 8.15 shows a similar pair of graphs to those in Figure 8.14, but this time the loess curve, the means and the medians all suggest there is very little relationship between the two variables. At each size level the distribution of cases remains similar to the relatively even pattern seen earlier in Figure 8.6. One small difference not entirely clear in Figure 8.15 but visible in separate histograms for each size level (not shown), is that the very highest proportions of total income become more slightly more common at the higher size levels. So small charities are very unlikely to receive close to 100% of their income from the state, but this becomes progressively slightly more likely at the higher size categories.

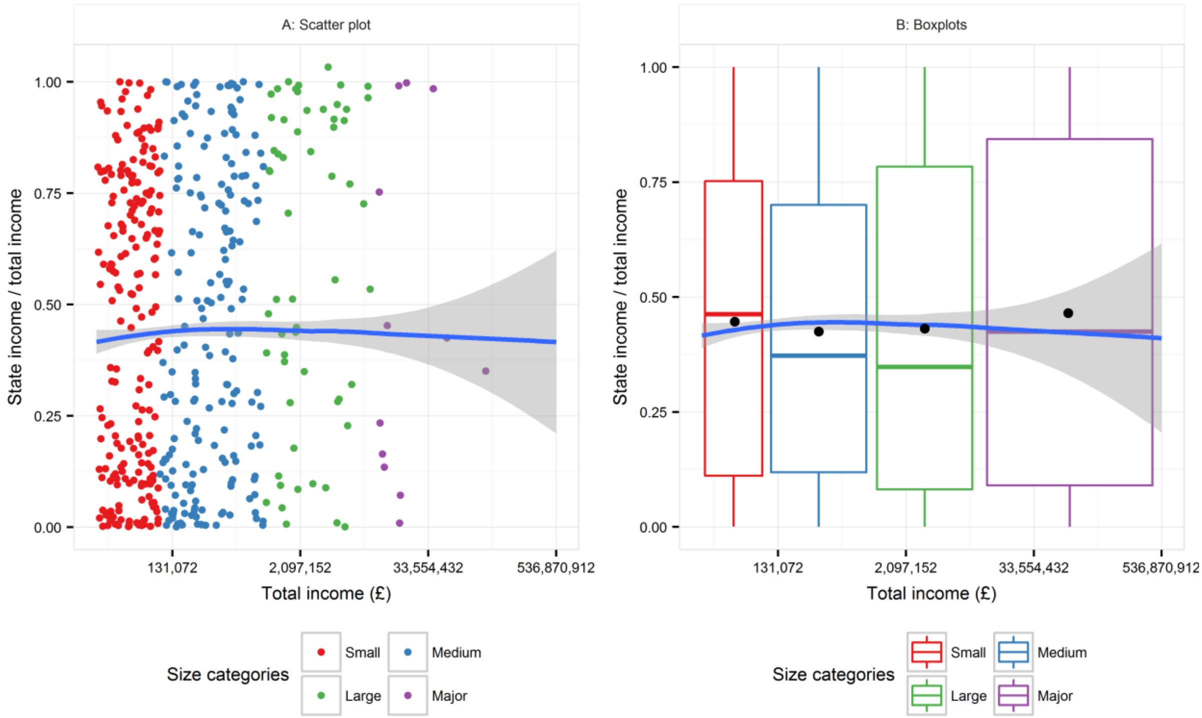

Figure 8.15: State income as a proportion of total income versus total income. The left panel (A) shows total income versus government income as a proportion of total income, for a subset of the sample selected to be representative of the population. Points are colour coded by total income size categories *(£25,000 to £100,000; £100,001 to £1,000,000; £1,000,001 to £10,000,000; and £10,000,001 plus respectively)*. X axis has been log transformed.

The right panel (B) shows colour coded box plots for state income as a proportion of total income, within each of the size categories. The boxes show the median and the quartiles, and the whiskers extend to the maximum and minimum values. The black points mark the mean level of state income as a proportion of total income for each size category. Both the box plots and means are positioned at the centre point of their size category. The blue line shown on both panels is a loess curve that traces the changing mean of government income as a proportion of total income, as total income increases, with a grey 95% confidence band. X axis has been log transformed.

The contrast in the relationship between total income and both absolute state income and proportional state income has some interesting implications for the bivariate analysis, which are discussed further in later chapters. In short, controlling for size often has a major impact on the relationship between absolute state income and other variables, but not for the relationship between these other factors and state income as a proportion of total income.

8.4.2. Industry

The second major conditioning variable identified in the literature review was the service area, field or industry that a charity operates in (Charity Comission, 2007; IFF, 2007). These overlapping concepts all relate in some way to what these service charities actually do: the goods or services they deliver to beneficiaries. It was suggested that some service fields received far more state funding than others, though there was little detail as to what this might mean at the organisational level in terms of average levels or proportions.

Currently, there are two main means of classifying charities according to their activities. First, charities self-select a number of activity and beneficiary classifications as part of their annual return to the charity commission. While providing some useful information there are two main limitations to these measures. First, the categories are very broad and are insufficient for identifying detailed service fields such as crime prevention or mental health interventions. Secondly, charities may have an incentive to select as many categories as possible so that they show up on searches by potential donors. We also have no way of knowing to what degree a charity is invested in any purpose that it ticks, as there is no indication of which purposes or beneficiaries are most important to that charity.

The second main classification system used by researchers is the International Classification of Non-profit Organisations (ICNPO categories), established by the Centre for Civil Society Studies at Johns Hopkins University to identify organisations' main area of economic activity (Salamon and Anheier, 1997). Using methods similar to those used to classify the accounts dataset, NCVO have assigned all organisations on the charity register to an ICNPO category. This process is of course not full proof, but the bigger issues are arguably related to the categories themselves rather than their assignment to charities.

Unlike the charity register variables, each organisation can only have one ICNPO category. While this is useful for some analytical purposes, it can make it difficult to identify all those organisations that genuinely operate within a 'field' of activity, as many charities may engage in numerous fields. For example most of the organisations delivering the Work Programme, the Coalition Government's flagship employment services policy, do not fall into the 'Employment and Training' category. It is highly dubious, therefore, whether this category could be taken to represent the employment services field in some way.

Furthermore, although the categories are more detailed than the charity register classifications, they still do not always identify the fields we might come up with if a classification system specifically for the UK service delivery environment was designed from scratch. For example there is no specific classification for charities delivering rehabilitation for substance addictions.

Designing a new bespoke system is another project in its own right and lies beyond the scope or the aims of this thesis. ICNPO categories are therefore adopted in this study to assess whether there is a major difference in state funding levels between categories, as they provide the closest match available to the various 'service areas' of UK social policy. Given the issues outlined, however, the results should be taken primarily as an initial indicator of whether further research along these lines would be useful and justified.

To achieve this goal, a strategy was chosen to focus on five indicative ICNPO sub-categories, rather than face information overload by addressing the full list of 36. The five chosen were selected partly due to their relatively high number of unweighted cases with at least some state income, to allow reasonable estimates in the later analysis, and partly to reflect a diversity of different service areas. The five categories are 'Social Services', 'Culture and Arts', 'Housing', 'Nursing Homes' and 'Environment'. The numbers of unweighted cases in each of the categories were 1880, 1058, 637, 265 and 321 respectively. And the numbers of unweighted cases with at least some state income were 701, 362, 165, 156 and 106 respectively. These five categories are used throughout the forthcoming chapters to explore the mediating impact of industry on the relationship between state income and other characteristics.

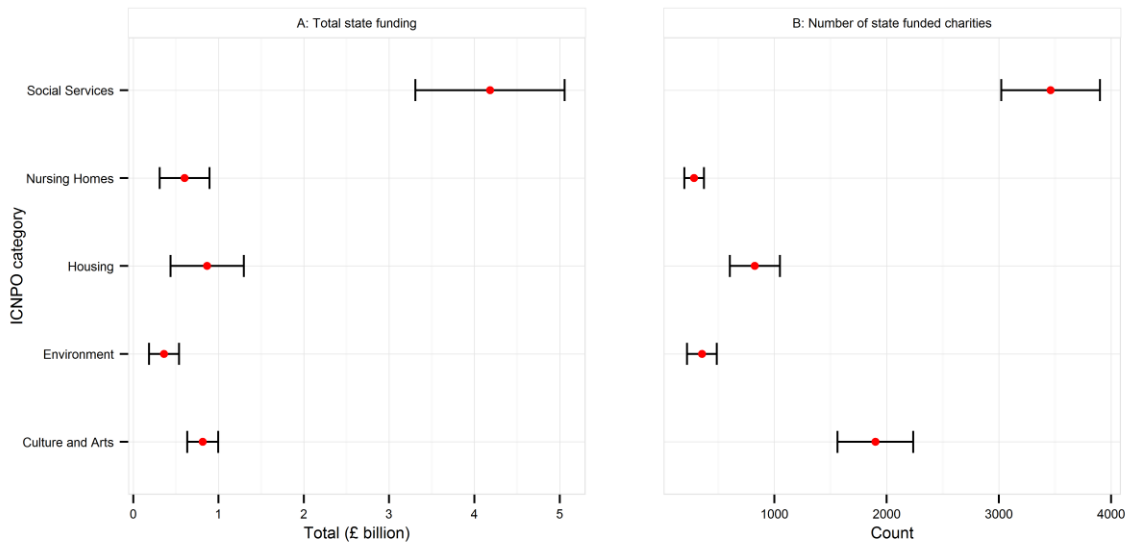

Figure 8.16: Total state income and number of state funded charities by ICNPO category. The left panel (A) shows the total amount of state income received by five different ICNPO categories. The right panel (B) shows the number of charities in each category that receive at least some state income. Error bars show 95% confidence intervals.

Figure 8.16a shows that 'Housing', 'Environment', 'Nursing Homes', and 'Culture and Arts' all receive levels of state funding in a similar range, spanning between £350 million and £867 million. 'Social Services', however, clearly accounts for far more state funding than any other category, receiving an aggregate total of £4.1 billion. This corresponds to some of the claims made in the evidence review.

It also means that social services accounts for 31% of the £13.5 billion total state funding for the sector. The other categories only account for between 2.7% and 6.4% each. The dominance of Social Services is partly due to the very large number of social service charities compared to other categories Figure 8.16b. The number of Culture and Arts charities is also notably higher than the others, though not as high as for Social Services.

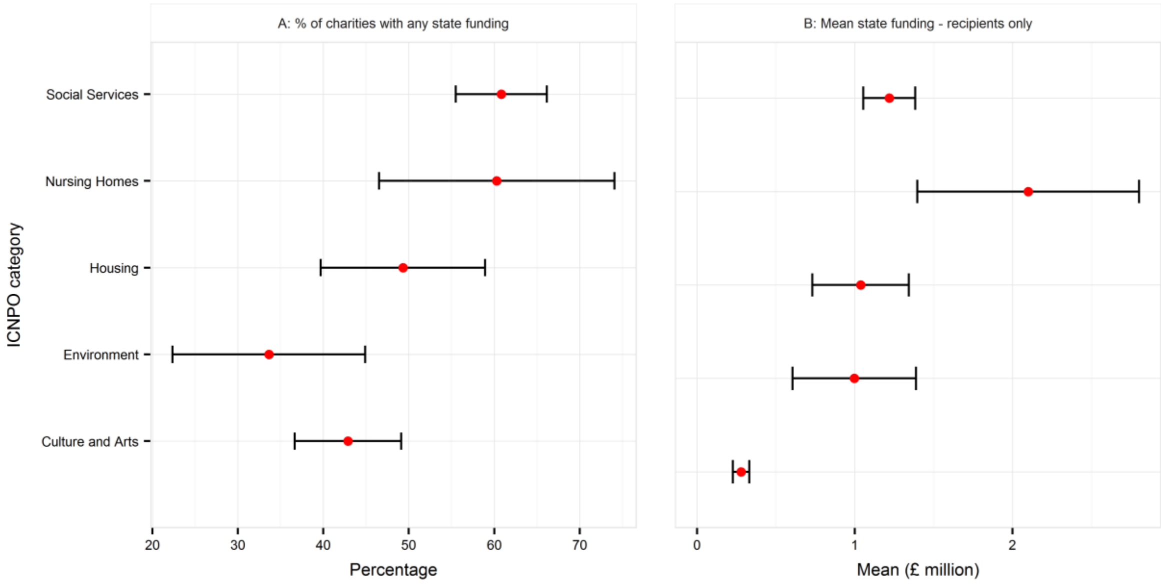

Figure 8.17: Percentage of charities with any state funding and mean state funding excluding zero values, by ICNPO categories. The left panel (A) shows the percentage of charities that receive any state income in five different ICNPO categories. The right panel (B) shows the mean amount of state income received by charities within each category, but only for charities that receive at least some state funding. Error bars show 95% confidence intervals.

Figure 8.17a shows that social service charities are also slightly more likely to receive state income compared to the other charities, though the estimate for Nursing Homes is similar. Just over 60% of both categories receive some state income. The variation of estimates in this graph is not particularly large overall, especially given the overlapping confidence intervals of some categories. The same is true for the average amount of state funding that recipients only collect, though we can be reasonably certain that the average level for Culture and Arts charities is particularly low.

Figure 8.18 shows the average proportion of total income received from the state within each of the ICNPO categories. Figure 8.18a shows the estimates for all charities and Figure 8.18b only for those that receive at least some state income. Once again it is perhaps state funded Social Services charities that stand out. Their estimated mean proportion of 56% for recipients suggests that they are the most dependent upon state income, receiving on average a majority of their income from the state if they receive any at all.

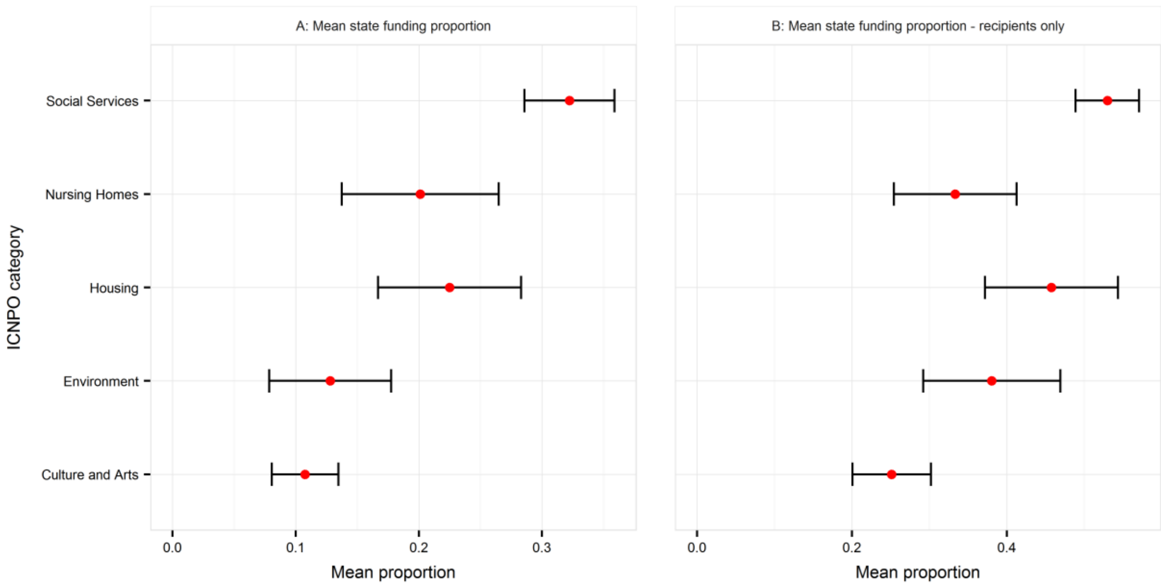

Figure 8.18: Mean proportion of income received from the state and the mean proportion excluding zero values, by ICNPO categories. The left panel (A) shows the mean proportion of their income that charities receive from the state in five different ICNPO categories. The right panel (B) shows the mean proportion they receive from the state in each category, but only for charities that receive at least some state income. Error bars show 95% confidence intervals.

The specific estimates of both the means and proportions are perhaps of less importance than the level of variation between them. We can conclude that ICNPO category does appear to make a difference to state funding levels as suggested in the literature, even if the differences themselves are quite uncertain due to sampling variation. The subsequent chapters will build on this by exploring whether state funding might have different effects on various other characteristics within different industries.

8.4.3. Section summary

The results in this section appear to confirm that state funding levels vary across both charities of different size and those working in different service areas. Larger charities are somewhat more likely to receive state income than smaller ones, and the larger the recipient is the more state funding it is likely to receive. This also means that larger charities account for much more of the total state funding available to all charities. Larger charities are, however, no more likely to be dependent upon their state funding.

There also appears to be variation between different service area categories. Social Service charities in particular appear to stand out as being particularly likely to receive state income and as being particularly dependent upon that income. Due to their high numbers they also account for a large portion of total state funding for charities. Nursing Homes have similar characteristics but there are fewer of them and their estimates are subsequently less certain.

8.5. Mediating factors

Establishing the uneven distribution between different sizes of charity and charities from different industries is interesting in its own right, but there is another advantage to understanding how state income relates to these variables. The literature review identified them as factors that may help to determine the exact form that a funding relationship with the state takes. Larger charities may have more choice and power regarding their interactions with funders, or simply be pulled in a much wider variety of directions at once. Similarly funding within the culture and arts field may differ markedly from that within the more heavily regulated and contract prevalent field of social services. These two potential mediating variables are therefore used throughout the bivariate exploratory analysis that follows as control variables, to search for any interaction effects or confounding influences.

In addition to size and industry, however, the literature review identified a number of mediating factors that could influence the impact of state funding upon a charity. Most of these could not be operationalised in the accounts dataset.

Although the national funding context was outlined in Chapters 3 and 4, each transfer of funds from the state to a charity has its own unique context, specific to the reasons for the funding and its localised circumstances. But it is not possible at the aggregate, quantitative level to distinguish between, for example, a newly funded service or a recently cut and consolidated one. Nor is it possible to distinguish between contracts that are fiercely fought over, or those that attract little to no competition at all. The history, culture and ethos of an organisation are all highly qualitative and nuanced factors, which have no clear indicators in the mainly financial data of the accounts dataset. Beyond the extent to which it is reflected in size, the relative power of different organisations within the dataset is also an unknown quantity.

It may be possible from the raw accounts data to construct a new dataset that broke down state income sources even further, to identify individual funders. This would allow us to measure the diversity of an organisation's funding base, either using the number of different funders it received or a concentration index. As the dataset stands, however, it was also not possible to derive a particularly meaningful 'income concentration' measure.

The one additional area where the accounts dataset may be able to make an additional contribution concerns breaking down the type and source of state funding one stage further. In particular, the literature review seemed to suggest that the distinction between voluntary 'grant income' and earned ‘contract income’ was important, even if in practice the two concepts are rather blurred and form an underlying continuum of specificity and legal enforceability.

The classification system within the accounts dataset attempts to mirror this distinction in its income source sub-categories. The division between voluntary and earned income reflects the account headings specified in the SORP (Charity Commission, 2005). Voluntary state funding is supposed to refer to grants which do not require a specific and measurable output in return and which are not performance related. They may still be ring fenced for a general area of activity or purpose.

Earned state income will predominantly refer to contracts received for conducting activities consistent with the charities’ purposes. There is also another category for earned state income for non-charitable activities, such as renting out property to a government agency, but this income stream is comparatively rare and insignificant.

The SORP (2005; 2015) acknowledges that in practice charities and their accountants will have to apply their own discretion in allocating these headings to their finances and the classification process for the accounts dataset will have done the same. One of the findings of the literature review was also that even on a theoretical level the distinction between grants and contracts is blurred and more of a continuum. Furthermore, the distinction as laid out in SORP also has a different emphasis compared to some of the literature, which focuses more on legal enforceability (Morris, 1999).

Despite these layers of ambiguity, it would be remiss in an exploratory study to ignore a distinction given such prominence in the existing literature, when useable variables do exist in the dataset. There are after all many cases that are not particularly ambiguous and which fall squarely into one category or the other. Therefore forewarned by the preceding caveats, the results in the following chapters are also conducted using the different sub-types of state funding, largely to assess whether there are grounds for further consideration of the issue.

Although the distinction does not too feature heavily in the literature, local government income is also generally believed to be a more important source of income for TSOs than income from central government. Because this distinction can also be operationalised, it made sense to explore whether it too made any difference to the results at the same time as the distinction between grant and contract income. Positive results could act as a potential spur for more targeted research in the future.

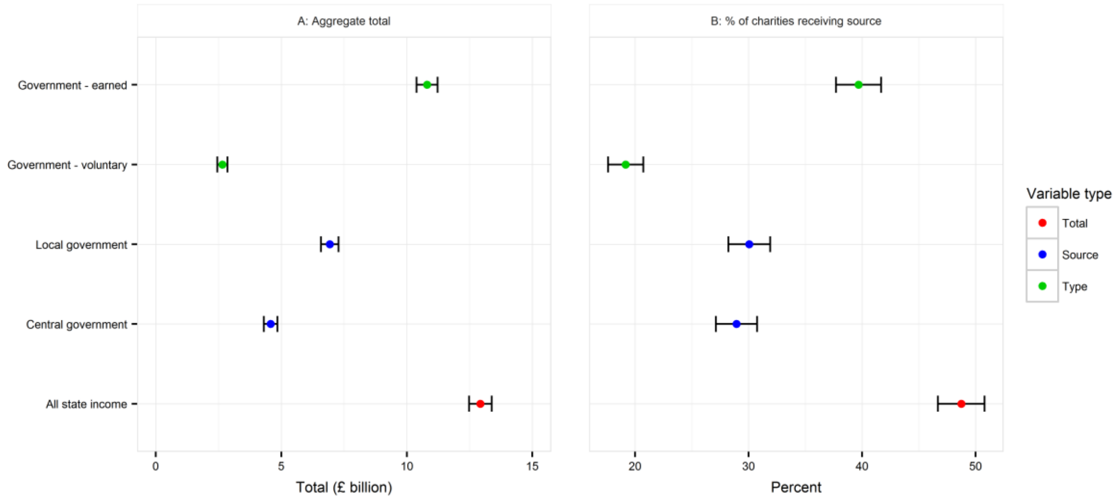

Figure 8.19: Total amounts of each state income type, and the percentage of charities receiving any of each type. The left panel (A) shows the total income that charities receive from two types and two sources of state income, and state income overall. The right panel (B) shows the percentage of charities that receive any income from each of the two types and two sources, as well that receive any state income at all. Error bars show 95% confidence intervals.

Figure 8.19 explores the totals and probabilities of receiving each source and type of state income. As expected, earned income from state sources far outstrips voluntary income (Figure 8.19a). This reflects the dominance of contract funding over grants identified in the evidence review. Not only is there a much larger amount of earned state income overall but organisations are also more likely to receive at least some income from this source (Figure 8.19b). Furthermore, when they do receive some of this income they are more likely to receive much higher amounts of it, compared to the average amount of grant income that grant recipients are given (Figure 8.20b).

The difference between central and local government sources is less pronounced. Although there was a higher aggregate amount of local government funding, a similar proportion of cases received at least some income from either source, around 30% in each case (Figure 8.19). This means that those that do receive local government funding receive more of it, on average, than the respective figure for central government income (Figure 8.20b). Only around 12% received income from both sources, compared to 18% that received local but not central government funding, and 17% that received central but not local (not shown). The different sources or types of state income all have similar distributions to that for state income overall, as already shown in Figure 8.4. They are all extremely positively skewed.

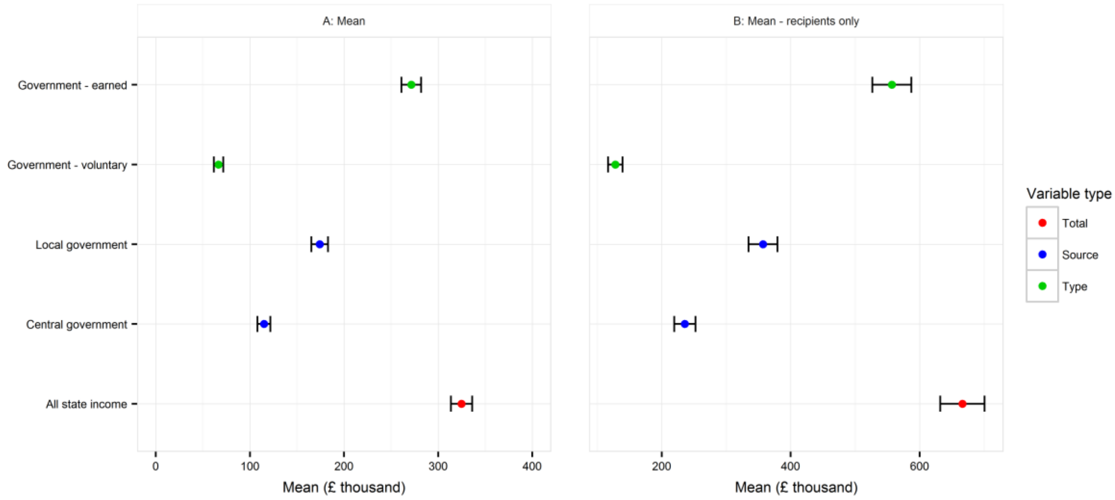

Figure 8.20: Mean and mean excluding zero values, by state income type. The left panel (A) shows mean amount received from two types and two sources of state income, and the overall mean level of state income. The right panel (B) shows the mean amount received from the two types and two sources, but only for charities that receive at least some of each type and source. Error bars show 95% confidence intervals.

8.6. Chapter summary

This chapter has made a number of useful additions to our understanding of state funding to charities and provides a strong foundation for the bivariate analysis that follows.

State income has been confirmed as a major income source for charities, second only to funding from individuals in terms of its absolute amount. Only around half of charities receive any state funding, however, considerably fewer than the numbers that receive some of the other income sources. If only non-zero cases are considered, then the average level of state funding is comparable to individual income, which is received by most charities. Those that do receive state income tend to be relatively reliant upon that income compared to recipients of other sources. The distribution of state income as a whole is highly skewed, with the largest amounts concentrated amongst the biggest recipients.

This chapter also sought to contextualise these figures by showing how they have changed since 2009. After many years of increases, we have seen that total and average levels appear to have reached a peak in 2011 and fallen in the following two years. The number of charities with at least some state funding has remained steady over the period, meaning the reduction in the mean level is largely a result of the changing amount of state income available overall. State income became even more concentrated in the top 10% of recipients over the five years. The average proportion of total income charities receive from the state has fallen more consistently over the five year period, suggesting that the decline in alternative sources may not have been as fast as for state income.

This chapter has confirmed that there is a very uneven distribution of state income between charities of different sizes and industries. Larger charities are more likely to receive state income and to receive it in much larger absolute amounts if they do. As they receive more of all sources, however, state funding does not account for a higher proportion of their income compared to smaller charities. Charities working in some service areas such as Social Services appear particularly likely to receive state income and to be more dependent upon that income. The differences are notable but the specifics are quite idiosyncratic to each case.

Finally, we have confirmed that there is much less grant income than contract income, and that it is received by fewer charities in smaller average amounts. The numbers of recipients for local and central government income are similar, though recipients of local government income tend to obtain comparably higher average levels.

Having therefore established some basic estimates concerning state funding, the next chapter considers its relationship with the voluntary characteristics of charities.

CHAPTER 9 : WHAT IS THE RELATIONSHIP BETWEEN STATE FUNDING AND CHARITIES' VOLUNTARY CHARACTERISTICS?

9.1. Voluntary characteristics

A number of potential hypotheses were derived in Chapter 6 concerning the effects of state income upon volunteers operating within charities. First, it was suggested either directly or indirectly that state income is negatively associated with volunteer levels. Multiple qualitative studies found that state contracting created an inimical environment for volunteers, which might ultimately result in trouble recruiting and retaining volunteers for an organisation.

Either independently or in response to this potential struggle to maintain voluntary support, there was also a suggestion that organisations might become more dependent upon paid staff. Within the accounts dataset there is not only a headcount of volunteers, but also the number of staff. This makes it possible to derive the proportion of volunteers within the total workforce, and explore whether this is related in any way to state funding.

The final potential relationship concerns another form of voluntary characteristic: donations from the public (Salamon and Anheier, 1997). Although donations vary a great deal in terms of their size and the individuals that make them, they form a tangible link between a charity and its community. Donations can be taken as evidence of voluntary support for the work of the charity outside of any formal contracting relationships. As suggested in the literature review, however, it is possible that state income could 'squeeze out' these donations, perhaps because donors are put off by state funding or because the charity does not need their donations to the same degree.

Unfortunately, the analysis on volunteer and staff numbers was only possible at the time of the analysis for charities with an income over £500,000, as it forms part of the 'Part B' in charities' annual returns. The findings from the following two sections therefore refer exclusively to this subgroup, though the third uses data from the entire sample to explore the relationship between state income and donative income.

Not all of the claims and theories outlined in the literature relating to voluntary characteristics could be explored. It was not possible with the data available to operationalise the relationship between paid executives and voluntary trustees at the leadership level of an organisation. Nor could the activities, roles and conditions of volunteers be considered, or their relationship to the paid staff. Finally the relationship between state funding and the less tangible concept of a voluntary sector ethos could not be explored.

In the three specific areas identified, however, there is clearly scope for adding new analysis to the debate on state funding for charities.

This section therefore addresses the first of the specific research questions:

- What is the relationship between state funding and charities' voluntary characteristics?

Specifically the accounts dataset allows an exploration of the relationship between state income and:

- Having fewer volunteers
- Greater reliance upon paid staff
- A reduction in voluntary donations from individuals (donative income)

9.2. State income and the number of volunteers

The first stage of the analysis was concerned with the relationship between the level of state income charities receive and the number of volunteers. The volunteering variable available in the accounts dataset is a headcount of the number of volunteers used by a charity, as supplied by charities in their annual return to the charity commission. This information was previously an optional requirement for those charities with an income over £500,000. In 2013, the latest year of the dataset available, it was made compulsory for the first time for all charities. This has significantly increased the amount of non-missing data available. Less positively, however, the charity commission has not yet made the data for the smaller charities available, despite repeated requests. For the time being, therefore, it is only possible to conduct analysis on the subgroup of larger charities, with annual incomes over £500,000.

There are some inherent limitations to this measure of volunteering. The guidance notes for the annual return ask charities to provide their best estimate of the number of individual UK volunteers involved in the charity during the financial year, not including trustees (Charity Commission, 2013a). First, considerable interpretation is obviously required for deciding what counts as a 'volunteer' and what constitutes 'involved in the charity'. Is some form of formal relationship required, or just a single instance of helping out in some way? The level of intensity may also vary between someone who helps out once during the entire year and someone who essentially acts as a full time, unpaid member of staff.

If a watertight estimate of the total number of volunteers was the aim then these issues might be considered insurmountable. As the intention is to compare how state income affects the number of volunteers on average, across all cases, however, there is likely to be a large amount of useful information within the results. Even given the limitations, the relationship between this measure and state income is certainly likely to be of interest to participants on the debate concerning charities and state funding.

There appears to be a qualitative break in the distribution of the 'volunteers' variable, similar to that found for the distribution of state income data. 34% of cases recorded zero volunteers, meaning they are entirely professionally staffed. While later statistical modelling work may attempt to incorporate this structure into a single model, here the problem is broken down into its separate parts to provide greater clarity. In terms of the input variables, the influence of having *any* state income is considered first, followed by the quantity of state income and then by what proportion of total income it accounts for. Each of these input variables is explored in relation to both the probability of having any volunteers at all and the number of volunteers if there are any.

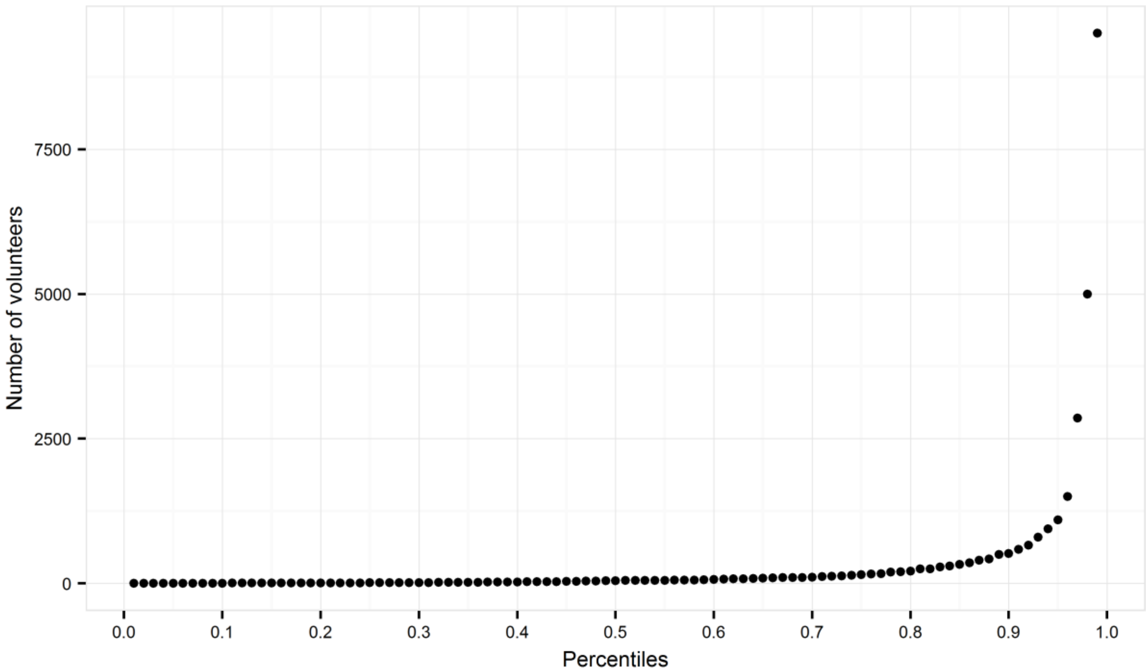

Figure 9.1: Number of volunteers percentiles for larger charities, up to the 99th percentile.

The number of volunteers variable for the non-zero cases is heavily skewed. This means the values are stretched out along the total range of volunteer numbers at ever increasing intervals as the scale increases. This is shown in Figure 9.1: a percentile plot for those charities with at least some volunteers. The number of volunteers clearly explodes upwards in a multiplicative pattern for the highest percentiles. The mean and the median number of volunteers, excluding zero values, are therefore very different. The estimated mean is 657 and the median is just 48.

The first bivariate relationship considered here is between having any state income and the probability of having any volunteers. Figure 9.2 uses a simple dot-chart to show that there is clearly a major difference between the two groups. 55% of those with no state funding use volunteers, compared to 73% of those with at least some state income. A charity is therefore conclusively more likely to use volunteers if it has at least some state income. This is not what we might have expected from the literature, which would suggest that state funding undermines volunteer participation.

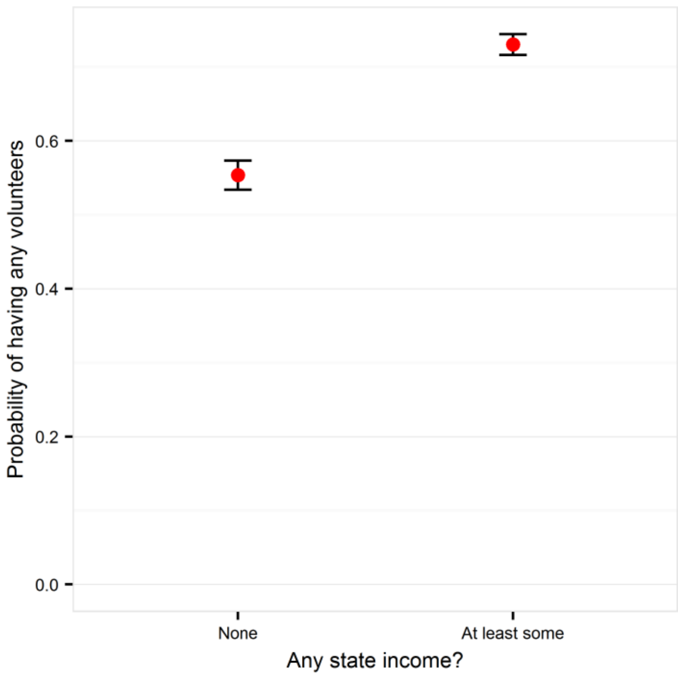

Figure 9.2: Probability of having any volunteers for larger charities with and without any state income. Error bars show 95% confidence intervals.

One factor to bear in mind is that these organisations are already large charities, by virtue of having at least a £500,000 annual turnover. The picture may well be different for smaller, much more informal organisations. This cannot be determined with the current data.

We can, however, explore whether the relationship within this subgroup is influenced by size. The previous chapter established that having state income is related to a larger average size. It could be that it also increases the odds of having at least some volunteers, acting as a confounding variable. Co-plots were produced which showed the relationship in Figure 9.2 within different size categories. Different widths and ways of forming the income categories were experimented with. In all cases, the relationship hardly changed at all, which means that the relationship within these charities cannot be due to the confounding effect of size and there is no identifiable interaction effect.

In general exploring the relationship within the ICNPO categories also made little difference to the results. The sole exception was for charities within the "Environment" industry, where there was no appreciable relationship. Finally if contracts, grants, local government or central government income were substituted as the independent variable instead of all state income; it made little difference to the results.

Moving on from the likelihood of having any volunteers at all, the next relationship considered was whether having any state funding is associated with a higher number of volunteers on average, excluding those with no volunteers at all. The difference in the average number of volunteers between those with and without state income, excluding those with no volunteers at all, is shown in Figure 9.3a. It shows that the mean number of volunteers is higher for those with at least some state income. The average number of volunteers for those without state income is estimated at 362, and for those with at least some the estimate is 805. Figure 9.3b compares the medians and provides a clearer result. For those without any state income the median number of volunteers is 30, and for those with at least some it is 50.

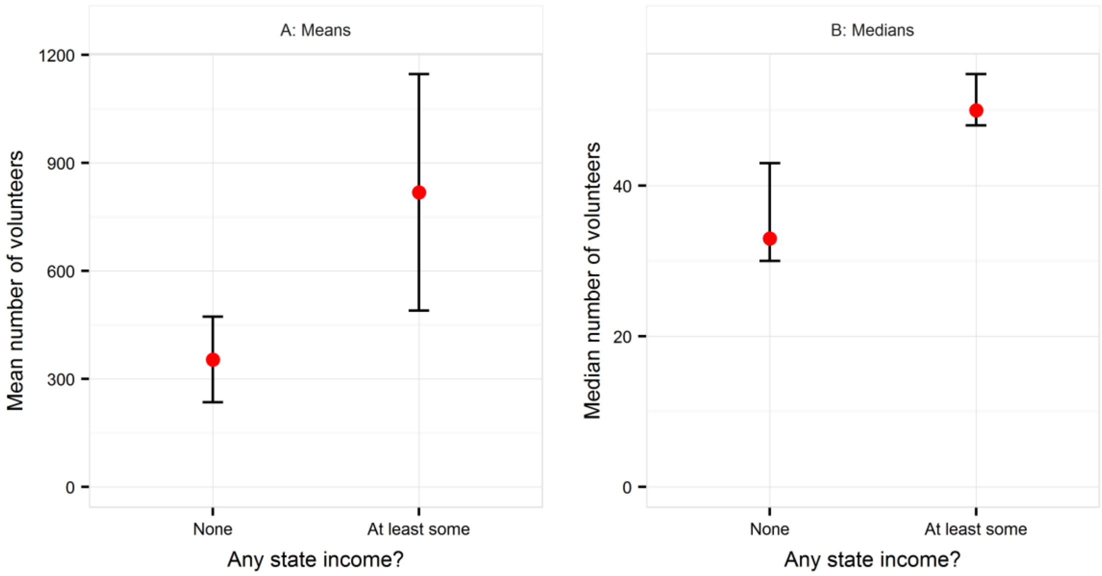

Figure 9.3: Average number of volunteers for larger charities with and without any state income. The left panel shows means (A), the right panel medians (B). Error bars show 95% confidence intervals.

Conditioning the two graphs in Figure 9.3 by size provides a rather uncertain picture. The difference between the means in Figure 9.3a was already uncertain due to sampling error and this is even worse once the sample is broken down in further sub-groups by size. It is safer to examine the results from conditioning Figure 9.3b, using the median differences instead. Only the size co-plots above roughly the £2 million mark have non-overlapping confidence intervals, though this is more likely to be due to the number of unweighted cases rather than any apparent changes to the effect size. The situation is similarly uncertain when ICNPO category is used as the control variable. Whether means or medians are considered, the only category in which sampling error can be reasonably ruled out is amongst Nursing Homes.

Overall, therefore, there does seem to be a reasonably strong relationship, and the consistency of the results across the repeated sub-categories can increase our confidence in the overall finding somewhat, even if the overlapping confidence intervals mean we can't be certain how far the relationship disaggregates. Again, however, the apparent overall pattern appears at odds with what would be expected from the literature review.

So far, therefore, it appears that having at least some state income is positively associated with the probability of having at least some volunteers, and a higher median number of volunteers for those that do. In both cases the differences involved are also moderately substantial. Next we consider what impact the quantity of state income has on both of these outcomes.

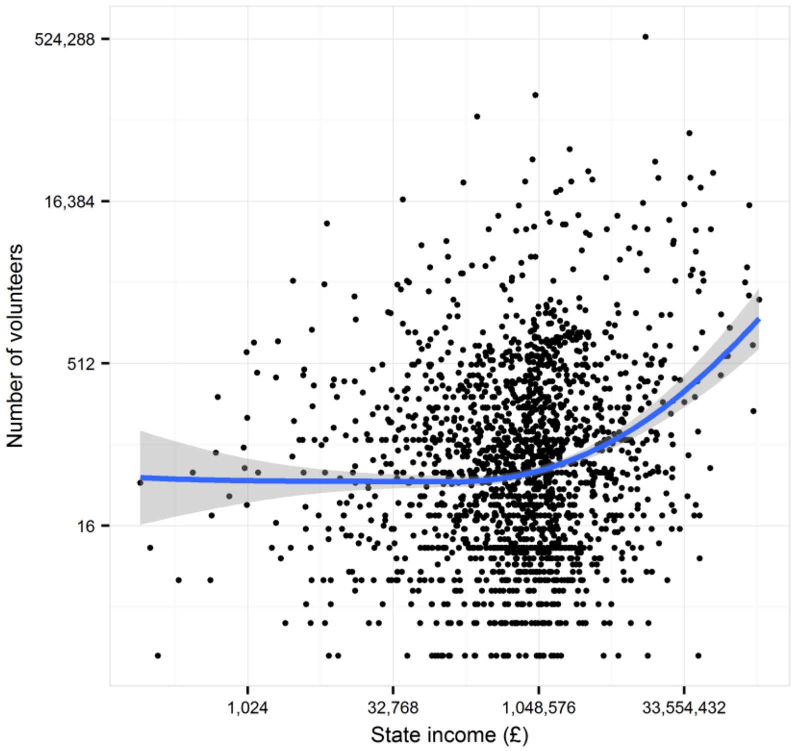

Figure 9.4: Volunteers versus state income for larger charities. The blue line marks a loess curve, with a grey 95% confidence band. Both axes have been log2 transformed.

Figure 9.4 explores the relationship between the amount of state income and the number of volunteers that charities' have, assuming they have at least some of both. It is worth noting that a standard scatter plot can be misleading when using the whole accounts dataset, due to the strata weights used in the sample design. This is why the scatter plots in the previous chapter used a re-weighted sub-sample to show the results. In this section, however, we are only using the charities with an income over £500,000, so the weighting imbalance from strata is not nearly so much of a problem as when the smaller size categories are included. The simplest option therefore is just to present the graphs using all the cases, without any re-weighting. Although a slight bias remains, readers can reasonably treat scatter plots for the larger charities as though they came from a straightforward random sample.

It is also worth remembering that the scales for both variables have been transformed. Using a log2 scale allows us to visualise the highly skewed data with a much clearer resolution than would be possible for the untransformed data (Cleveland; 1985, 1993). The transformations mean that technically a single unit increase is equivalent to a doubling of the variable on the untransformed scale. Any subsequent correlation would indicate that a multiplicative increase on one variable is associated multiplicative increase on the other.

The monotonic strength of the relationship is the same regardless of any log transformations. In simple terms, if variables are associated on a transformed scale then they will be associated in some form on an untransformed scale too. The potential difference lies in the linearity of the relationship. Pearson's correlations were used to check whether a more linear relationship may exist if different combinations of logged and non-logged variables were used, and these will be highlighted where necessary. In this case, the relationship as shown in Figure 9.4 does happen to be the most linear available. In fact for almost all the monotonic relationships found between heavily skewed variables in this thesis, the log2 transformed variables provided the strongest linear association.

The cloud of points in Figure 9.4 on its own is not particularly revealing, but fitting a loess curve helps to track the change in the average log2 number of volunteers (the geometric mean). The relationship for the left half of the graph is not particularly clear. If there is any relationship at all then it is weak and perhaps slightly negative. However, an interesting change occurs at around the £500,000 mark. The relationship appears to curve upwards and become fairly consistently positive.

Figure 9.5 separates the graph at the £500,000 state income mark and fits a linear model to both halves. Figure 9.5a confirms that the relationship below the £500,000 mark is almost completely flat ($r = .01$) The linear model in Figure 9.5b, in contrast, has a Pearson correlation coefficient of .26, a small but relatively substantive relationship in this context.

Ostensibly, it appears that a multiplicative increase in state funding results in a multiplicative increase in the number of volunteers that a charity has, but only once this reaches a level of £500,000. Further exploration reveals that the reason for this is related to the fact that only charities with an income of over £500,000 are included in this subsample. The result is worth considering in some depth, because it recurs throughout this study when using the same subset and two continuous variables.

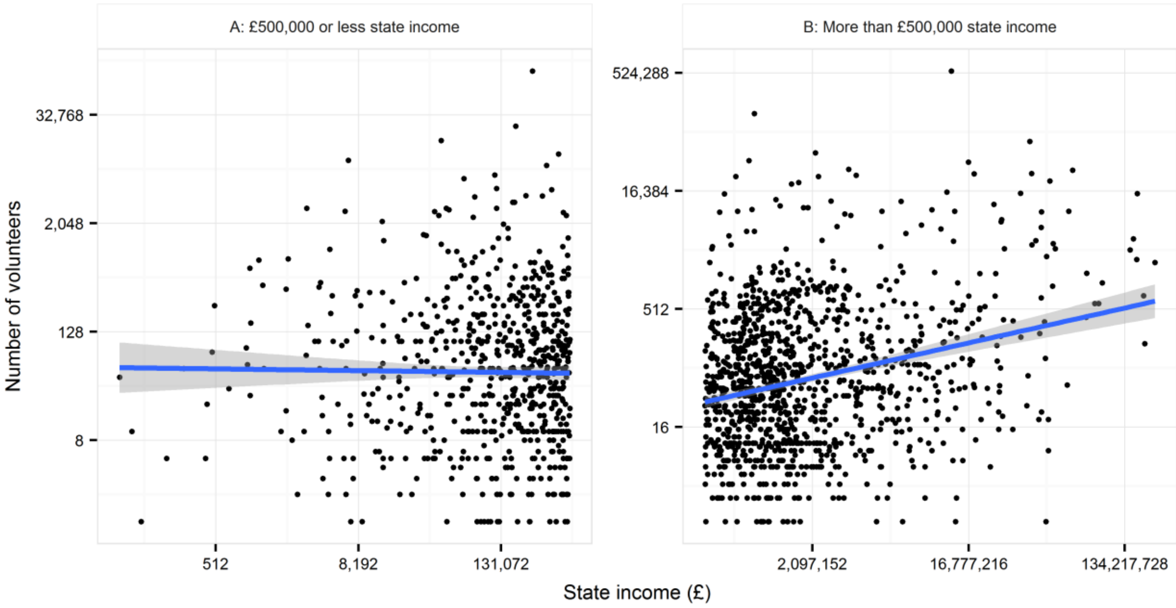

Figure 9.5: Volunteers versus state income for larger charities, above and below £500, 000 state income. The left panel shows larger charities with £500,000 or less state income (A). The right panel shows larger charities with more than £500,000 state income (B). Blue lines marks separate linear models for each panel-group, with grey 95% confidence bands. Both axes have been log2 transformed.

State income is a function of both the total amount of income a charity receives and the proportion of that income that comes from the state. Through a combination of conditioning plots and correlation analysis, it is clear that each of these respective elements has a different level of influence in the two halves of Figure 9.5.

Below the £500,000 state income level, increases in state income are quite strongly correlated with increases in the proportion of total income received from the state (r = .63). In other words charities with more state income at this level generally receive a higher proportion of their total income from the state as a result. Conversely, there is only a small and negative correlation with size, as measured by the overall level of total income (r = -.12).

Over the £500,000 state income mark, increases in state income are highly correlated with total income (r = .83). Higher levels of state income mean that the charity is likely to be larger overall. It is much more weakly associated with state income as a proportion (r = .10). So amongst this second group, a charity with a higher level of state funding is not necessarily more likely to be reliant upon it. In short, increases in state income below £500,000 are mainly related to changes in proportions and above this mark they are largely related to changes in size.

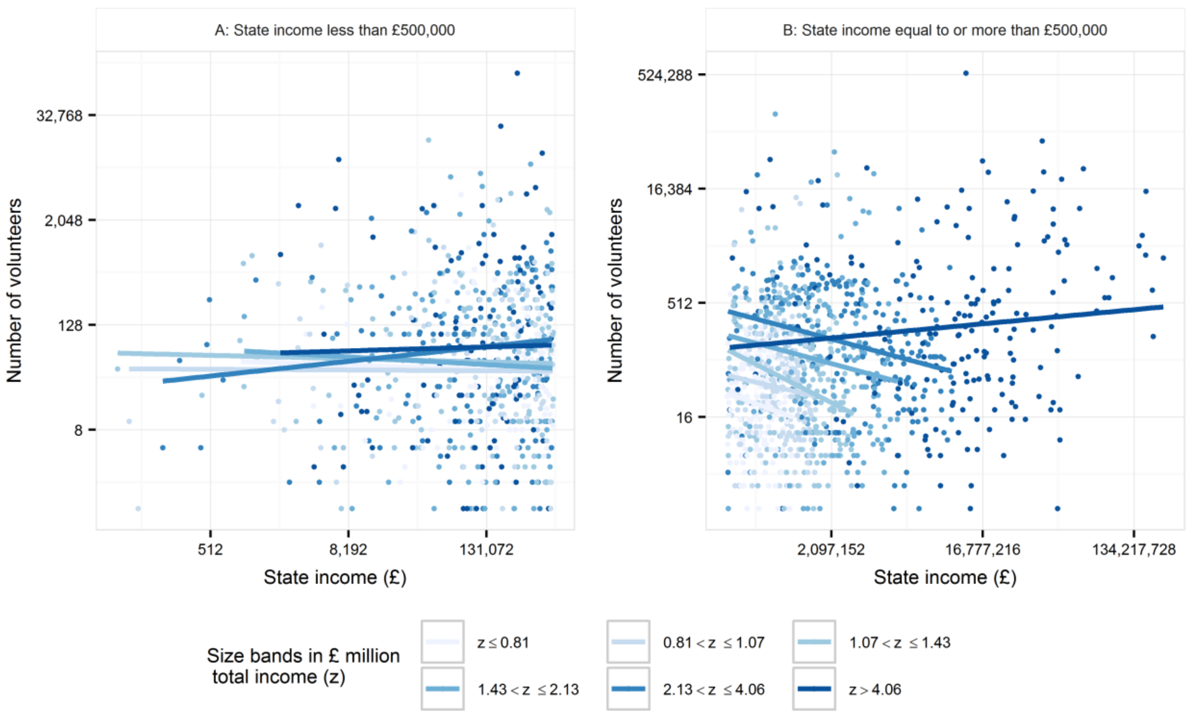

Figure 9.6: Volunteers versus state income for larger charities, by size. The left panel shows larger charities with £500,000 or less state income (A). The right panel larger charities with more than £500,000 state income (B). Points and linear models colour are coded by total income categories for each panel. Confidence bands are not shown. Both axes are log2 transformed.

The findings have important implications when we start to explore the relationship shown in Figure 9.5 after controlling for size. Controlling for size below the £500,000 state income mark doesn't have much of an effect on the relationship between volunteers and state income. Figure 9.6a demonstrates this finding using a zoomed in version of Figure 9.5a, with 6 different total income categories distinguished by colour, each with its own linear model fitted. The bands of these categories are calculated automatically to ensure an equal number of unweighted cases in each group. This allows us to look at the relationship while holding size roughly constant, and to see that the relationship remains comparably flat.

Figure 9.6b shows the same subgroups on a zoomed in version of Figure 9.5b. In this case controlling for size does have a visible effect. Within most of the size categories, except for the highest which is possibly too broad, the relationship between state income and volunteers has reversed and is now negative. This provides strong evidence that size was acting as a confounding variable over the £500,000 state income mark.

The results were also broken down by ICNPO category and four of the five chosen categories closely match the pattern outlined above. Nursing Homes, however, appear to follow almost the opposite pattern. There is a positive correlation below the £500,000 state income mark, but a largely flat relationship above. This finding suggests that further study with a larger sub-sample of Nursing Home charities may be worthwhile, especially as the results for the relationship shown in Figure 9.3 also differed within this group. Substituting different types of state income did not have any major impact.

Moving on to the final input variable, Figure 9.7 shows the relationship between state income as a percentage of total income, and the log2 number of volunteers. The results show that there is a small but notable negative trend (r = -0.18).

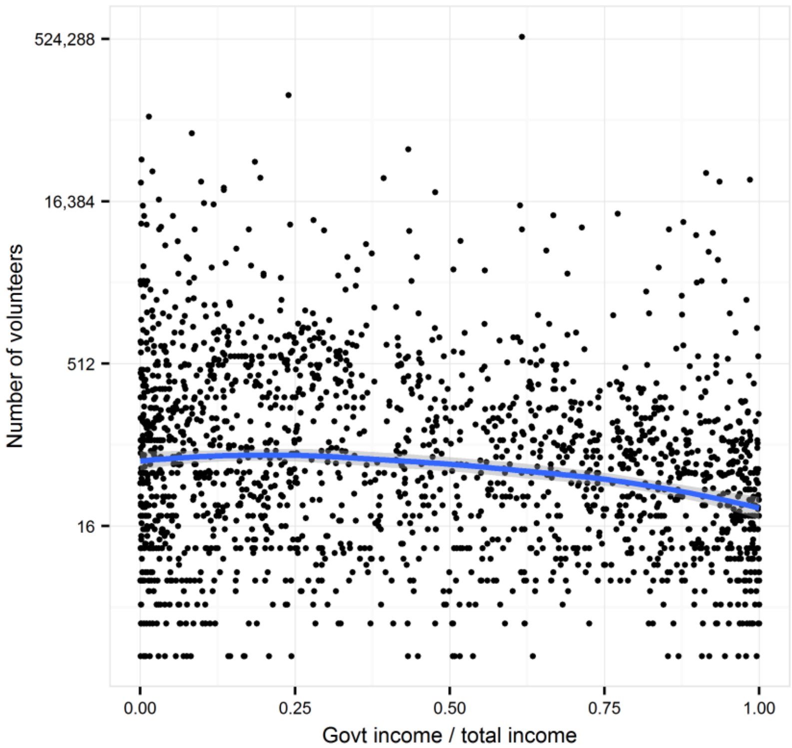

Figure 9.7: Volunteers versus state income as a proportion of total income for larger charities. Blue line marks a loess curve with a grey 95% confidence band. Y axis is log2 transformed

In some sense, directly looking at the influence of state income as a proportion is another way of looking at the influence of state income after controlling for size. We would not expect the relationships to be exactly the same for a number of reasons, not least due to the role of the log transformations in the latter case. But it would be surprising if the results in the two cases differed fundamentally. As such the results in Figure 9.7 are broadly consistent with an average of those in Figure 9.6.

Unsurprisingly given the discussion above, controlling for size made little difference, as it is largely uncorrelated with state income as a proportion. Within the ICNPO categories, there was little difference in the results for Culture and Arts, Social Services and Nursing Homes, but the relationship does not seem to hold for the Environment and Housing categories. This reinforces the message from previous figures, that although most ICNPO categories tend to reflect the overall result, there are exceptions that may require further investigation.

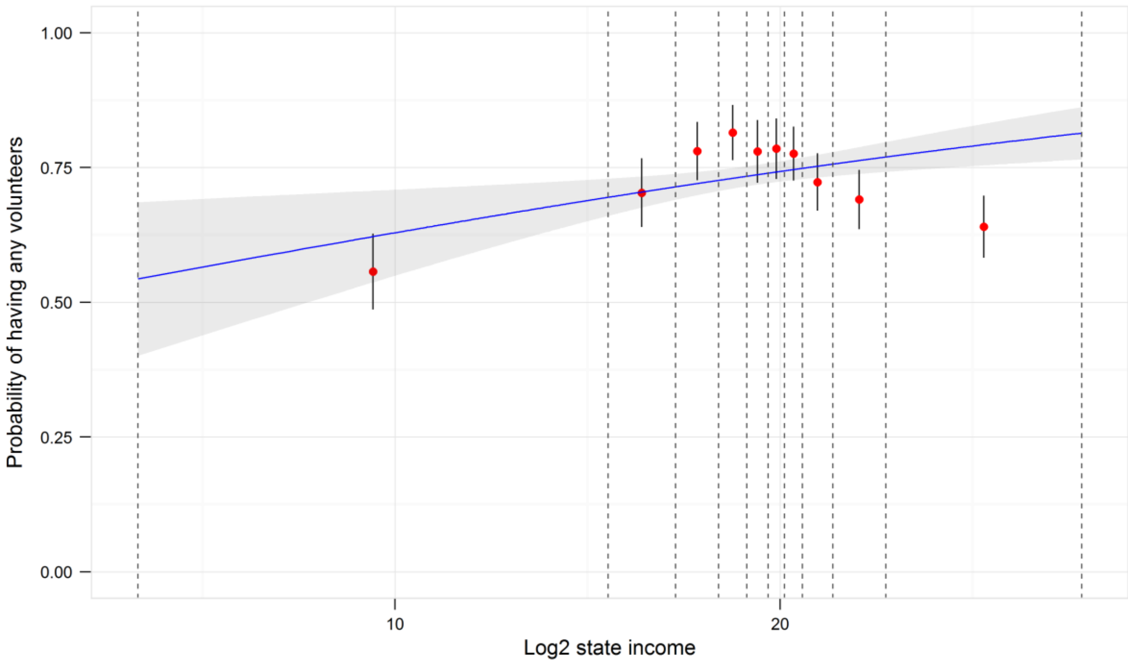

Figure 9.8: Probability of larger charities having any volunteers versus log2 state income. Vertical grey lines mark boundaries of 10 categories for log2 state income, with an equal number of unweighted cases in each. Red points mark estimated probability of having volunteers for each category. Error bars show 95% confidence intervals. The blue line marks a logistic regression model for un-banded log2 state income, with grey 95% confidence band.

For the final part of this section we consider the relationship between state income and the probability of having at least some volunteers. This is one of the more challenging relationships to visualise. It is achieved by splitting the cases into categories based on their state income and then seeing how the proportion of cases with any volunteers changes at each level. There are choices to be made about where the boundaries of the ordinal categories are drawn. Although categories of equal width would be more precise, the interpretation tends to work best when the confidence intervals are equal between categories. For that reason the widths of the categories' intervals are allowed to differ, to ensure an equal number of unweighted cases in each category. The number of intervals used is also a matter of trial and error. The more categories, the more variation and nuance can be uncovered, but fewer cases per category also results in larger confidence intervals. The number shown is a compromise between these two priorities.

Figure 9.8 shows that there appears to be a somewhat curvilinear relationship between log2 state income and the probability that a charity has at least some volunteers. Certainly there seems to be a distinct peak near the middle of the log2 scale. Moving through the first half of the categories increases the probability of having at least some volunteers, while moving through the latter half accompanies a reduction in the probability.

As with Figure 9.5, however, the turning point in this relationship appears to fall suspiciously near the £500,000 state income figure. In fact the two halves of the graph, above and below this threshold, seem to show two quite different linear relationships. The correlation coefficient below the £500,000 state income mark is .22. Above it is -.11.

As with the relationship between state income and the number of volunteers seen earlier, we are probably seeing different relationships depending on whether the changes in state income are correlated more with changes in overall income, or just changes to the proportion of income received from the state. As such we continue with the precedent of exploring the charities above and below this threshold separately.

Table 9.1: Coefficients in logistic regression models, showing the probability having any volunteers against log2 government income, with and without log2 total income.

Intercept	Log2 government income coefficient	Log2 total income coefficient	Government income level
0.002	0.043	n/a	< £500k
1.127	0.041	-0.053	< £500k
1.347	-0.029	n/a	> £500k
1.325	-0.039	0.011	> £500k

Sample: larger charities above and below the £500,000 state income threshold

It is difficult to control for size and other variables using co-plots in this scenario, as the subgroups become too small and the confidence intervals too large. We can explore what happens to the logistic regression models when we add in the control variables, however, as shown in Table 9.1. The government income variable remains log transformed, as this appears to provide the strongest linear relationship.

We are particularly interested in the coefficient for the government income variable, highlighted in red, and what happens to it when total income is introduced into the model. Controlling for size below the £500,000 state income level makes virtually no difference, as seen in the previous scatterplots. The relationship with state income remains positive. Over the £500,000 level, controlling for size actually increases the size of the negative government income coefficient.

Introducing the ICNPO categories as dummy variable slightly weakens the log2 government income coefficient below the £500,000 state income mark (b = 0.028), and more noticeably weakens it above (b = -0.016).

Restricting state income to include only income from contracts or only income from local government has little influence on the results. These categories dominate state income as a whole, so this is not surprising. Using only central government income or only voluntary grant income, however, shifts the picture slightly below the £500,000 mark for each variable. The previously observed positive relationship at this level is replaced by a largely flat trend. The negative pattern over the £500,000 level is largely unchanged for each variable.

Figure 9.9 shows the relationship between state income as a proportion of total income and the probability of a charity having any volunteers. The strongest relationship is the positive trend amongst the first few categories, but this flattens out relatively quickly. The overall correlation is quite weak at r = .07, but below the .25 proportion level it is slightly higher at r = .15 This suggests that increases in the proportion of income received from the state are associated with small increases in the probability of using volunteers, but only for the initial increases. Above this threshold similar changes have little impact.

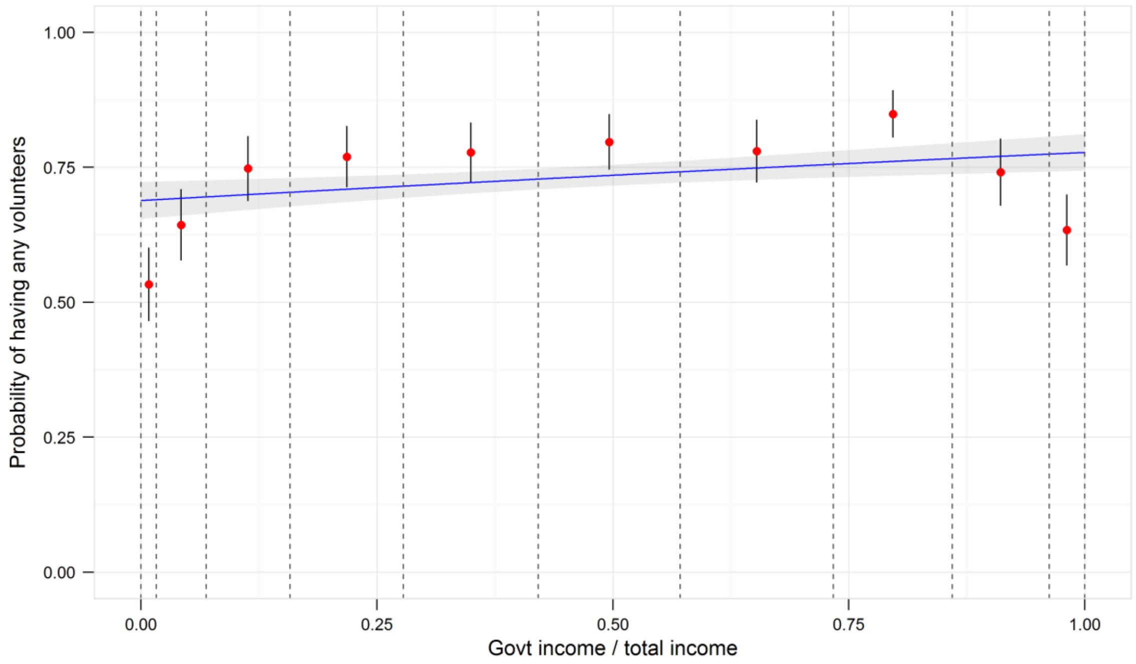

Figure 9.9: Probability of larger charities having any volunteers versus state income as a proportion of total income. Vertical grey lines mark boundaries of 10 categories for state income as a proportion of total income, with an equal number of unweighted cases in each. Red points mark estimated probability of having volunteers for each category. Error bars show 95% confidence intervals. The blue line marks a logistic regression model for un-banded log2 state income, with grey 95% confidence band.

Once again the logistic regression models were used to introduce size as a control variable. Table 9.2 shows the results of the two relevant models. The results show that controlling for size makes virtually no difference to the coefficient for state income as a proportion of total income. Including the selected ICNPO categories in the model along with government income as a proportion, in contrast, reduces the coefficient for government income as a proportion substantially to 0.08 (not shown).

Table 9.2: Coefficients in logistic regression models, showing the probability having any volunteers against state income as a proportion of total income, with and without log2 total income.

Intercept	State income / total income	Log2 total income coefficient
0.60	0.21	n/a
1.09	0.21	-0.02

9.2.1. Section summary

Having at least some state income is positively associated with the probability of having at least one, non-trustee volunteer for most charities. For those that have at least one volunteer, there also appears to be a moderate positive relationship between having any state income and the total number of volunteers. The relationship between log2 state income levels and log2 volunteer numbers is positive over the £500,000 mark, but only due to the influence of size. The relationship after controlling for size, or between state income as a proportion and volunteer numbers, is actually negative, especially for those with a large amount of state income. Below this level there is little relationship regardless of controlling for size.

The £500,000 state income mark is also important for the relationship between greater levels of state income and the probability of having any volunteers at all. Below the £500,000 state income mark the relationship is positive and remains largely the same after controlling for size. Above, there is a small negative relationship that becomes larger after controlling for size. The relationship with state income as a proportion, however, is surprisingly flat when taken across the entire range. There are, however, some initial increases in the probability of having any volunteers across the initial state income categories.

9.3. State income and the proportion of volunteers in charities' workforces

The second hypothesis explored in this chapter concerns a third outcome variable: the balance between volunteers and paid staff. A similar measure to the count of volunteers exists for the number of employees in a charity. Again this is a raw headcount, including part and full-time staff, but at least there is likely to be less ambiguity regarding what counts as a staff member in most cases. Taking both volunteers and staff together to indicate the total workforce, we can calculate what proportion is accounted for by the volunteers. Once again this analysis is limited to only the larger charities.

In many ways this is again an imperfect measure as again it does not capture the intensity of the inputs made by either volunteers or staff, but it does provide a good first step towards understanding the balance between staff and volunteers, and the link to state funding. We will explore here how this new outcome variable is related to having any state income, having more state income, and a higher proportion of total income from the state.

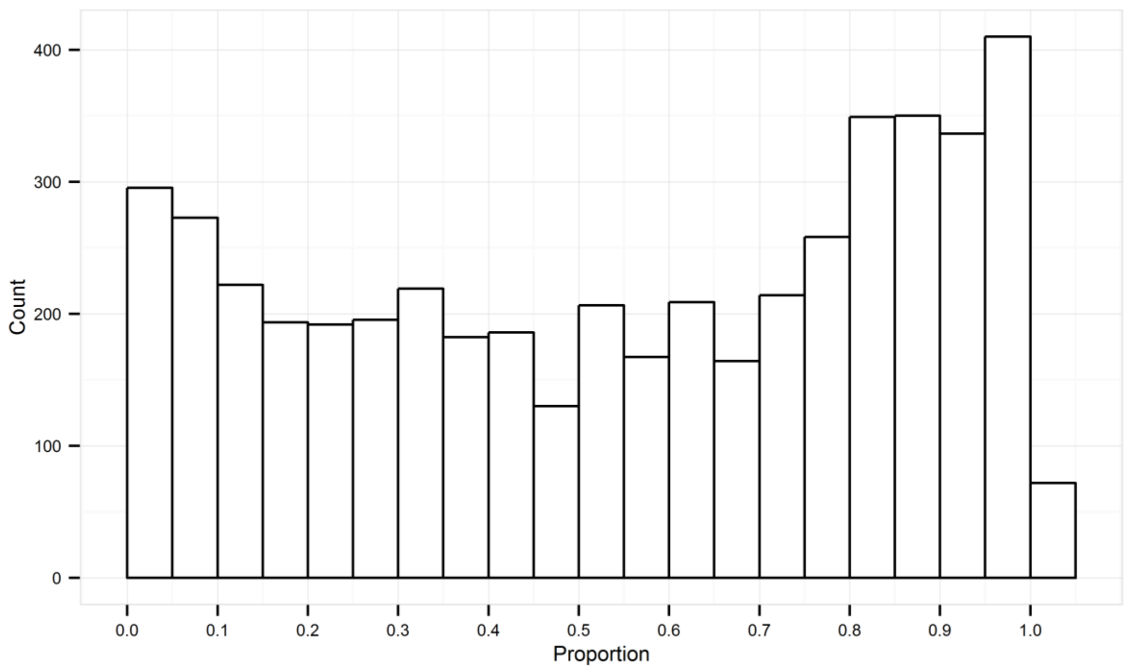

Figure 9.10: Proportion of volunteers in workforce, for larger charities with at least one volunteer. Bin width equals .05. Bins are right-open, but charities with an all-volunteer workforce have been included in their own bin on the far right.

The proportion of volunteers in larger charities' workforces is much more uniformly distributed than the absolute number of volunteers. Figure 9.10 shows a histogram for the data. Only charities with at least some volunteers are included. The plot shows that the cases are spread along the full range of possible percentages, with a small amount of negative skew indicating a somewhat higher number of cases for the higher percentages. The mode in Figure 9.10 is the bin for 'equal to or over 0.95 and less than 1'. Interestingly, the number of charities in the subsample with a workforce of 100% volunteers is actually very low. Only around 1% of cases within this subsample rely entirely on volunteers. This almost certainly reflects the size of the charities involved. It drives home that within this and the previous section we are considering a very particular subset of charities overall (the 'larger charities'), albeit perhaps the subset that is most likely to be involved in public service commissioning. The median proportion of volunteers for larger charities with at least one volunteer is .58, and the mean is .55, suggesting that volunteers tend to form a slight majority within these organisations.

The first stage of the bivariate analysis in this section is to see whether having any state income influences the average proportion of volunteers in larger charities' workforces, for those with at least some volunteers. Figure 9.11 shows clearly that there is no statistically or substantively significant difference between having at least some state income and the average proportion of the workforce accounted for by volunteers. The mean proportion for those with no state income is .54, whereas for those with at least some state income the mean is .55. The median value for both groups is .58. This seems to contradict the idea that state funded charities are more professionalised and reliant upon paid staff, though it is of course only one potential indicator of such a relationship.

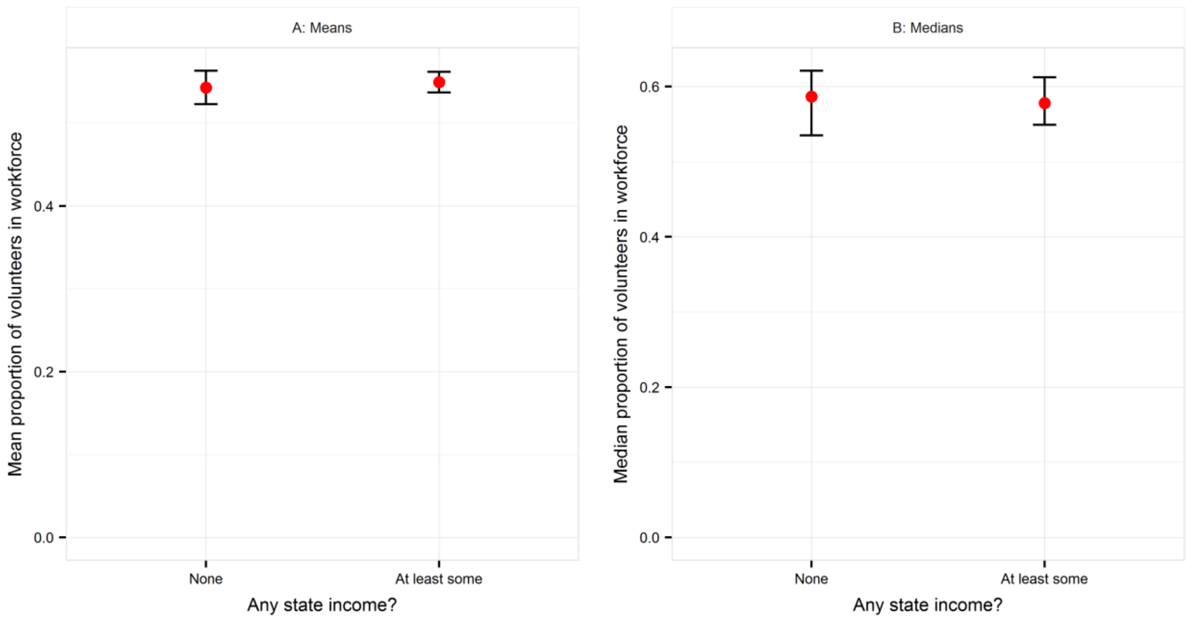

Figure 9.11: Average proportion of volunteers in the workforce for larger charities with and without any state income but at least some volunteers. The left panel shows means (A); the right panel medians (B). Error bars show 95% confidence intervals.

Co-plots by size and selected ICNPO categories reveal a few exceptions within subgroups. In particular there does seem to be a relationship within the very largest charities, particularly those 'major' charities with an income over £10,000,000. The relationship seems to increase the larger the charity gets, suggesting size has an interaction effect on the relationship. Amongst the very largest charities, therefore, reliance upon paid staff may be higher amongst state funded charities. This relationship is obscured in Figure 9.11 due to the higher number of smaller charities.

There is also a positive relationship amongst Nursing Homes, suggesting there may also be some variation by industry, and adding to the impression from earlier results that these charities may form a distinctive group. Small differences also emerge if the type of state income is varied. Those in receipt of either central government funding or voluntary state income are slightly more reliant upon staff when these income types are considered separately from other state income types.

Next, we consider the relationship between the amount of state income and the proportion of the work force accounted for by volunteers. As seen previously the relationship above and below the £500,000 mark differs markedly, as shown in Figure 9.12. Below the £500,000 state income mark the relationship is broadly flat and the Pearson correlation coefficient is .03, and above it is markedly negative and the correlation coefficient is -.25.

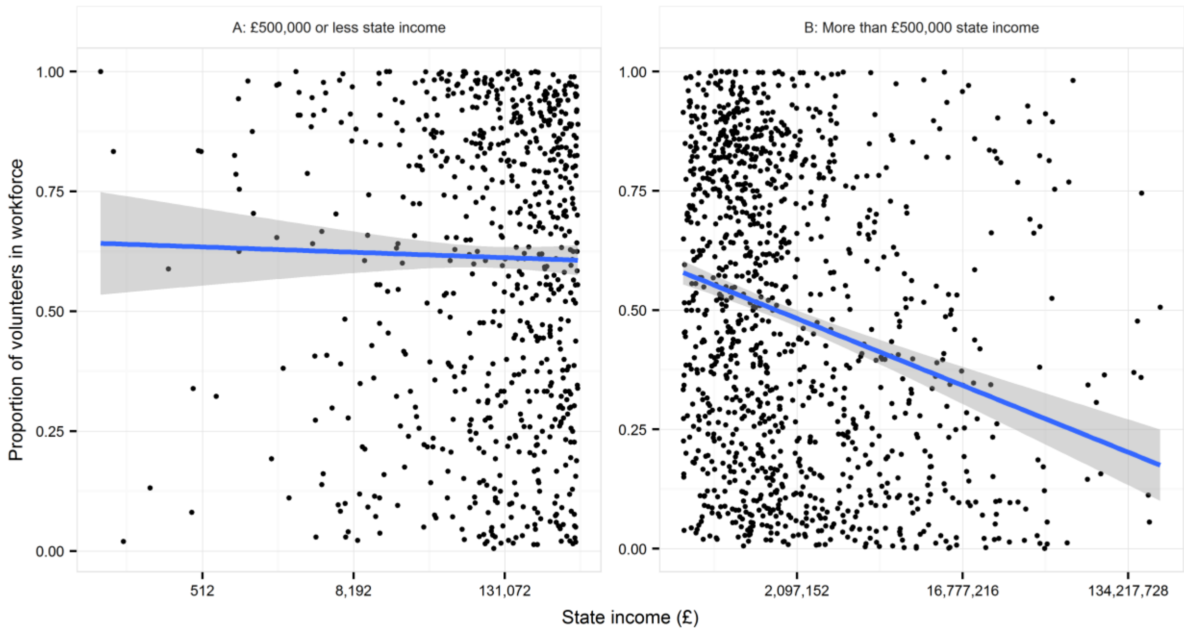

Figure 9.12: Proportion of volunteers in workforce versus state income for larger charities with at least some state income and at least some volunteers. Left panel shows larger charities with £500,000 or less state income (A), right panel larger charities with more than £500,000 state income (B). The blue lines mark separate linear models for each panel-group, with grey 95% confidence bands. X axis is log2 transformed.

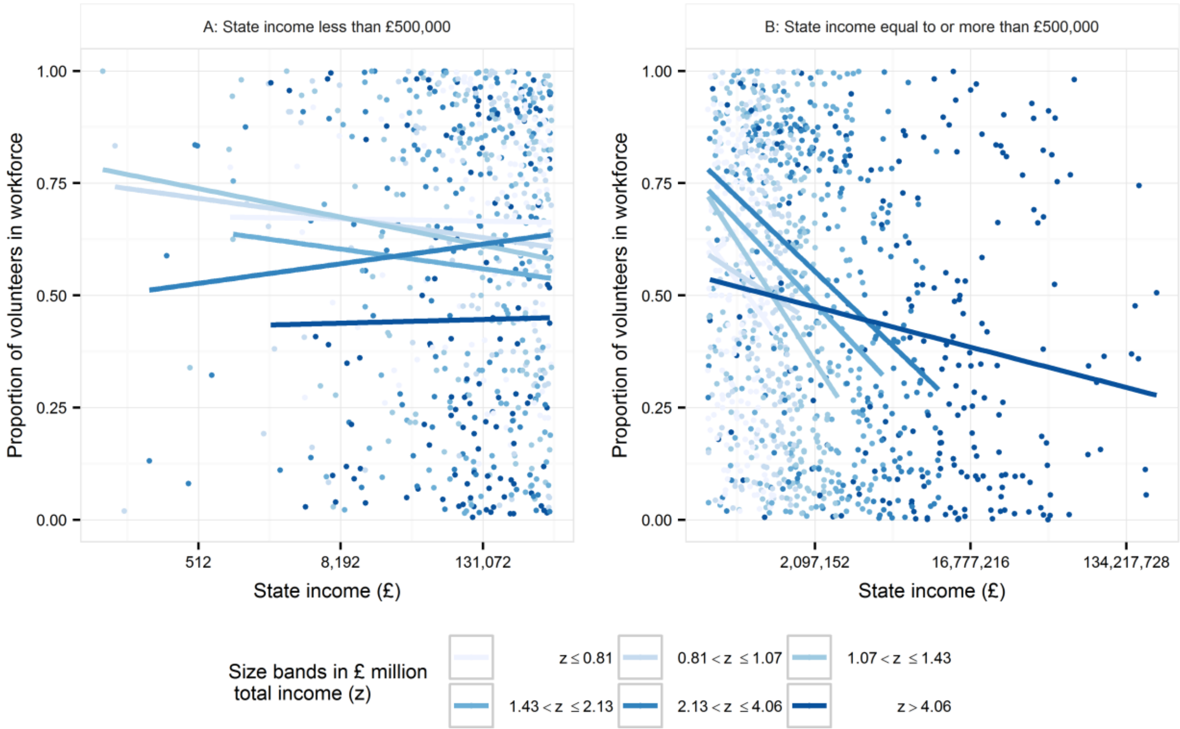

Figure 9.13: Proportion of volunteers in workforce versus state income for larger charities with at least some state income and at least some volunteers, by size. Left panel shows larger charities with £500,000 or less state income (A), right panel larger charities with more than £500,000 state income (B). Points and linear models colour coded by total income categories for each panel. Confidence bands not shown. X axis is log2 transformed.

Figure 9.13 once again shows the effect of controlling for size using subgroup regressions, shown using colour coding. In both halves of Figure 9.13, controlling for size does not fundamentally change the interpretation of the results. This suggests that size is not acting as a confounding variable as it did for the total number of volunteers. For the charities with more than £500,000 of state income, controlling for size actually appears to increase the strength of the negative relationship somewhat. We know that the changes in state income below £500,000 are more related to changing proportions than changes in size, so controlling for size does not have much effect at all. Taken together the result is an overall negative relationship (r = -.21), but with a curvilinear shape, meaning that most of the relationship applies to those with the most state funding.

Co-plots seem to suggest that the relationship remains stable in the most populous ICNPO categories, though it is less clear whether it holds within the subgroups for 'Environment' and 'Housing'. In general the number of valid cases in some of these categories is too low to draw any firm conclusions. Altering the particular variety of state income also makes little difference to the overall interpretation.

A similar plot using the 'state income as a proportion' variable as the input demonstrates a similar pattern. The relationship is only very slightly positive below the £500,000 state income mark (r = .08), and negative above it (r = -.23). Interestingly there are also some visible clusters of points visible in Figure 9.14. It seems relatively common for larger charities to fall into three visible groupings: low reliance on government income and high reliance upon volunteers, low reliance upon either resource, and high reliance upon either resource.

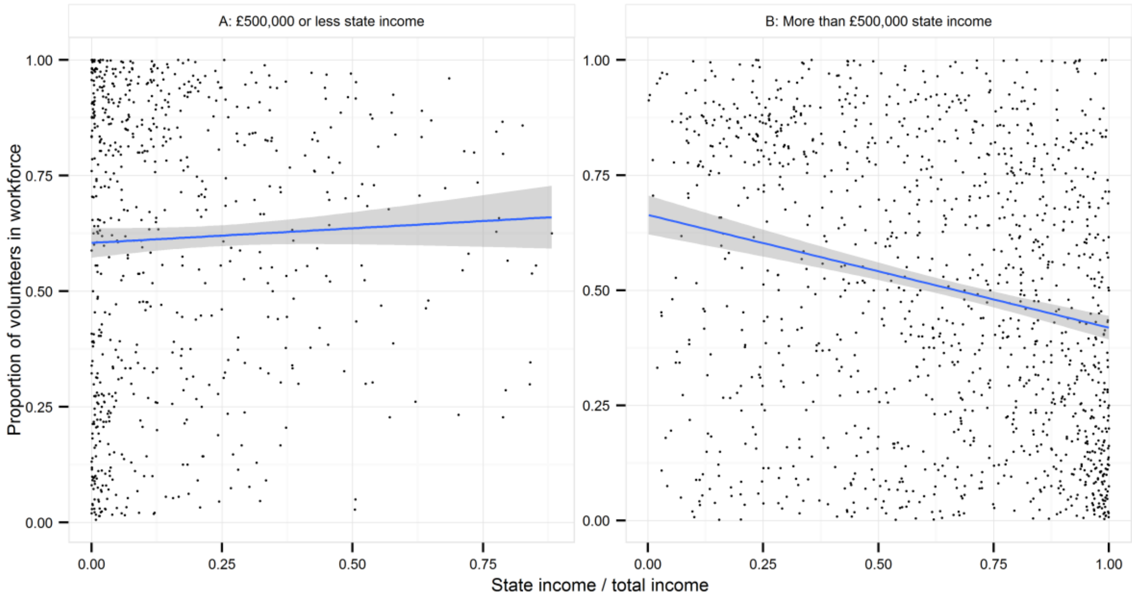

Figure 9.14: Proportion of volunteers in workforce versus state income as a proportion of total income for larger charities with at least some state income and at least some volunteers. Left panel shows larger charities with £500,000 or less state income (A), right panel shows larger charities with more than £500,000 state income (B). Blue lines mark separate linear models for each panel-group with grey 95% confidence bands.

Controlling for size has virtually no impact upon the interpretation of the results. The same relationship is seen within each size category when co-plots or subgroup regressions are used. Co-plots using ICNPO category as the condition variable suggest that the relationship above £500,000 differs for the Culture and Arts categories, and is largely absent for the Environment and Housing categories.

9.3.1. Section summary

For most charities there is no relationship between having any state income and the proportion of volunteers within their workforce. While it was shown in section one that state funded charities tended to have more volunteers, it appears that they must also have proportionately more paid staff. One exception is for the very largest charities, however, amongst whom state income is related to a greater reliance upon paid staff.

Either in absolute terms, or as a proportion of total income, state income has a negative relationship overall with the proportion of volunteers within larger charities' workforces. Controlling for size does not influence this relationship fundamentally, but actually strengthens it for those with more than £500,000 state income, who already account for the majority of the relationship.

9.4. State income and donative income

Finally, the accounts data allows us to identify income donated to charities from individuals. This 'donative' income is perhaps the income stream most closely linked to charities in the public consciousness due to its voluntary nature. The SORP guidance defines a donation as a "gift" made to a charity "on a voluntary basis", with no significant benefit provided to the donor in return (Charity Commission, 2005: p.44). It also includes any gift aid or tax refund associated with the donation. As with state income, we can also represent donative income as a proportion of total income.

The following sections explore the relationship between state income and donations from a number of angles, using both variables in a dichotomous and continuous form. Note that unlike the previous two sections, all the charities with an income over £25,000 are included in this analysis. Reasonably reliable data is available for all the charities, though the most reliable data is still likely to be for those charities with an income over £500,000.

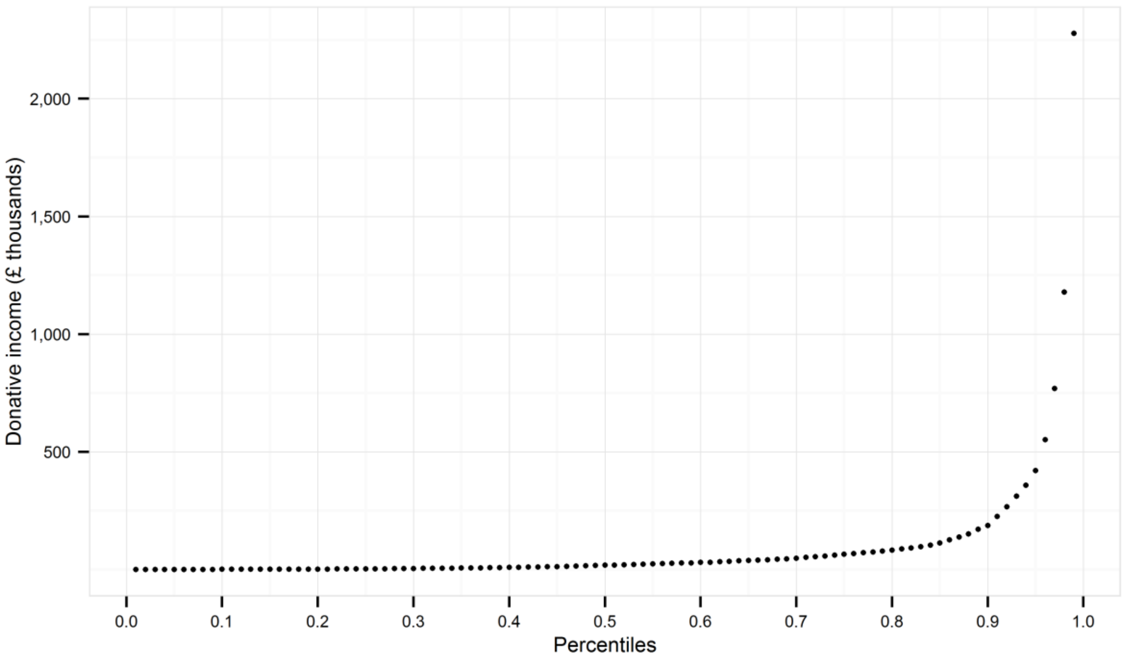

Figure 9.15: Donative income percentiles up to the 99th percentile

25% of the entire sample and 24% of the larger charities received no donations at all from individuals. 12% of the larger charities (which have volunteer data) had no volunteers *and* no donations from individuals. This minority exhibit a very low level of voluntary input, beyond the role of the trustees. For those with at least some individual donations, as with income generally, the data is once again very positively skewed, as shown in Figure 9.15. The mean amount (excluding those with no donative income at all) is £183,184, and the median amount is just £17,892.

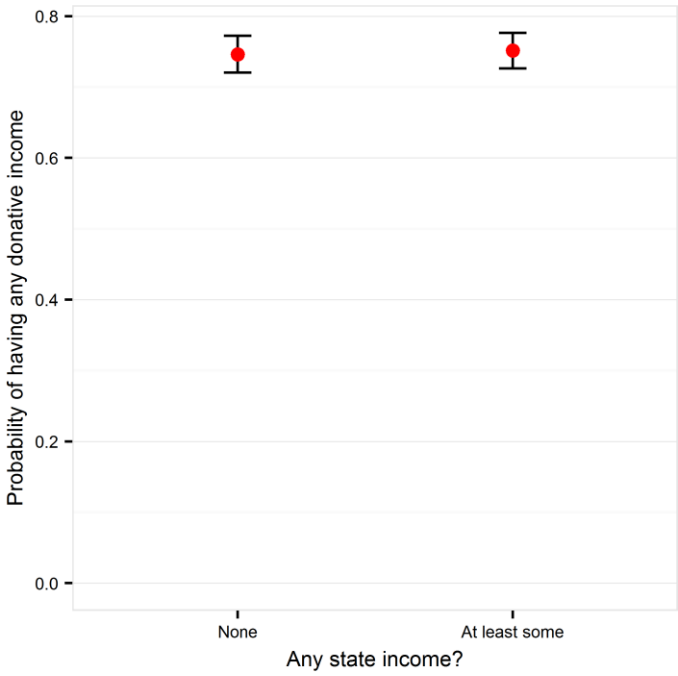

Figure 9.16: Probability of having any donative income for charities with and without any state income. Error bars show 95% confidence intervals.

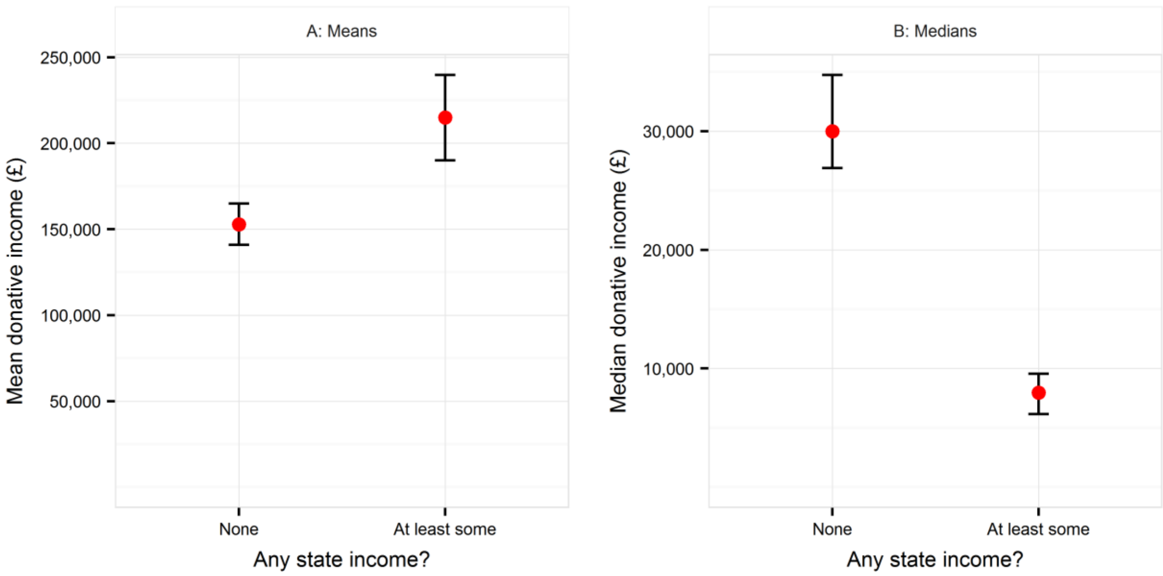

Figure 9.17: Average level of donative income for charities with and without any state income but at least some donative income. The left panel shows means (A); the right panel medians (B). Error bars show 95% confidence intervals.

Figure 9.16 shows how the proportion with at least some donative income differs between those with and without any state income, for the entire sample of charities. There is clearly very little difference between the two groups. 74% of those with no state income have at least some donations, compared to 75% of those with at least some state income. There is therefore no immediate evidence that having state income has any notable effect upon the likelihood of having at least some donations from individuals, either positive or negative. No further interesting results were uncovered after controlling for size or substituting the different sub-types of state income. A small difference did emerge for Social Services categories, with state funded charities in this category slightly more likely to have at least some state income (83% versus 70% for those with no state income).

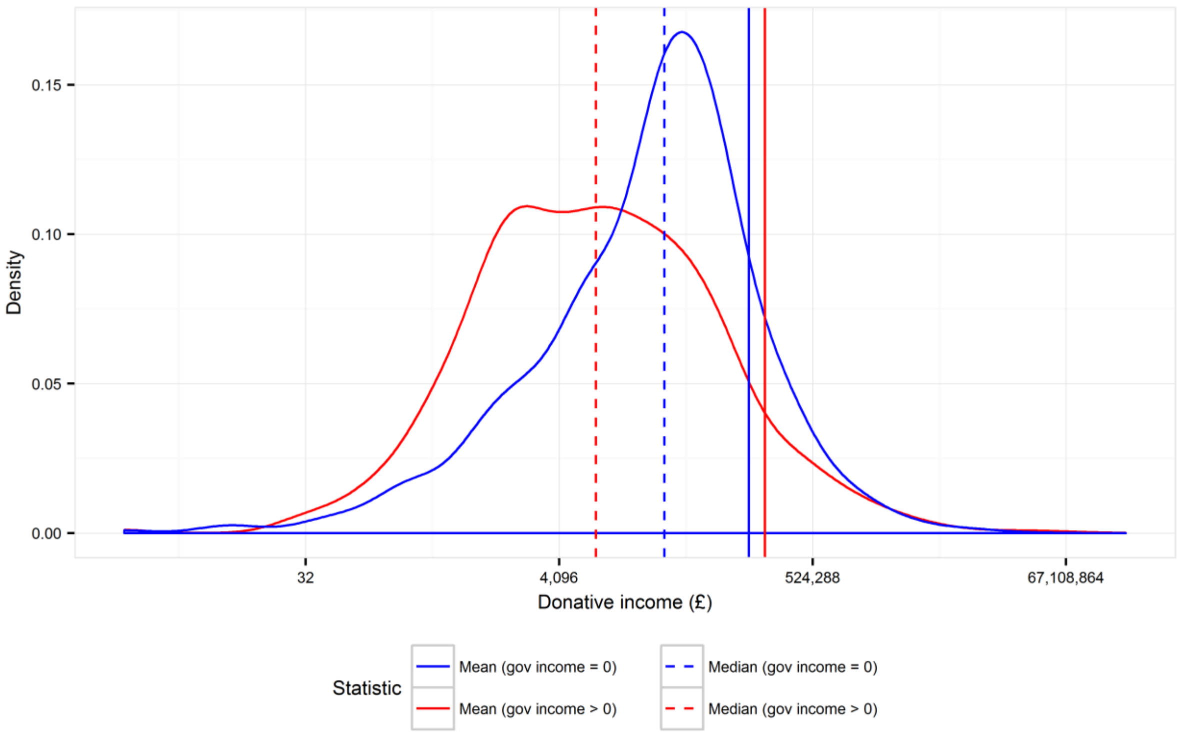

Figure 9.18: Colour coded density plots of donative income, for charities with and without any state income, but at least some donative income. The transformed means (not the geometric means) are shown by the vertical solid lines and the medians by vertical dashed lines. X axis has been log2 transformed.

Figure 9.17 shows the relationship between having at least some state income and the average amount of funding received from individual donations, excluding those with no donations at all. In this case there is a clear difference between the two groups. The mean amount of donative income is £154,867 for those with no state income, and £210,757 for those with at least some. The results are complicated considerably, however, when we look across Figure 9.17 to see the exact opposite relationship exhibited by the median values. In this case the median value is £30,800 for those with no state income, but only £8,302 for those with at least some.

To see how this apparent contradiction can be explained, Figure 9.18 shows the full distribution of donative income for each group on a log2 scale, using density curves. The log2 scale allows us to view the distributions, but does not change the order of any of the data points. Clearly, the distributions are different shapes. The distribution of donative income for state funded charities has a higher level of variation and a lower median. Its higher mean must be caused by a few extremely high cases. For the majority of the charities, however, the medians are more representative of the distribution as a whole, and the relationship shown on the right hand side of Figure 9.17 is the most relevant.

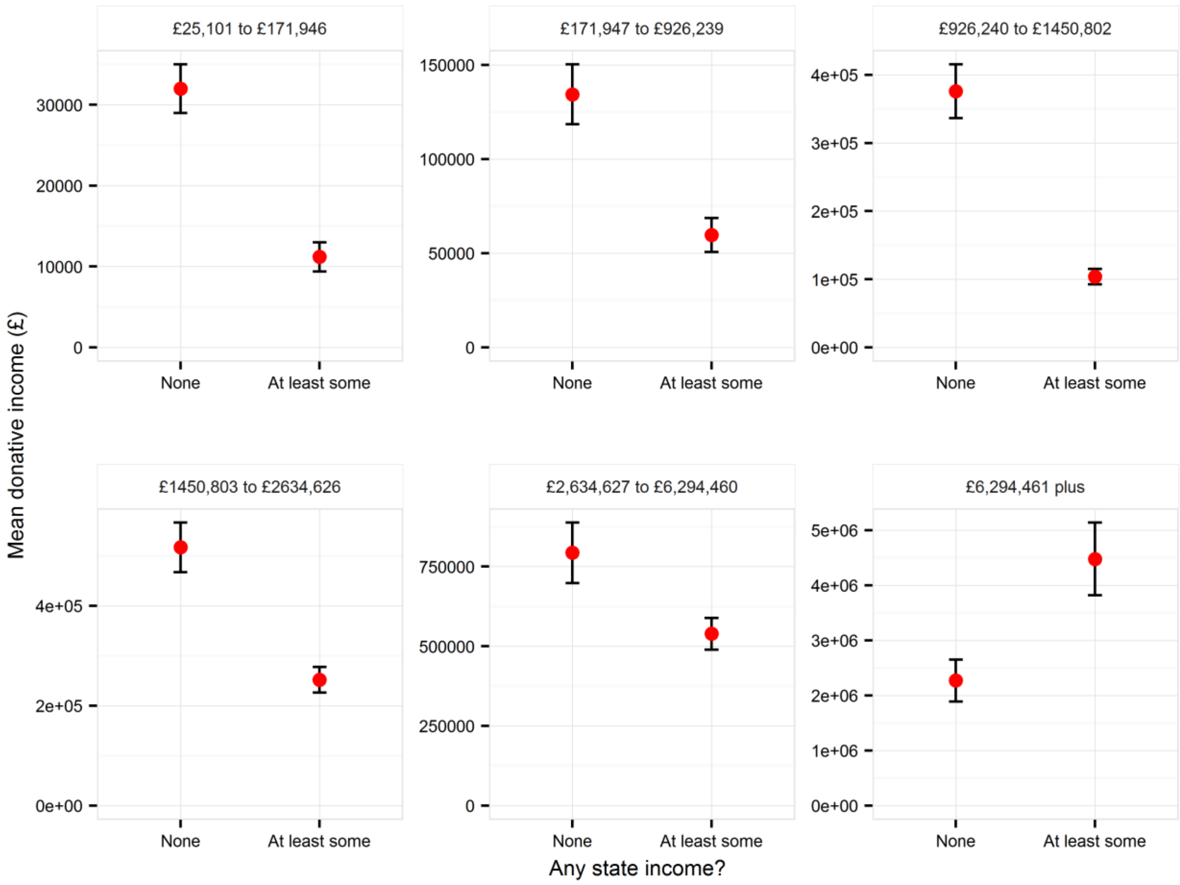

Figure 9.19: Average level of donative income for charities with and without any state income but at least some donative income, disaggregated by size. Each panel shows the results for a different sextile group of the unweighted sample, ordered by total income. Error bars show 95% confidence intervals.

Using co-plots to control for size confirms this interpretation. The mean level of donations is higher amongst non-state funded charities at every grouping of cases except for the very highest, as shown in Figure 9.19. These extremely large charities obscure the relationship between the means for the remainder of the charities. To summarise, therefore, for most charities having at least some state funding is associated with a lower average level of donative income, but for the very large charities the opposite is true.

The width of the confidence intervals do not allow any firm conclusions regarding the ICNPO categories, though the data does at least appear to show the strongest relationship amongst Social Service charities. Once again Nursing Homes appear to reverse the trend, and though a larger sample size would be needed to investigate fully, this may be because these charities are larger than the others in the sample. The type of state income appears to make little difference to the results.

Figure 9.20 shows the relationship between state income and donative income with both on a log2 scale. Because information on donative income is available on the sample as a whole, rather than just those charities with income over £500,000, the sample weights now need to be taken into account when visualising the data. One of the most effective methods for presenting weighted scatter plots is to take a second random sample from the original, rebalanced to correct for the sampling strata. This obviously reduces the number of cases shown and is subject to random variation. Each visualisation was therefore repeated a few times to ensure that an unusual sub-sample was not being used by chance. The models fitted to the data are weighted versions using the complete dataset.

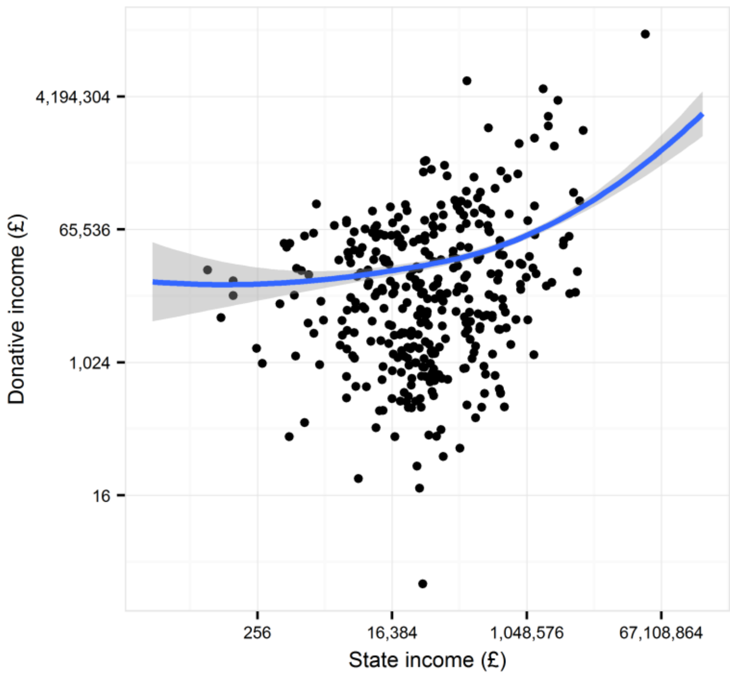

Figure 9.20: Donative income versus log2 state income. Blue line marks loess curve with grey 95% confidence band. Both axes have been log2 transformed.

The loess curve in Figure 9.20 suggests that there is a positive relationship. As with previous scatter plots in this section the relationship seems slightly curved, but as the entire sample is used there is no obvious turning point around the £500,000 mark in this case. The linear correlation coefficient is a moderate .23. Most of this relationship, however, can be equally accounted for by size. Assuming they receive at least some of both sources, charities appear to receive a higher level of both sources as they get larger. Once the influence of size is removed, the relationship between state and donative income becomes moderately negative.

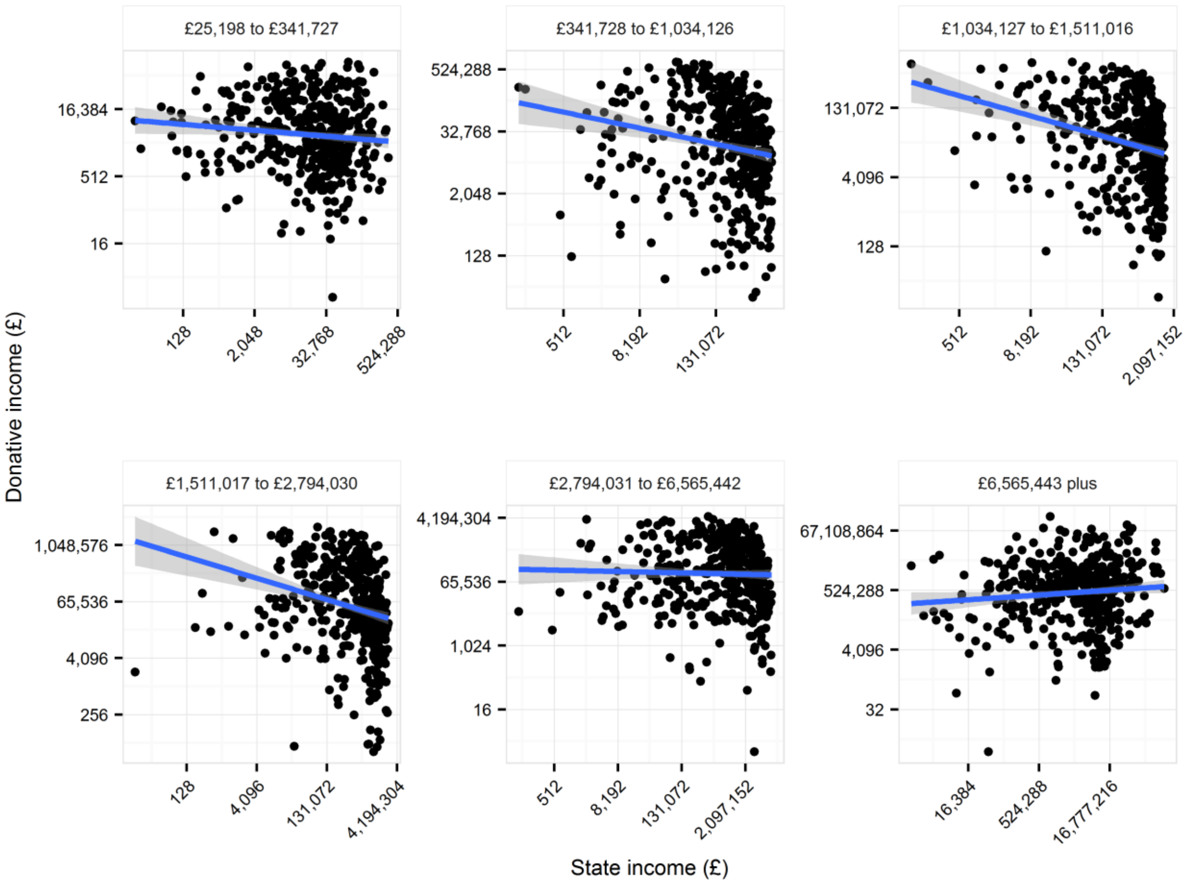

Figure 9.21: Donative income versus state income. Blue lines mark linear models for each panel group with grey 95% confidence band. Each panel shows the results for a different sextile group of the unweighted sample, ordered by total income. Error bars show 95% confidence intervals. Both axes have been log2 transformed.

Figure 9.21 shows a co-plot of the relationship between donative and state income, conditioned using the size strata for the sample (so no resampling is needed). The co-plots generally show a negative trend. Further evidence is provided by exploring some linear models. If government income is entered into a linear regression model predicting donation levels on its own, the coefficient is 0.24. When size is introduced this becomes -.30. The result is not particularly surprising, as controlling for size means that an increase in state income allows less 'room' for donative income out of the remaining total income. The general relationship holds within all the different ICNPO categories, and substituting different types of state income has no impact on the results.

We see a similar relationship if we use percentage state income as the input variable. As the proportion of income from the state increases, there is a moderate decrease in the average level of donative income (r = -.30). Again to some degree we would expect this to be the case, for similar reasons to those discussed just above. A higher proportion of income from the state leaves less 'room' for donative income. In practice the relationship also depends on the interaction of total income, however, so it is worth confirming empirically that it is indeed moderately negative.

Figure 9.22 shows a small negative relationship between the amount of state income and the probability of having at least some donative income (r = -.08). Combined with the information from Figure 9.16, this suggests that having some state income makes no difference to the likelihood of having any donations, but that larger amounts of state income decrease the probability by small amounts. Overall, however, the relationship remains reasonably small.

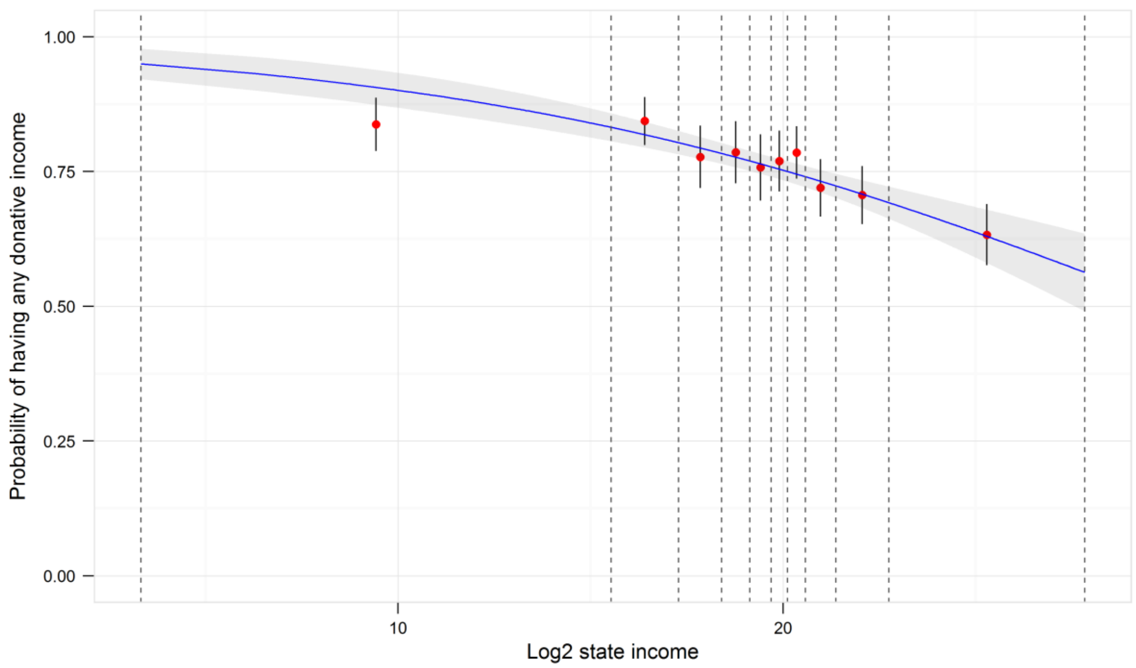

Figure 9.22: Probability of charities having any donative income versus log2 state income. Vertical grey lines mark boundaries of 10 categories for log2 state income, with an equal number of unweighted cases in each. Red points mark estimated probability of having donations for each category. Error bars show 95% confidence intervals. Blue line marks logistic regression model for un-banded log2 state income, with grey 95% confidence band.

Introducing size into the logistic regression model increases the strength of the negative relationship slightly (Table 9.3). This suggests that to some extent the positive impact of size was previously balanced against the underlying impact of state income as a proportion of total income. The strength of the relationship still remains small, however.

Table 9.3: Coefficients in logistic regression models, showing the probability of having any donative income against log2 government income, with and without log2 total income.

Intercept	Log2 government income coefficient	Log2 total income coefficient
0.91	-0.01	n/a
0.72	-0.02	0.02

Changing the type of state income influences the size of the coefficient slightly but not the overall interpretation. It is interesting, however, that voluntary state income provides the highest coefficient at b = -0.07. It might have been expected that a charity with more grant type income would be more likely to have at least some donations from individuals, but this does not appear to be the case. Including the ICNPO categories into the model has no effect with b remaining -0.01. When government income as a proportion of total income is used as the input variable instead the relationship is also negative and slightly stronger even than when controlling for size, with a correlation of -.15.

Finally, it is worth briefly considering the impact of state income on the proportion of total income charities receive from individual donations. The interplay between different income source proportions and overall income makes some comparisons more revealing than others.

First, Figure 9.23 shows that receiving state income from the state, even a small amount, significantly reduces the proportion of income a charity is likely to receive from donations. Although it is to some extent unsurprising that having an alternative source of income reduces reliance upon donations, this is still quite a marked result. The mean proportion of state income for state funded charities is .42, compared to .15 for those without. For the medians the respective figures are .30 and .05. This means that having any level of state income reduces the average reliance upon donations quite considerably.

Controlling for size using co-plots reveals an interesting caveat, however. The relationship between the two means reduces as total income categories go higher, to almost level above the £9 million mark. For the medians, the shift is even starker. Above around the £2 million mark for total income the relationship actually reverses. This means that for charities above this size, having at least some state income means a charity is more likely to be more reliant upon donations. This may be because the higher level of overall income allows more room for a certain amount of state funding to be swallowed up into the total pot with less of an impact on the overall funding balance. The original negative relationship is fairly robust, however, to changes in ICNPO category and the type of state income used.

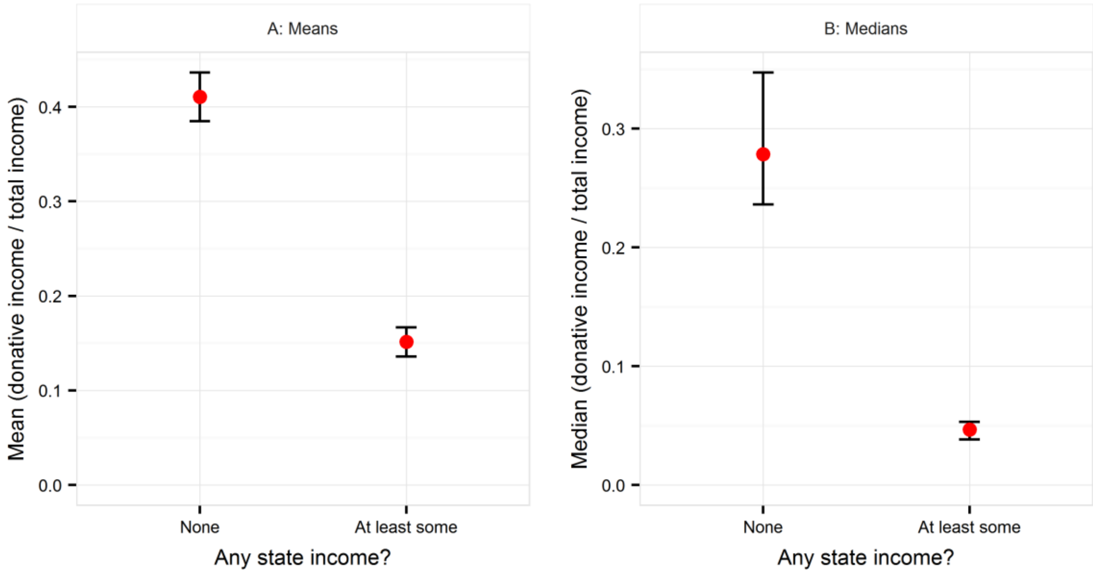

Figure 9.23: Average level of donative income as a proportion of total income, for charities with and without any state income but at least some donative income. The left panel shows means (A); the right panel medians (B). Error bars show 95% confidence intervals.

Looking at the relationship between the proportion of state income and the proportion of donative income itself is somewhat problematic, as the two are of course to some extent intrinsically linked. Although the presence of other income sources means that the level of one variable does not fully determine the level of the other, an increased proportion of state income will inevitably constrain the upper limit of the proportion that can be received from donations. The relationship between state income or state income as a proportion, and the proportion of income received from individual donations is therefore unsurprisingly negative. A potentially more interesting question is therefore how state income is related to the proportion of the *remaining* income accounted for by donations. In other words how likely are state funded charities to make up the remainder of their income from donations?

The answer is in fact that there is little or no relationship. Figure 9.24 shows that state funded charities receive on average around 20% of their remaining income from donations. This remains the case across most levels of state income as a proportion of total income. The exception comes at the highest levels, when the proportion of the remainder accounted for by donations increases slightly up towards 40%. This suggests that if organisations are highly state funded, then they are more likely to make up the remainder of their income with a modestly higher proportion of donative income.

Perhaps the most interesting aspect of Figure 9.24, however, is that the average level remains so low across the board. It seems that state funded charities are on the whole more likely to make up the remainder of their income from non-donative sources, such as voluntary sector grants or earned income from fees and sales. Controlling for size or ICNPO category does not significantly alter the results.

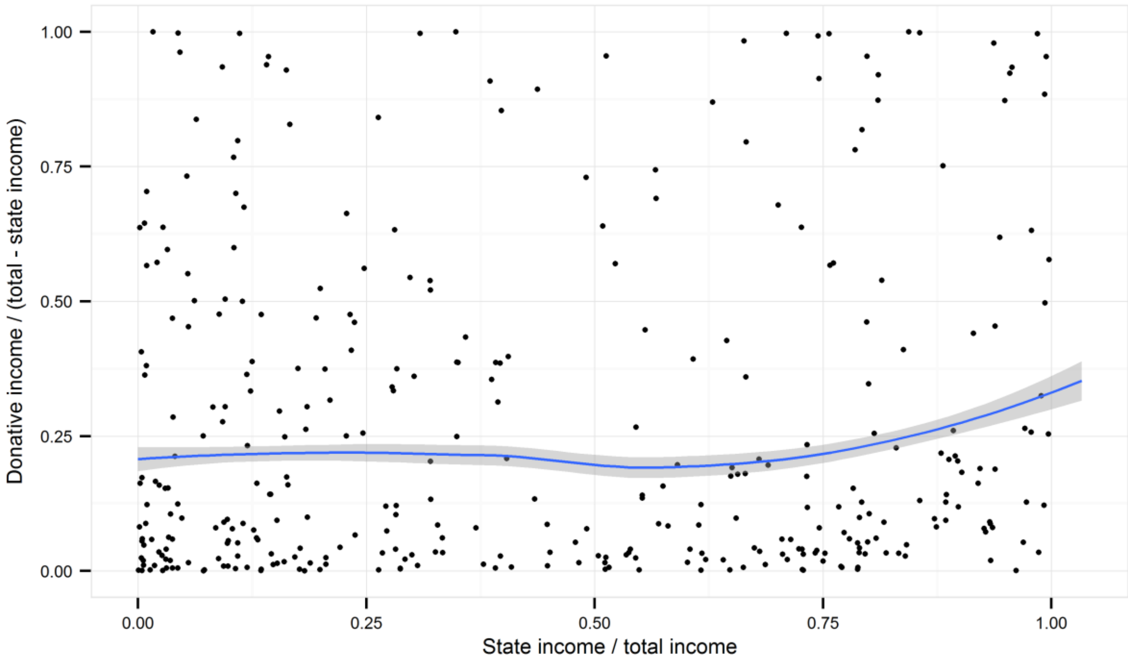

Figure 9.24: Donative income as a proportion of all non-state income, versus state income as a proportion of total income. Blue line marks loess curve with grey 95% confidence band.

9.4.1. Section summary

There is no real relationship between having at least some state income and the probability of having at least some donations. For most charities having at least some state income is associated with a lower average level of donative income. The exception was once again the largest charities, where the opposite appears to be the case.

Receiving state income from the state, even a small amount, significantly reduces the proportion of income a charity is likely to receive from donations. This relationship is strongest for the smallest charities, however, and may even reverse for the largest charities.

Although there is a positive relationship between the amount of state income and donative income charities receive, there is actually a small negative relationship after controlling for size. Higher levels of state income also reduce the probability of having any donations a small amount.

For the most part, reliance upon state funding is not related to either higher or lower reliance upon donations for the remainder of an organisation's funding.

9.5. Chapter summary

Taking all of section one together and leaving aside some of the caveats, the following general conclusions can be drawn concerning the larger charities with an income over £500,000.

- Those with at least some state income are more likely to make use of volunteers
- Those with at least some state income are more likely to use a higher number of volunteers
- Greater levels of state income are not associated with a change in volunteer numbers below the £500,000 state income mark but are above this level, as both are associated with greater total income
- A higher proportion of income from the state is negatively associated with volunteer numbers
- Greater levels of state income are associated with a higher chance of using volunteers below the £500,000 state income mark
- Above the £500,000 state income mark there is a negative association between state income and the probability of using volunteers, which increases slightly after controlling for size
- There is a positive relationship between the proportion of total income received from the state, and the probability of using volunteers, but only for the initial increases below .25

For section two, which looked at the proportion of volunteers in the workforce, the following conclusions can be added:

- For most of the larger charities there is no relationship between having any state income and the average proportion of volunteers within the organisation
- For the very largest charities, there is a negative relationship, so having state income is associated with a lower proportion of volunteers
- For the larger charities with less than £500,000 state income, there is little or no relationship between the amount or proportion of state income received and the proportion of volunteers
- For those with more than £500,000 state income, there is a clear negative relationship between state income and the proportion of volunteers within a charity's workforce
- This negative relationship is found whether state income is considered in absolute terms, having controlled for size, or as a proportion of total income

The relationship between state income and volunteers is therefore far from straightforward when it is considered from an aggregate perspective, amongst all the larger charities. On the one hand, having at least some state income appears to be positively associated with having volunteers and using a greater number of those volunteers. The increased size that state income brings is also associated with higher numbers of volunteers. And initial increases in the proportion of income received from the state also increase the likelihood of using volunteers at all.

On the other, a greater reliance upon state income is associated with a lower number of volunteers. Relatedly, so too is state income after controlling for size. For the very largest charities, having any state income is associated with a lower proportion of volunteers. And for the larger charities that have at least £500,000 state income, greater levels of this income either in absolute terms or as a proportion are associated with a lower proportion of volunteers.

Finally the third section explored the relationship between state and donative income:

- Having at least some state income was not associated with the likelihood of having at least some donations
- State funded charities have on average a lower level of donations, except for the largest charities, for which the opposite is true
- For charities that receive both sources, larger charities tend to receive more of both sources in tandem. After controlling for size the relationship between the two is negative.
- Receiving a higher proportion of income from the state is negatively associated with the amount of donations received
- Having more state income is weakly associated with a lower probability of having any donative income, although there is a slightly stronger negative relationship after controlling for size
- Similarly there is a small negative relationship between the proportion of income received from the state and the probability of having any donative income
- State funded charities receive a much lower average proportion of their income from donations, except for the largest state funded charities, which rely on donations more
- State funded charities tend to receive only a minority of their remaining income from donations, and this increases slightly for those most reliant upon state income

State funding and donations are therefore linked in a number of ways. State funded charities are likely to have a lower average amount of donations, as are charities with a greater reliance upon state income. After controlling for size there is also a negative relationship between the amounts of either source received. State funded charities are likely to receive a notably lower proportion of their income from donations.

Similarly there is a weak negative relationship between the amount of state income and the probability of having any donations, after controlling for size, and between the same outcome variable and the proportion of income received from the state.

On the other side, state funded charities are not any more or less likely to receive donations. For the most part, greater reliance upon state income is also unrelated to the proportion of the remainder accounted for by donations.

CHAPTER 10 : WHAT IS THE RELATIONSHIP BETWEEN STATE FUNDING AND CHARITIES' FINANCIAL SECURITY

10.1. Financial indicators

The literature review provided some contradictory evidence on the relationship between state income and charities' financial security. Some of the literature suggested that state funding was more secure than other sources, allowed greater levels of service capacity and the ability to run a surplus. More often, research found that contracts in particular caused increased financial uncertainty and risk, particularly when they were short term and under constant renewal. The difficulty involved in covering the full costs of a service was identified as a major issue.

In terms of measurable hypotheses, however, the literature was often not very specific. Qualitative studies focussed on the general sense of uncertainty and vulnerability that in turn makes it difficult to strategically plan, retain staff or take out long-term credit. Those issues that are specific, such as full cost recovery and cross subsidisation, are difficult to assess at the general, aggregate level.

There is a wider literature, however, that helps us to operationalise financial insecurity in more general terms using the accounts data. Most usefully, Dayson (2013) reviews research on the financial vulnerability of charities and non-profit organisations, which draws on a wider survival analysis literature. Somewhat confusingly, the term financial vulnerability appears to be used in this context to refer to the end outcome. In other words an organisation is judged financially vulnerable once it has ceased to independently operate or suffered a major reduction in assets, income or expenditure. Although it would of course be interesting to explore directly whether state income is associated with these major events, this type of longitudinal survival analysis is not the main focus of this study and it is likely that more waves of data would be needed before such an analysis was possible.

We can, however, use some of the predictors from these studies to identify a number of potential 'flags' for financial vulnerability. Additional warning signs are also available from some relevant literature in the social investment field. New Philanthropy Capital (NPC) in particular provides guidance about judging the security and stability of a TSO's finances (Joy et al., 2008). These measures are of course imperfect predictors of financial distress. In fact, at the level of an individual organisation it would be highly overly deterministic to conclude with any certainty that an organisation was experiencing financial problems based on these indicators. If a number of these factors are related to state income on average across all cases, however, then this would certainly be of interest and help to move the policy and theory debates forward. Most importantly, it can help to contextualise and assess some of the claims made in the literature about the effect of state income on charity finances.

The following sections therefore each consider the relationship between state income and a different financial indicator, discussed in more detail in the relevant section. First is the relationship between state income and a charity's profit margin, including whether or not the organisation makes an overall loss. Next, the relationship between state income and charities' overall ratio of debt to assets is considered, including whether or not the charity has debts any at all. Third is the relationship with the current ratio, which indicates a charity's ability to cover its short term debts. Particular attention is paid to whether organisations have a ratio lower than one, which suggests that they are not in a position to cover all their current liabilities if required to do so. And finally, the relationship between state income and charities' reserve levels is assessed.

This chapter therefore addresses the second research question for this study:

- What is the relationship between state funding and charities' financial security?

The following indicators of financial health have been identified from the survival analysis literature, which can also be identified within the accounts dataset:

- Profit margin ((total income – total expenditure) / total income)
- Current ratio (current assets / current liabilities)
- Debt ratio (total liabilities / total assets)
- Months reserves

The link between each of these concepts and state income will be explored in each of the following sections.

10.2. State income and charities' profit margins

One of the most fundamental and commonly used indicators of financial health is whether a charity makes a loss or profit, and how big that loss or profit is in relation to its income. This is known as the profit margin. It is worth bearing in mind in this particular context that revenue is not an end in itself for charitable organisations as there are no dividends to distribute or shareholders to appease. Nor is a surplus always necessary. Nevertheless, most charities cannot afford to consistently make a significant loss without running down their assets and finding themselves unable to cover their liabilities. NPC identify the balance between income and expenditure as one of the first things to look at when considering a charity's financial health (Joy et al., 2008).

The profit margin of an organisation can refer to a range of slightly different ratios. Here it is calculated by taking income minus all expenditure, then dividing that number by the original income to get a percentage. In the vast majority of cases this falls between plus or minus 100%, but there are some extreme negative values, as visible in the percentile plot in Figure 10.1. This may be because some charities fund most of their expenditure by running down their assets, including income retained from previous financial years. A manual look through these organisations reveals a number of grant making funds and trusts. It is also possible that there are some erroneous entries in the accounts or dataset construction. Where relevant, the analysis was conducted with and without these outliers included. Efforts were also made to rely more on statistics that are more robust to outliers, such as the median.

As a result of these extreme scores the mean profit margin is -42%, even though this is unrepresentative of the vast majority of cases. The median using the same data is 1.6%. With the data restricted to those with a profit margin between plus or minus 100%, the mean is a more central 3% and the median is 2.1%.

Around 44% of charities reported a loss in 2012 (including the outliers). The spread of values shown is therefore remarkably symmetrical, though the distribution is not normal. It is actually highly leptokurtic, meaning that most values are tightly concentrated in a peak at the centre of the distribution. This means that it is usual to make a proportionally small profit or loss, despite the presence of much bigger values in the distribution.

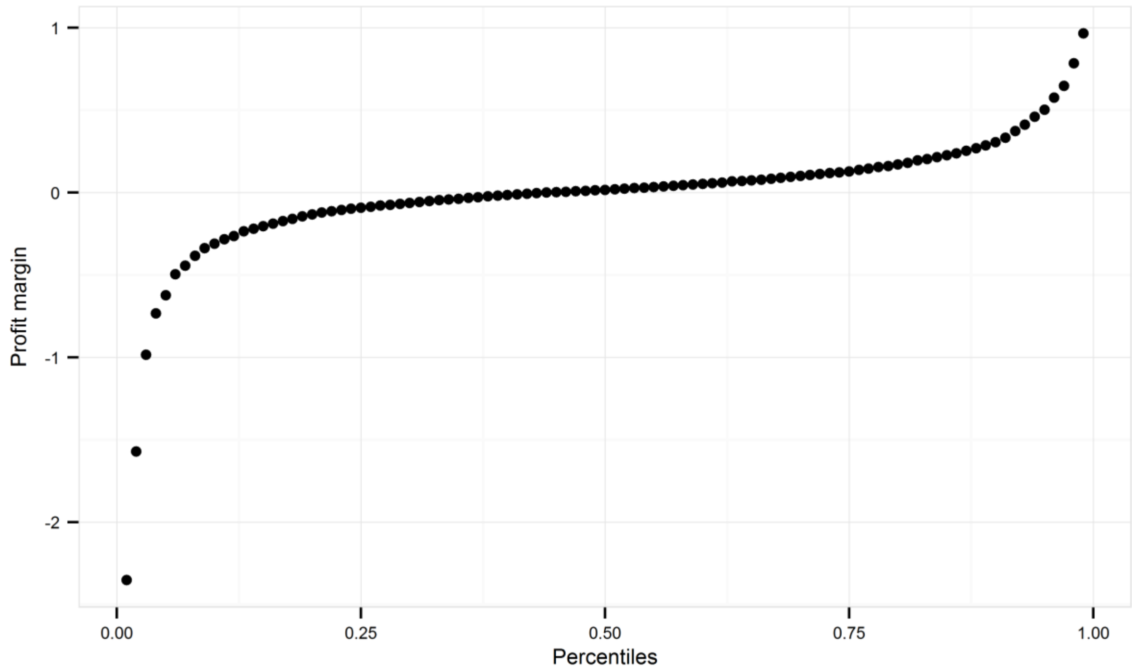

Figure 10.1: Profit margin percentiles.

Before considering the size of the profit margin, we first consider whether state income is related to charities experiencing either an overall profit or loss. Ostensibly having at least some state income makes little difference to the probability that a charity makes a loss. 42.4% of those without state funding made a loss, compared to 45.6% of those with state funding. The difference is small and could easily be due to sampling error. However, conditioning by size suggests that this may not be the case for the larger charities. For the larger charities with an income over £500,000 the difference is slightly bigger at 35% versus 41%, enough to make sampling error unlikely. And for the huge charities with an income over £10 million, the difference is larger still at 17% versus 32%.

Within the ICNPO2 categories there are two notable relationships. There is a clear positive relationship amongst the 'Housing' charities, with 30% of non-state funded charities making a loss, compared to 53% of those with any state funding. In contrast 61% of non-state funded environmental charities made a loss, compared to 37% of those with some state funding. Substituting the varying subtypes of state income makes little difference.

On average, therefore, there is little relationship between state income and the probability of making a loss. But within certain subgroups a relationship does emerge, in most cases showing that state funded charities are more likely to make a loss than their non-state funded counterparts.

Figure 10.2 shows the association between the overall level of state income and the probability of making a loss. As with similar graphs in the previous chapter it shows both a logistic regression model and the probability of making a loss for different categories of state income.

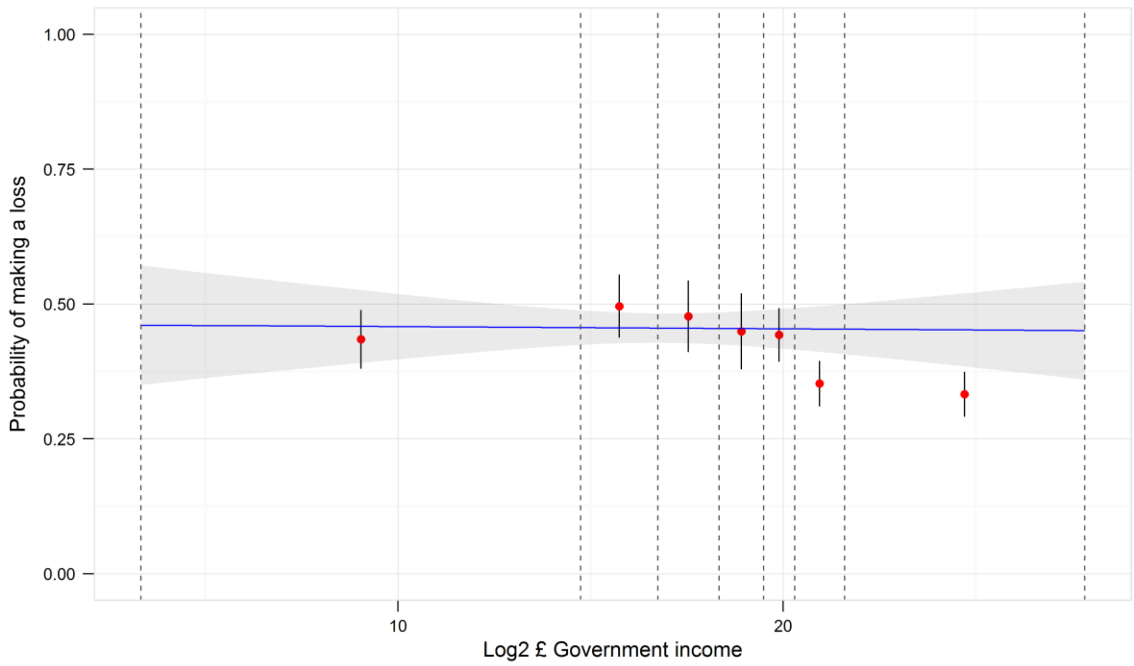

Figure 10.2: Probability of charities making a loss versus log2 state income. Vertical grey lines mark boundaries of 8 categories for log2 state income, with an equal number of unweighted cases in each. Red points mark estimated probability of making a loss for each category. Error bars show 95%

The logistic regression model suggests that there is very little relationship between the variables (the correlation is r = .02). The probability of making a loss does not appear to change much as state income increases and the confidence band is wide enough that we cannot even be reasonably sure about the true direction of the relationship. If we look instead at how the probability of a loss changes between the different state-income intervals, however, we can see that the logistic regression model may be a somewhat poor fit for the data. There may be a slight drop in the probability of a loss at the highest levels of log2 state income, but in any case the relationship is very weak.

Introducing log2 total income into the regression model to control for size does result in a small increase in the coefficient for log2 government income, but again it remains too small to be considered significant. Nor was any notable relationship found when using the proportion of state income as the input variable (r = .01). Controlling for ICNPO category does not make any difference to the results.

The non-significant results continue when we broaden our interest to consider how big a loss or profit charities make. Having at least some state income makes little difference to the average level of the profit margin. The precise results depend upon whether we consider the mean or the median and whether the outliers are included. In general the results show a very small association between having state income and having a lower profit margin, but it is not large enough to rule out sampling error or be of particular interest. Figure 10.3a shows that charities with no state income had a median profit margin of 2% while those with no state income had a median of 1%, a very small and uncertain difference.

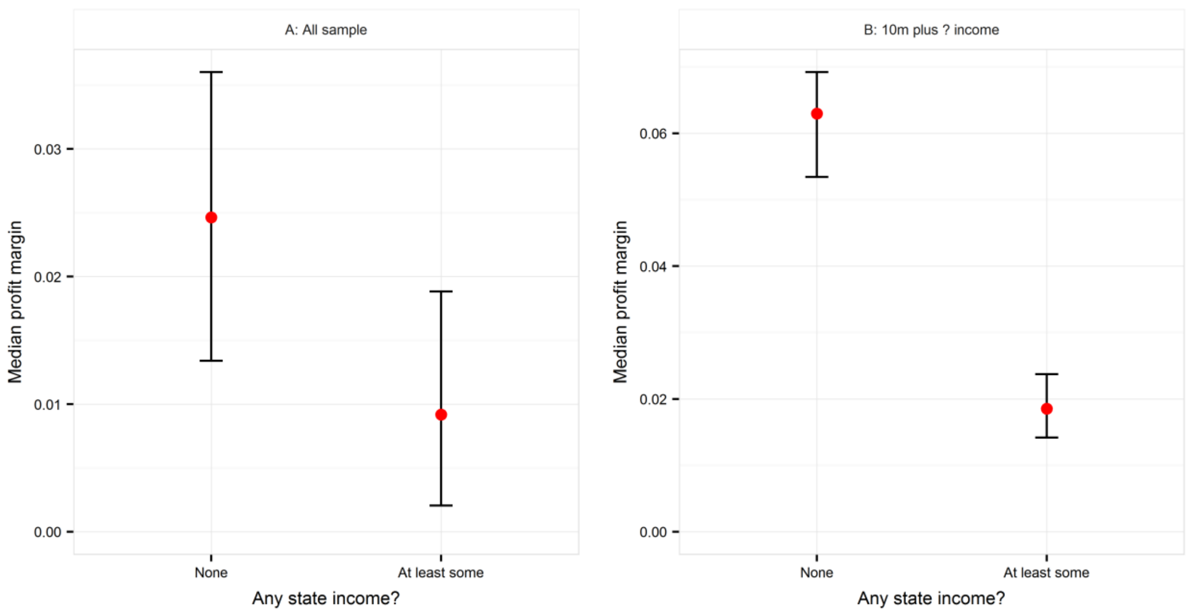

Figure 10.3: Median profit ratio for charities with and without any state income. The left panel shows the results for the entire sample (A). The right panel shows the results for charities with over £10m income (B). Error bars show 95% confidence intervals.

Controlling for size using conditioning plots does suggest that the size of the relationship increases somewhat along with total income. As with the results for the likelihood of having any state income, the clearest result is for the very largest charities with an income over £10 million, as shown in Figure 10.3b. Amongst these charities, those with state income do appear to have a lower median profit margin, which is unlikely to be due to sampling error. Non-state funded charities have a median profit margin of 6% compared to 2% for those with state funding, a small but notable result. No further interesting results were found after controlling for ICNPO category or varying the type of state income.

The log2 amount of state income that a charity receives is largely unrelated to the profit margin (r = -.02), as shown in Figure 10.4. The result is the same regardless of whether extreme values are trimmed. Conditioning plots were used to control for total income, but did not cause any change the results.

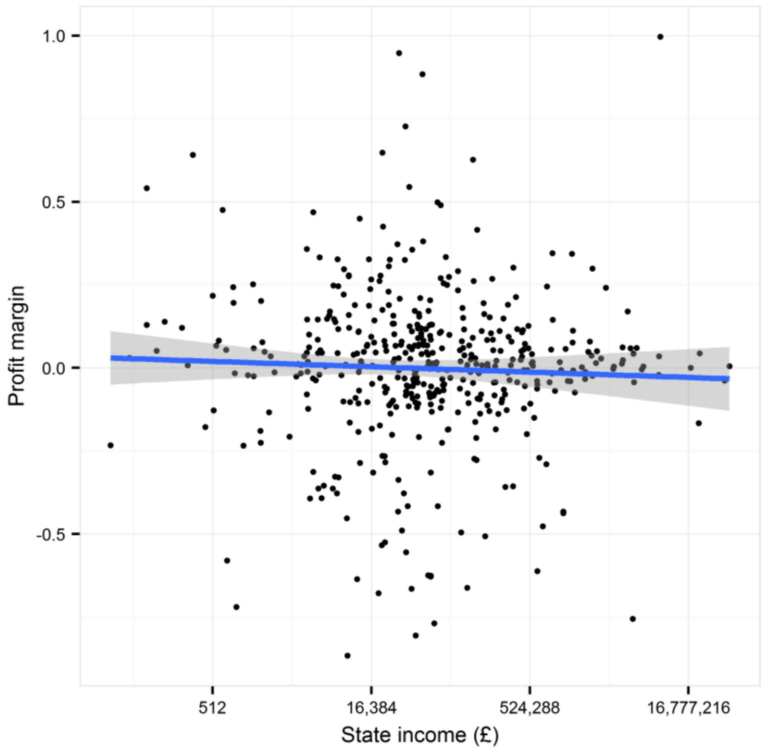

Figure 10.4: Profit margin versus state income. The blue line marks an OLS linear model with a grey 95% confidence band. X axis is log2 transformed.

The size of the relationship does vary considerably between the different ICNPO categories. The Pearson correlation coefficient is very large and positive for Nursing homes (r = .64), but large and negative for Environment charities (r = -.51). The rest of the categories continue to show almost no relationship. This suggests that industry can make a large difference to the relationship between state income and profitability. The type of state income, however, makes little difference to the outcome.

The proportion of income a charity receives from the state also makes little difference to the average level of profit margin (r = .04). Controlling for size does not result in any major change, but controlling for ICNPO category once again does. The Culture and Arts, and Nursing Homes charities all exhibit a positive relationship of moderate strength (r = .24, r = .30). Social Services and Housing charities exhibit virtually no relationship (r = .02, -.01). But charities in the Environment category exhibit a moderate negative relationship (r = -.22). The central message is again that there is a clear interaction between industry and the relationship between government income and profitability.

10.2.1. Section summary

Most charities make a proportionately small profit or loss, with roughly equal numbers on either side of the breakeven point.

Having at least some state income does not make a major difference to the probability of making a loss for most charities. For the larger charities, however, and the very large charities especially, having state income is modestly associated with making a loss.

The amount of state income also does not appear to be generally related to the probability of a loss. Nor does the proportion of income received from the state.

Having at least some state income is also largely unrelated to the average level of the profit margin. Once again the exception is for the very largest charities, amongst which state funded charities have a lower average profit margin.

There is virtually no correlation between the profit margin and either log2 state income or state income as a proportion of total income. These relationships do differ markedly by industry, however, revealing some moderate positive and negative relationships depending on the ICNPO category.

Overall therefore, there is not a particularly strong or consistent relationship between state income and profitability. Having at least some state income is only related to the probability of a loss or a lower average profit margin for the very largest charities. Having more state income does not significantly alter the probability of making a loss, and nor is it associated with a lower average profit margin.

10.3. State income and indebtedness

In this section we consider the relationship between state income and debt levels within charities. Debts here refer to all liabilities, regardless of when they are due to be repaid. In particular, this section is concerned with the debt ratio, which is the total value of the liabilities a charity owes, divided by its total assets. The higher this ratio is, the more 'leveraged' the charity, and high leverage may be an indication that an organisation is more vulnerable to financial shocks or external demands. High debts in themselves may not pose any financial problems, but if they are out of proportion with the assets of a charity then this may become a major concern. The next section will consider charities' short term debts more specifically.

To complicate matters, two measures of debts and assets are available: one from the accounts data for the entire sample and one from the annual returns of the larger charities (with an income over £500,000). Table 10.1 below shows the mean and median values depending on which measure is used and which charities are included.

Table 10.1: Estimates for debt ratio statistics using different charity sizes and data sources

Statistic	Accounts data – 25k +	Accounts data - £500k +	Annual return - £500k +
Mean	0.18	0.30	1.26
Median	0.04	0.17	0. 20
Percentage with at least some debt	77.8%	99.0%	99.7%

It is immediately apparent that the mean value differs significantly depending on the measure and subgroup used. In particular the annual return data looks as though there may be some extreme values dragging up the mean debt ratio to a very high level. There are 29 cases with ratios over 10, compared to just one in the other two groups. This would suggest liabilities over 10 times greater than assets. While it cannot be ruled out entirely without looking in depth at each case, these extreme figures seem unlikely to be genuine. More reassuringly, the median ratio does not differ much between the two measures used for the larger charities, both suggesting an average debt level equal to around a fifth of total assets. In all cases the mean value is higher than the median, indicating positive skew, but this effect is by far the most pronounced for the group based on annual return data. Also reassuring is that the two data measures both show a similar, very small, percentage of cases with no debts at all.

There are no easy answers as to which measure should be preferred for the larger charities. On the one hand the annual return data has fewer stages in the data collection process where things can go wrong. On the other it is reliant upon charities correctly identifying and recording the relevant figures from their accounts and is only available for the larger charities. The extent of the extreme values strongly suggests that either some or all are erroneous, but it is not feasible to check each figure individually against a charity's raw accounts. Of course there are also numerous points where errors can enter the accounts data.

The only sensible solution within an exploratory study is to explore all the measures, note the presence of extreme values here, and take steps in the remainder of the analysis to reduce their influence. This means using more robust statistics such as the median or transforming the data onto a log2 scale where applicable. Transforming ratio data onto a log scale also works well in any case for the debt ratio because it symmetrises the scale around 0. If liabilities are half assets, the log2 value is -1. If they are double then the value is 1, and so on in either direction.

Figure 10.5a shows the untransformed debt ratio using the accounts data for the entire sample. It indicates significant positive skew (though not as much as the various financial data variables). Figure 10.5b shows a histogram of the same log2 transformed data, showing only a small amount of negative skew. Most charities appear to have a ratio lower than one, meaning their assets outstrip their debts.

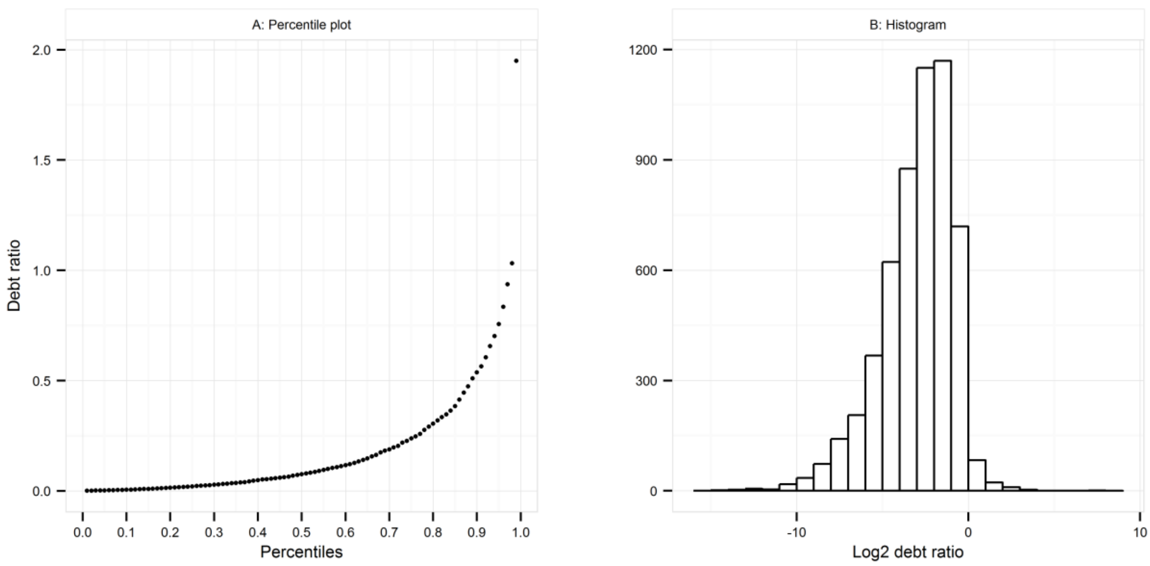

Figure 10.5: Debt ratio percentiles and log2 debt ratio histogram. The left panel (A) shows the debt ratio percentiles up to the 99th percentile. The right panel (B) shows log2 debt ratio on a histogram, with a bin-width of 1.

Figure 10.6 shows the relationship between having at least some state income and the median debt ratio level. Looking first to the accounts data for the entire sample, shown on the left, there is a small difference between state funded and non-state funded charities: 0.03 versus 0.05. This is unlikely to be due to sampling error, but isn't particularly notable substantively.

The difference for the larger charities is less pronounced still, and in the case of accounts data sampling error cannot be reasonably ruled out, as shown on the right. Non-state funded charities have a medium debt ratio of 0.16 versus 0.18 for those with at least some state funding. The same relationship using the annual return data isn't shown, but is similar at 0.19 versus 0.21.

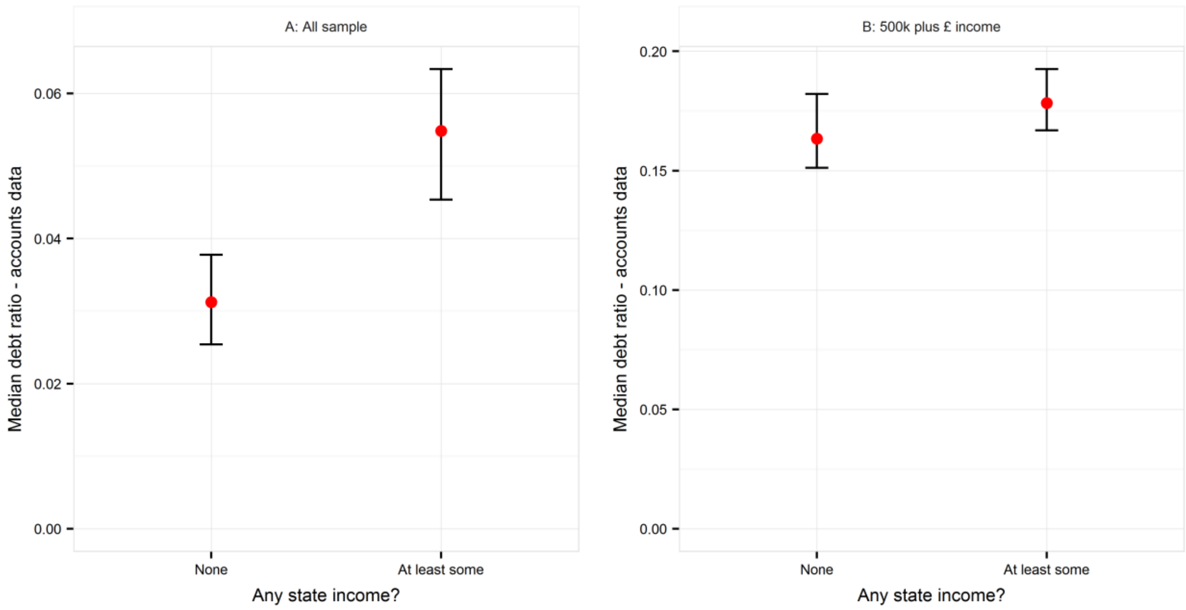

Figure 10.6: Median debt ratio for charities with and without any state income. The left panel uses the accounts data for the entire sample (A). The right panel uses the accounts data for the larger charities (B). Error bars show 95% confidence intervals.

Conditioning by size using the accounts data reveals more variation in the size of the relationship at different income categories, with the stronger relationships generally found amongst the smaller charities. In no category does it become particularly substantively notable, however. Furthermore while the relationship appears to exist within all the selected ICNPO categories, the confidence intervals overlap significantly in all except for 'Culture and Arts'. So while there does appear to be a very small relationship in the data overall, it is not entirely clear how much of the population it applies to. The type of state income is also not particularly important, though the relationship appears somewhat stronger amongst earned and central government income than voluntary or local sources.

The second relationship concerns the difference a higher level of state income makes to the average level of the debt ratio, for those that have at least some state income and some debt. The results in Figure 10.7 show that there is a moderate relationship for the sample taken as a whole (r = .31) using the accounts data, and a smaller one for the larger charities (r = .14). The results for the larger charities are very similar if the annual returns data is used, including the correlation coefficient (r = .12).

Controlling for size in this case, using co-plots, limits the size of the relationship but does not eliminate it entirely. Placing log2 total income into a linear model with log2 state income as predictors reduces log2 state income's coefficient, compared to the single predictor model, from .23 to .11. It seems that both size and the specific source of the income are related to a higher debt ratio. The relationship is found within all of the ICNPO categories.

Correspondingly there is also a moderate relationship between the debt ratio level and the proportion of total income received from the state. The relationship is clearly linear, though relatively small, and is found at each size level and using either data source. The correlation coefficients are r = .15 for the sample as a whole, and r = .11 for the larger charities for both data sources. Controlling for size or ICNPO category does not decrease the size of the relationship significantly.

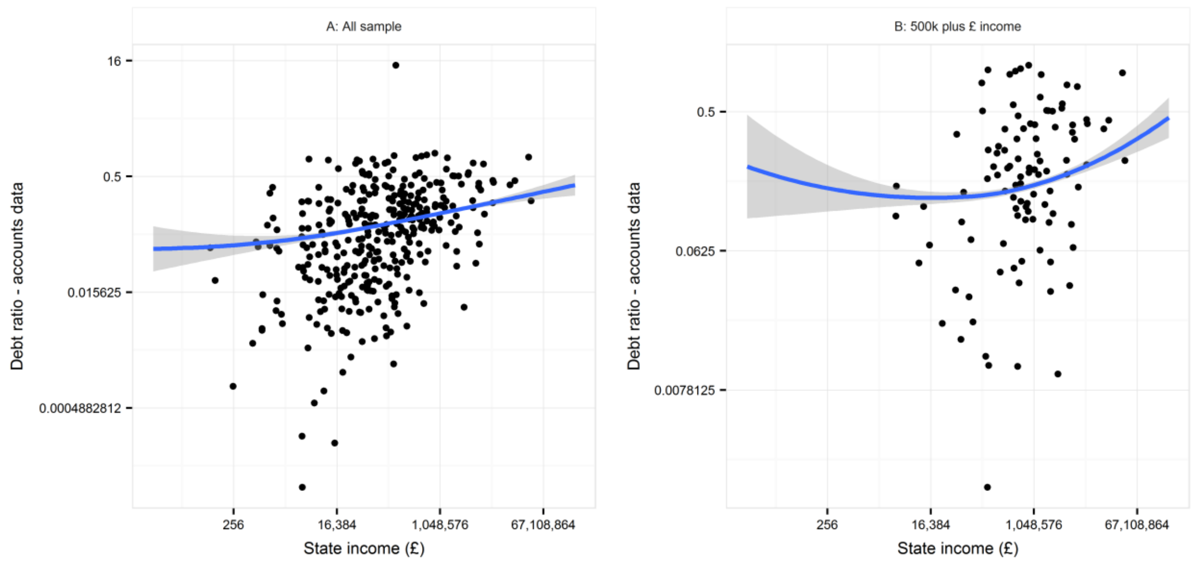

Figure 10.7: Debt ratio versus state income. The left panel shows a subset of the entire accounts dataset selected to be representative of the population (A). The right panel shows a comparable selection of the larger charities (B). Blue lines marks separate loess curves for each panel-group, calculated using the entire weighted dataset, with grey 95% confidence bands. Both axes are log2 transformed.

It was shown in Table 10.1 that almost all of the larger charities have at least some debt. For the sample as a whole, however, a notable minority of 20% had no debt. Although it is plausible that smaller charities are less likely to have any liabilities, particularly those with no staff, this would mean they did not even hold any credit card debt. It must be borne in mind therefore that some of these zero values could reflect errors in reporting or the data collection process. Nevertheless, whether or not state income is associated with a charity having any recorded debts is an interesting question worth exploring briefly with the data available. Because the main interest is in the smaller charities that are more likely to be debt free, just the accounts data was used for the sample as a whole, and size was controlled for as normal.

A small relationship does exist in the sample as a whole between having any state income and the probability of having any debt, but it is insubstantial enough to set aside. 75% with no state income have at least some debt, compared to 72% of those that receive government income. Given the small size of the relationship to begin with, attempting to condition by size or by ICNPO category simply increases the sampling uncertainty.

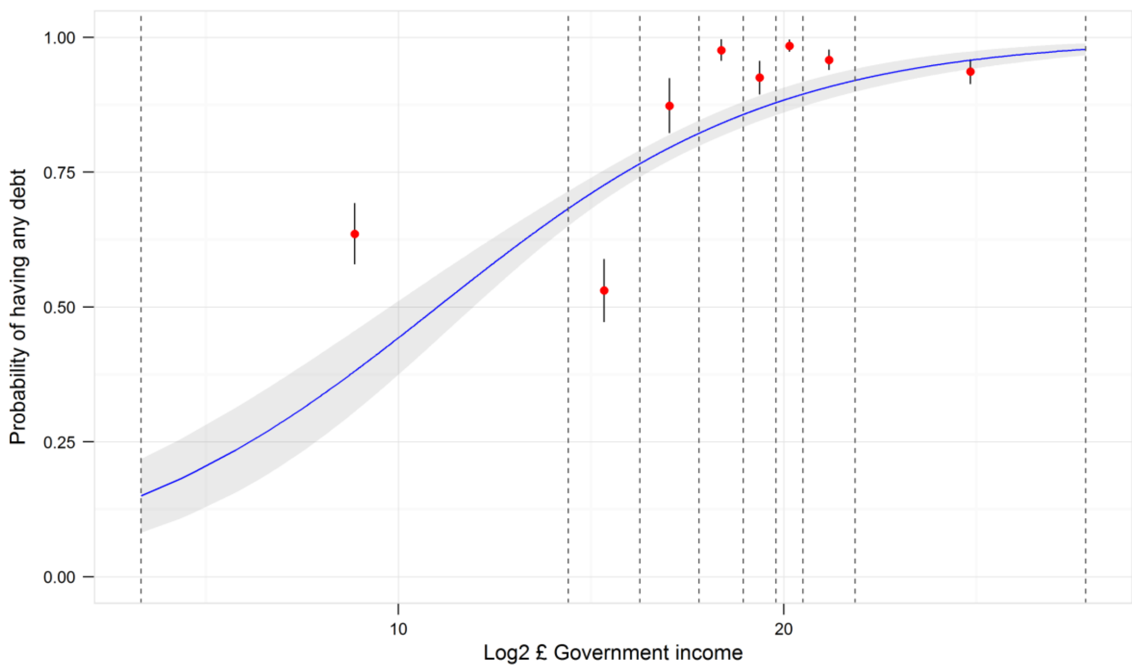

Figure 10.8: Probability of charities having any debt versus log2 state income. Vertical grey lines mark boundaries of 8 categories for log2 state income, with an equal number of unweighted cases in each. Red points mark the estimated probability of making a loss for each category. Error bars show 95% confidence intervals. The blue line marks a logistic regression model for un-banded log2 state income, with grey 95% confidence band.

In contrast Figure 10.8 shows that the probability of having any debt seems to increase with higher levels of absolute state income on a log2 scale, though in quite an uneven fashion. The main difference appears to between the first two categories, where there is at least some chance of having no debts, and the higher categories where this outcome reduces radically.

Further exploration, however, suggests that this is almost entirely due to the increase in size that the additional state income brings. The relationship disappears completely if total income is controlled for in the logistic regression model, as shown in Table 10.2. Increased state income does increase the probability of having at least some debt, but not because it is state income as opposed to any other kind.

Table 10.2: Coefficients in logistic regression models, showing the probability of having any debt against log2 government income, with and without log2 total income.

Intercept	Log2 government income coefficient	Log2 total income coefficient
0.06	0.04	n/a
-0.80	-0.00	0.09

Unsurprisingly, therefore, the probability of having any debt also does not change significantly with different levels of state income as a proportion of total income, and this did not change when control variables were introduced. Adding the ICNPO categories into the different models does not significantly alter the coefficient for log2 state income or state income as a proportion of total income.

10.3.1. Section summary

State funded charities have a very slightly higher average debt ratio compared to non-state funded charities, but the relationship appears to vary significantly and somewhat erratically by total income level. The relationship is also weak in substantive terms.

There is a moderate relationship between log2 state income and the log2 debt ratio. Controlling for size reduces this to a small but not insignificant level. There is a similarly sized relationship between the log2 debt ratio and state income as a proportion of total income.

There is only a very small negative relationship between having any state income and having at least some debts, and it does not stand up well to attempts to control size or industry. In contrast, having a higher level of state income is related to an increase in the probability of having debts. This appears to be almost entirely due to the consequent changes in size. There is no relationship after total income is controlled for and no significant relationship between state income as a proportion of total income and the probability of having any debt.

10.4. State income and the current ratio

This section focuses specifically on the short term debts held by charities and how these relate to state income. Current liabilities are defined as those debts due in less than a year and include any payments owed to employees, suppliers, banks or the government. Current assets are those liquid assets that can be readily converted into cash to pay off these liabilities.

The current ratio is a common financial ratio that measures the level of current assets held by a charity for every £1 of short term debt. This provides an indication of the organisation's ability to cover its short term debts (Joy et al. 2008, ICA 2008 in Bennett, 2013). It is also referred to as the liquidity ratio, as it refers to liquid assets that can be cashed in at short notice in order to cover liabilities. Note that this is opposite way round to the debt ratio in which the liabilities acted as the numerator.

Charities with a current ratio lower than 1 (0 on a log2 scale) have current liabilities higher than their current assets and may therefore struggle to cover their short term debts if called upon to do so at short notice. It is therefore widely used as an indicator of financial health, though once again it is far from a full proof sign of trouble in individual cases.

As with the total assets and liabilities, the annual returns of the larger charities provide an alternative source of data. Therefore, as with the previous section, both were explored in the analysis for the larger charities, as well as just the accounts data for the sample as a whole.

Table 10.3: Estimates for current ratio statistics using different charity sizes and data sources

Statistic	Accounts data – 25k +	Accounts data - £500k +	Annual return - £500k +
Mean	67.1	10.4	13.0
Median	7.09	2.76	2.85
Percentage with current ratio < 1	8.2%	14.8%	13.5%

As with the data for debts overall, Table 10.3 suggests that there are some extreme cases pulling the means upwards. In particular the mean current ratio for the entire accounts dataset is extremely high. The same steps were therefore taken as for the previous section to ensure that the comparisons were more robust to extreme cases and more representative of the majority of the data.

It is clear from Table 10.3 that in general charities have sufficient assets to comfortably cover their short term debts. The median ratio for the sample as a whole is 7.09, well above 1. The estimate for the larger charities is notably lower: using either the accounts data or the annual return data gives a result of around 2.8 or 2.9 respectively. Only a small minority of charities have a ratio lower than one. This is estimated at 8.2% for the sample as a whole or slightly higher at 14.8% or 13.5% for the larger charities. A percentile plot of the data shows the characteristic upward curve indicating skewed data (not shown). The log2 transformed data is reasonably symmetrical, though a small degree of positive skew remains.

The bivariate analysis starts with the relationship between state income and the probability of a current ratio of less than one, the clearest hint at financial stress. Figure 10.9 shows that there is a clear negative relationship between having any state income and having a current ratio of less than 1. 10% of non-state funded charities have current ratio lower than 1 compared to 6% for those with state funding. For the larger charities, using the accounts data, the difference is slightly higher at 20% versus 11%. The result for the annual return data is similar at 19% versus 10%. There is therefore some evidence that having state income is associated with a slightly lower chance of financial vulnerability, particularly for the larger charities.

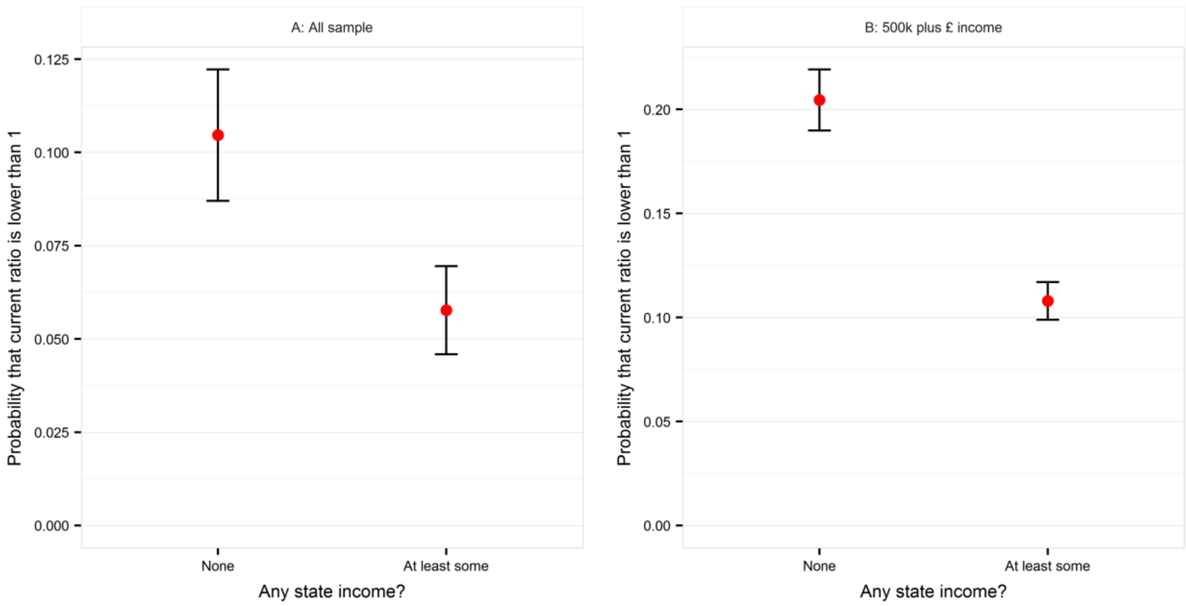

Figure 10.9: Probability of having a current ratio lower than 1 for charities with and without any state income. The left panel uses the accounts data for the entire sample (A). The right panel uses the accounts data for the larger charities (B). Error bars show 95% confidence intervals.

Conditioning plots reveal that the small relationship is, however, at least fairly consistent within different size levels. Changing the type of state income used also has little impact. The picture is less clear when ICNPO category is used as most of the results are too obscured by potential sampling error.

There is a very weak relationship between the amount of log2 state income received and the probability of having a current ratio lower than one (r = .06). The relationship is unlikely to be due to sampling error, but because it is so small and stands up badly when size or industry are introduced in to the logistic regression model, it is not of particular interest. The correlation is the same size but negative (r = -.06) when government income as a proportion of total income is used as the input variable, again suggesting very little relationship.

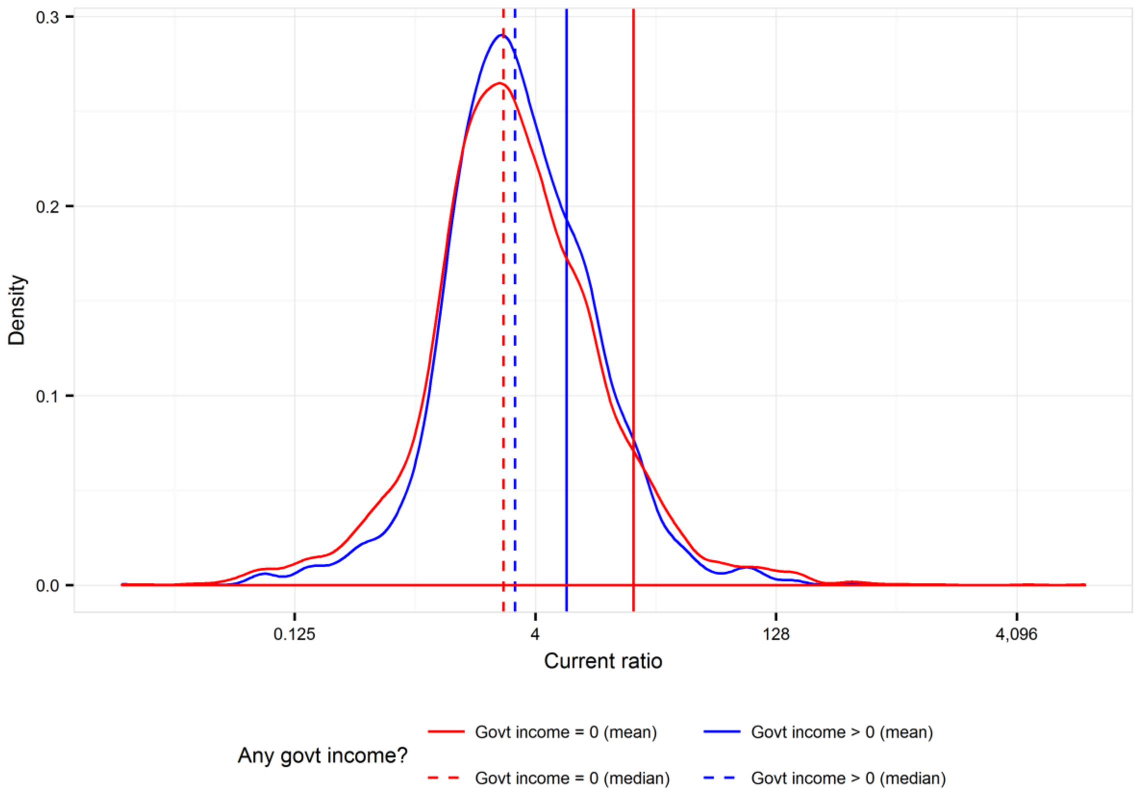

Figure 10.10: Colour coded density plots of current ratio, for charities with and without any state income. The log2 transformed means (not the geometric means) are shown by the vertical solid lines and the medians by vertical dashed lines. The X axis is log2 transformed.

Moving on to look at the relationship between state income and the current ratio as a whole, it also appears that there is a negative relationship between having state income and the average level of the overall current ratio. This is not apparent from comparing the means due to the extreme values causing inflated variances, but is visible when comparing the medians for the sample as a whole (7.99 non-state funded versus 6.10 state funded). This means that on average, those with state funding have a slightly lower current ratio. Figure 10.10 puts this difference into context by showing the complete distribution for both groups on a log2 scale, using density plots. Clearly the differences are very modest.

The relationship also seems to vary quite significantly by size. Notably, for the larger charities with an income over £500,000, the relationship switches. The state funded larger charities have a slightly higher current ratio than their non-state funded counterparts (2.45 versus 2.98 for the accounts data, 2.65 versus 2.99 for the annual return data). The difference is again unlikely to be sampling error, but is very small in substantive terms. The overall relationship is too small to stand up to disaggregation by industry, and doesn't seem to hold particularly well when just voluntary state income is used or just local government income. In summary this relationship for the larger charities can probably be largely dismissed for its lack of substantive significance.

Figure 10.11 shows two scatter plots illustrating the relationship between log2 state income and the log2 current ratio. The left graph is representative of the entire sample, while the right graph is representative of the larger charities with over £500,000 state income. Both graphs use the accounts data, though the picture is similar for the larger charities using the annual return data.

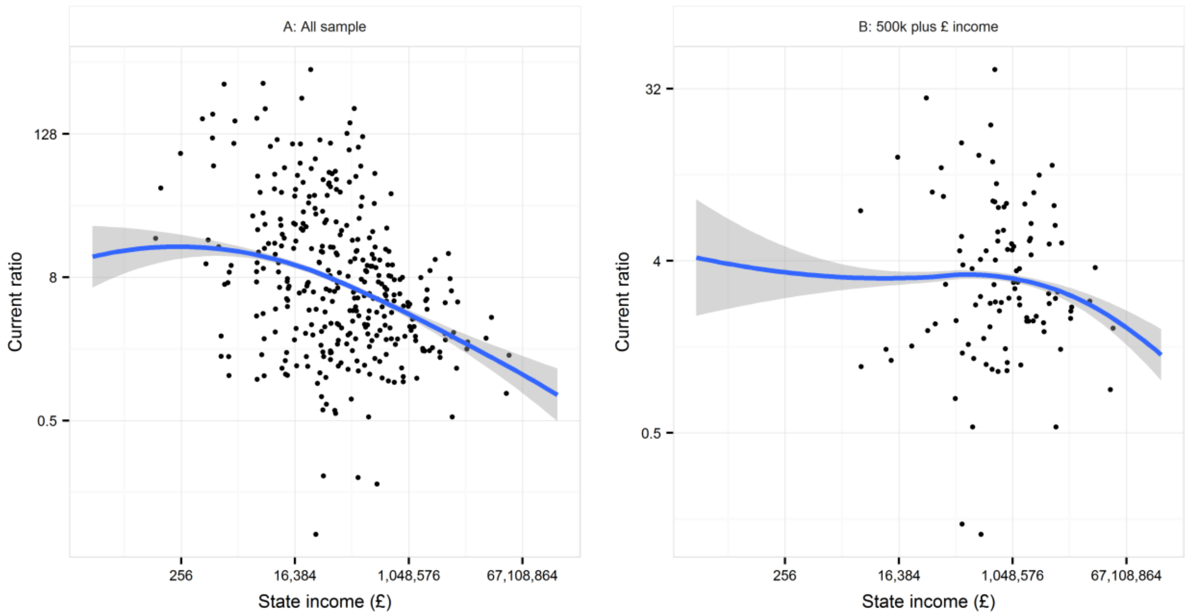

Figure 10.11: Current ratio versus state income. The left panel shows a subset of the entire accounts dataset, selected to be representative of the population (A). The right panel shows a comparable selection of the larger charities (B). Blue lines marks separate loess curves for each panel-group, calculated using the entire weighted dataset, with grey 95% confidence bands. Both axes are log2 transformed.

There is a clear negative relationship for the sample as a whole (r = -.30). In contrast the correlation for the larger charities is very weak at r = -.04 (r = -.03 for the annual returns data). Already this suggests that size is playing a major role in the results. The same pattern is found amongst all state income types.

Co-plots reveal that the relationship appears to be almost entirely due to the increased revenue state income provides, rather than the fact that it is from the state in particular. Using linear models, the coefficient for log2 state income reduces from -0.21 to -0.01 when log2 total income is included as a covariate. There is therefore very little relationship between the proportion of state income and the current ratio (r = -.05). The negative relationship is found in all of the selected ICNPO categories, though it is strongest in amongst the Environment charities (r = -.63).

10.4.1. Section summary

There is a small but clear negative relationship between having at least some state income and the probability of current liabilities outstripping current assets, which seems fairly robust to changes to size. In contrast, the relationship between the amount of state income and a current ratio lower than one is so small that it can be largely ignored.

Similarly, having at least some state income is associated with a slightly lower current ratio, but the difference is small and does not stand up to changes in size or industry. Although it cannot be ruled out entirely, it is also not of particular substantive significance. Having a higher amount of state income appears moderately, negatively related to the size of the current ratio, but this appears to be largely a result of changes to total income. Larger charities have lower current ratios and higher state income. There is very little relationship between the proportion of income received from the state and the size of the current ratio.

Taken together, the data here suggests there might be a very small relationship between the current ratio and state income. Specifically having at least some state income may be related to a small decrease in the probability of a ratio lower than one, and higher amounts of state income are related to a lower ratio before controlling for size. The size of the relationships are not large, however, and it is likely that there are much more important factors related to this particular ratio than state income levels.

10.5. State income and reserves

Finally, the literature review identified a risk that insufficiently funded services may lead to charities running down their reserves. Alternatively, if state contracts allow larger surpluses to be developed as some studies suggested, then higher reserves may result. While there is no set level of reserves that designates a charity as secure or insecure, it should be of interest whether those with higher state funding have on average higher or lower levels.

Generally speaking reserves are defined as unrestricted funds that can be used to cover one-off or unexpected expenditure. Reserves are generally represented in terms of months' expenditure, dividing total reserves by a 12^{th} of annual total expenditure. The same convention is followed here.

How to measure reserves is a challenging issue, however. As with the debt ratio and current ratio measures already addressed, there are two potential sources for a 'reserves' variable: the accounts data and the annual return data for the larger charities. Charities that are subject to SORP are required to specifically state their current level of reserves, including all funds that are freely available to spend and excluding any endowments, tangible assets or restricted funds (Charity Commission, 2005). This is a reasonably focussed measure, as it asks about reserves specifically, but there is bound to be some subjectivity involved. It is also limited to the larger charities that complete Part B of the annual return.

It is also possible to calculate the reserve level from scratch, starting with all unrestricted funds then subtracting endowments and fixed assets (Joy et al. 2008, NCVO, 2013). This is less focussed but also less subjective, and reflects how reserves are calculated in the NCVO Almanac. It also allows the same measure to be used across the entire sample.

Some preliminary statistics for these variables are shown in Table 10.4. We can see that unlike the previous financial indicators used in this chapter, the results differ noticeably between the two different data sources. The larger charities' annual returns suggest the average number of months in reserve is 15.14 and the median is 4.16. The figure derived from the accounts data is much lower, with a mean of 0.11 and a median 0.03. These are similar to the figures for charities as a whole using the same data. Only a small percentage of cases have no reserves using either measure.

An earlier draft of this chapter made use of both measures for the bivariate and multivariate analysis. Unfortunately, the results using the accounts data did not prove particularly meaningful. Further exploration of the accounts data variable's distribution also suggests that the formula used results in a large number of negative values. The concept of negative reserves does not make much conceptual sense, so this raises some doubts as to the validity of the formula. And finally, although the accounts data replicates the approach followed in the NCVO Almanac, there does not seem to be a widespread level of corroboration or recognition of the formula elsewhere in the literature.

Table 10.4: Estimates for statistics of reserve levels using different charity sizes and data sources

Statistic	Accounts data – 25k +	Accounts data - £500k +	Annual return - £500k +
Mean	0.14	0.04	14.03
Median	0.03	0.01	3.72
Estimated % with no reserves	7.2%	3.8%	3.8%

For these reasons, the remaining results in this section refer just to the more specific measure for reserves, recorded by the larger charities in their annual returns. Although this too is an inevitably imperfect measure, it seems to more closely operationalise the desired concept. It is important to note the choice clearly here, however, so that readers are aware that the results shown are contingent upon the choice of indicator for reserve levels.

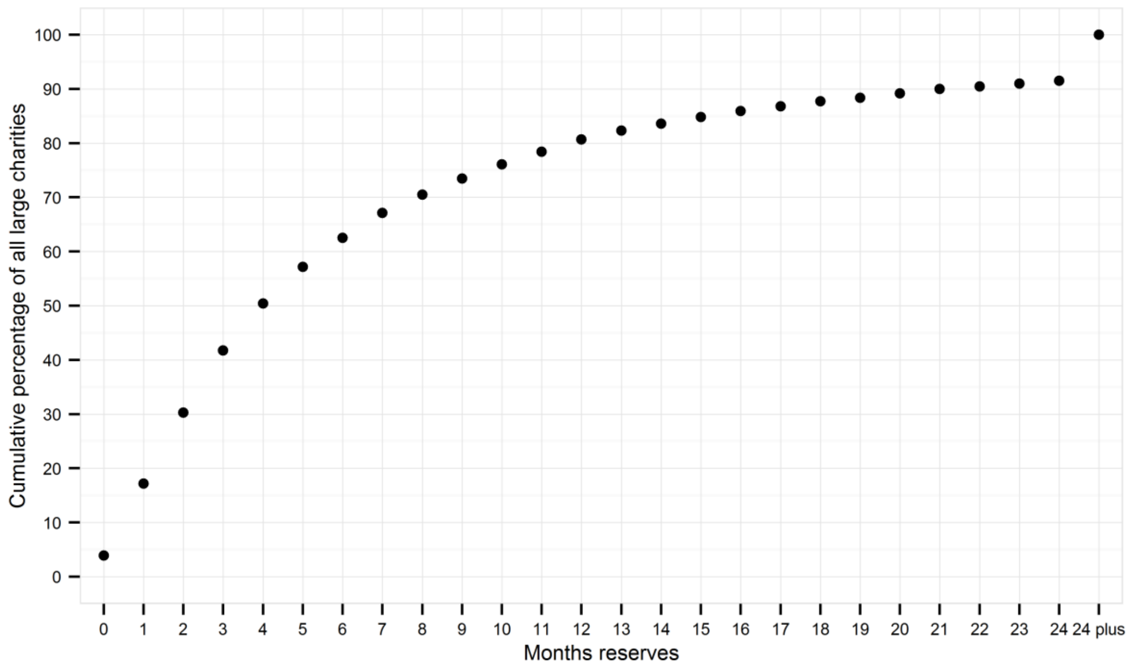

Figure 10.12: Cumulative percentage of large charities with x months of expenditure in reserve

Table 10.4 showed that the mean number of month's reserves for larger charities, using the annual return data, is much higher than the median, indicating positive skew. Density and percentile plots of the distribution confirm this but also show that after applying a log2 transformation the distribution is very normal. As shown in Figure 10.12, 17% of the larger charities have less than one month's reserves and 30% have less than 2 months. 81% have less than one year's reserves. This all suggests that most of the larger charities have only a few months of expenditure in reserves, though some identify much higher levels.

Figure 10.13 shows a straightforward relationship between having any state income and the average level of reserves. Whether the mean or median is considered, having at least some state income lowers the average level of reserves. The mean number of month's reserves for non- state funded charities is 20.65, whereas for state funded charities it is 9.60. For the medians the respective figures are 4.44 and 3.33. In the context, this is not an insignificant difference. The lack of any overlap at all in the confidence intervals in Figure 10.13 suggests sampling error is an unlikely alternative explanation.

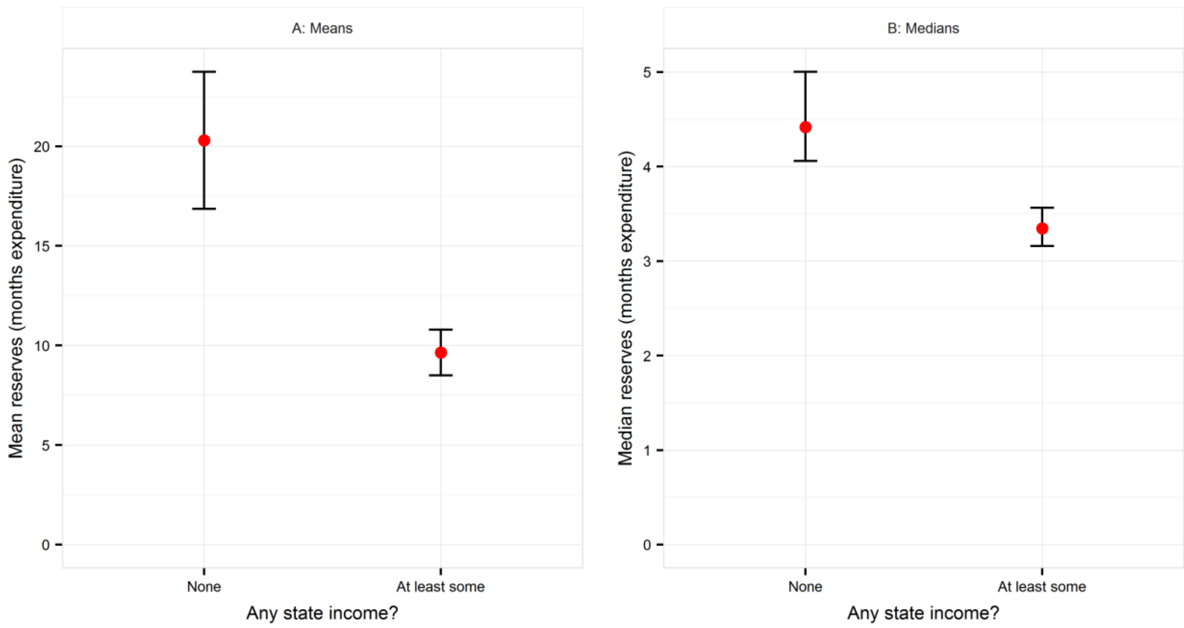

Figure 10.13: Average months' reserves for larger charities with and without any state income. The left panel shows the means (A). The right panel shows the medians (B). Error bars show 95% confidence intervals.

The relationship is entirely robust to variation in total income using co-plots or a linear model. This suggests no confounding or interaction effect is present. The relationship is also present to some degree within each ICNPO category, though sampling error is a much bigger risk in each case due to the smaller sample size, making it difficult to meaningfully interpret the results of each category. A brief point of interest, however, is that Nursing Homes have a much higher level of reserves compared to the other categories regardless of state income, with a median of 7.8 months.

There is a similarly negative pattern if we consider the relationship between the absolute amount of state income and the average number of months' reserves, both transformed onto a log2 scale. Regardless of the measure or subgroup used, there is a clear, negative linear relationship of moderate strength (r = -.23).

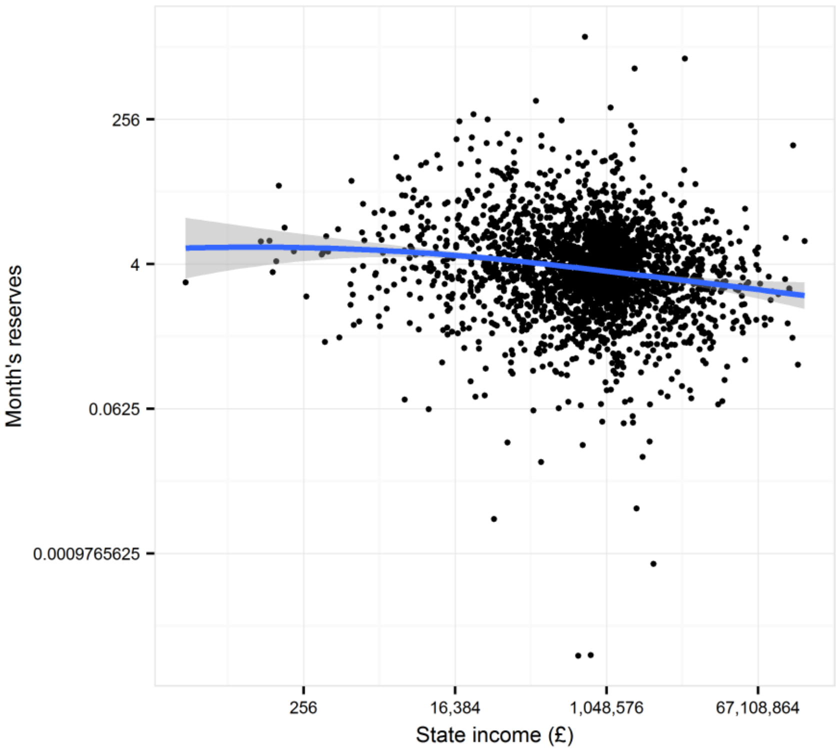

Figure 10.14: Month's reserves versus state income for larger charities with at least some state income and some reserves. The blue line marks a loess curve with a grey 95% confidence band. Both axes are log2 transformed.

If size is controlled for through co-plots or a linear model then the relationship scarcely weakens at all. The size of the correlation is similar amongst Social Service and Environment charities to the sample as a whole (r = -.22, r = -.26). The relationship is even stronger, however, amongst charities within the Culture and Arts and Housing categories (r = -.43, r = -.34). The exception appears to once again be Nursing Homes, which exhibit a much weaker relationship (r = -.05). To varying degrees the same relationship is also found regardless of the type of state income used.

The relationship between state income as a proportion of total income and log2 reserves levels is not quite as strong as for log2 state income, but remains non-trivial (r = -.17). It too is almost entirely unrelated to changes in total income, but does vary in strength somewhat between industries.

10.5.1. Section summary

There is a modest negative relationship between having any state income and average reserve levels amongst the larger charities. This relationships stands up well to changes in size or income type, though becomes unclear within different ICNPO categories due to sampling variation.

Similarly, there is a small to moderate negative relationship between the amount of state income and the levels of reserves within the larger charities. This too seems unrelated to size, and although the strength varies somewhat, is found regardless of state income type or industry. A slightly less strong, but not insubstantial relationship exists between state income as a proportion of total income and log2 reserve levels.

10.6. Chapter summary

The findings in this chapter are largely small or non-significant, in that most of the financial indicators explored were not substantially related to the various measures of state income. The first section explored the links between profitability and state income:

- Amongst the very largest charities, those with at least some state income are more likely to make a loss
- They are also more likely to have a lower profit margin
- For the remainder of charities there is no link between the above variables
- Higher state income is not associated with a greater probability of making a loss
- State income as a percentage of total income is also not associated with making a loss
- Overall there is no notable correlation between the profit margin and either log2 state income or state income as a proportion of total income, though relationships were found within some industries

It seems that for larger charities, state income does have a modest relationship with profitability. This could be because they run larger contracts where the stakes involved are much higher. For charities as a whole, however, state income is generally a poor predictor.

The second section explored the relationship between state income and debts, including both the probability of having any debts at all, and having a higher ratio of debts to assets:

- Charities with at least some state income have a slightly higher average debt ratio
- They also have a slightly lower probability of having any debts, but both relationships are small and uncertain
- There is a small relationship between log2 state income and the log2 debt ratio, after controlling for size
- There is also a weak association between state income as a percentage of total income and the log2 debt ratio
- Higher state income is also associated with the probability of having any debts at all, but this is largely due to the subsequent increase in size
- There is no relationship between state income as a percentage of total income and having any debts

There are multiple associations between state income and debts, but they are invariably small and rather uncertain. The clearest is a small link between log2 state income and the log2 debt ratio after controlling for size, or between state income as a percentage and the log2 debt ratio.

The next section looked specifically at short term debts via the current ratio:

- There is a small relationship between having at least some state income and the probability of current liabilities outstripping current assets
- It is also related to a small decrease in the average current ratio, but this is less clear and is relatively insubstantial
- Higher levels of state income are negatively related to the average current ratio, but this is largely due to the confounding effect of total income
- There is very little relationship between the proportion of income received from the state and the size of the current ratio.
- The relationship between log2 state income and a current ratio lower than one is substantially insignificant

There is some link between state income and the current ratio, therefore, but the relationships are rather small and of only limited substantive importance.

Finally this chapter explored the relationship between state income and reserve levels. The most reliable data was for the larger charities only, so the analysis was restricted to this subset:

- There is a small negative relationship between having any state income and average reserve levels
- There also a negative relationship between log2 state income and reserve levels, even after controlling for size
- Finally there is also a negative link between state income as a percentage of total income and reserve levels

The relationship between reserves and state income is perhaps the clearest within this chapter, and suggests that generally speaking state funding is associated with slightly lower reserve levels. It remains possible, therefore, that state funded charities are running down their reserves compared to those with less or no state revenue.

In general then, there is certainly no evidence to suggest that state funding makes charities more financially secure, as some have suggested. But evidence consistent with the idea that it routinely undermines charity finances is also thin on the ground. Depending on the exact variables used, this chapter has identified a range of small, negative relationships between state income and indicators of financial health, as well as cases where there is no relationship at all. It may be that state funded charities are on average very slightly more financially overstretched than their non-state funded counterparts, but the relationship is at most only a minor predictor. These small cross-sectional relationships are also a long way from establishing causation, let alone in which direction. Whilst there might be some merit in pursuing some of these findings further, particularly reserves, it seems the overall picture is not one that should cause any overriding concern amongst policy makers or practitioners.

CHAPTER 11 : BUREAUCRATISATION

11.1. Introduction

A major finding from the literature review was that state funding led to charities incurring higher administrative costs. This was partly related to the extensive demands for information that were often placed upon charities delivering services on behalf of the state. It also included a range of costs spent generating state funding in the first place, such as searching for opportunities and bidding for contracts. And finally, operating as a legitimate and successful state contractor was found to involve a large number of costs not attributable to any individual contract, such as marketing costs.

Either implicitly or explicitly these 'bureaucratic' costs are often portrayed as a negative outcome, though as discussed below this need not necessarily be the case. Without taking any prior normative position about what higher spending on these support costs might imply, therefore, the empirical basis of these claims forms the focus of this chapter.

It therefore addresses the third research question for this study:

- What is the relationship between state funding and charities' levels of bureaucracy?

Specifically the data available allows an exploration of whether the different forms and measures of state funding are related to:

- increased support costs
- increased spending on fundraising costs, including marketing costs

11.2. State income and support costs

The most useful variable for assessing the level of administrative activity in a charity is probably its recorded level of 'support costs'. The SORP identifies these as the spending on the "central or regional office functions, such as governance, general management, payroll administration, budgeting and accounting, information technology, human resources and finance" required for running the charity (Charity Commission, 2015: p. 191).

The measure in the accounts data is in theory available for all of the charities, based on information from individual account lines. But whether just the larger charities are considered or not, there appear to be many cases with missing data. For the entire dataset, only an estimated 4.7% of charities have support costs above zero. The figure is higher at 24.1% for the larger charities with an income over £500,000, but this is still implausibly low. A much more realistic estimate is provided by a measure included in Part B of the charity register's annual return, though once again this is only available for the larger charities. 93.3% are estimated to have support costs above zero using this measure. This final variable is therefore the one used for the analysis, even though it is unfortunately limited to just the larger charities. It is also straightforward to calculate what proportion of a charity's expenditure is spent on these support costs.

Substantial caveats must be attached even to this measure, however. 'Bureaucracy' and 'administration' are terms that often have a highly pejorative, negative association, which can be misleading. Insufficient spending on administrative or central office support can in fact be a sign of ineffectiveness and waste within the organisation, rather than efficiency (Joy et al., 2008). Furthermore, charities operating in some service areas or with certain clients will inevitably have higher administration costs for reasons entirely outside of their control, for example due to higher levels of government regulation (Guidestar, 2004). Steinburg and Morris (2010) outline how a reliance on financial ratios as a measure of efficiency can lead to perverse incentives and efforts to classify accounts in ways that actively mislead observers.

These are serious issues that limit the use of financial ratios as a tool for accountability and financial scrutiny, but this does not necessarily mean that they are unsuitable for the purposes of this study. We are interested in whether on average more state income is associated with a higher level of support costs across many cases, not judgments about whether a ratio is 'high' for any individual case. There may also be great variation between charities in terms of how they record these costs, but this only becomes a major problem if this variation is also correlated with levels of state income.

Using the Part B measure for the larger charities, the mean level of support costs, including zero cases, is £840,298 and the median is £243,234, once again reflecting the positive skew associated with most of the financial variables in the dataset. The distribution is relatively symmetrical on a log2 scale, however, as shown in Figure 11.1a. Less obviously, however, support costs remain somewhat positively skewed, even when scaled as a proportion of total expenditure. Figure 11.1b shows that the majority of the larger charities spend less than a quarter of their total expenditure on support costs. A few spend much more than this, rising right up to either all, or almost all, of their expenditure. The mean level of support costs as a proportion of total expenditure is an estimated 22%. The median value is 13%.

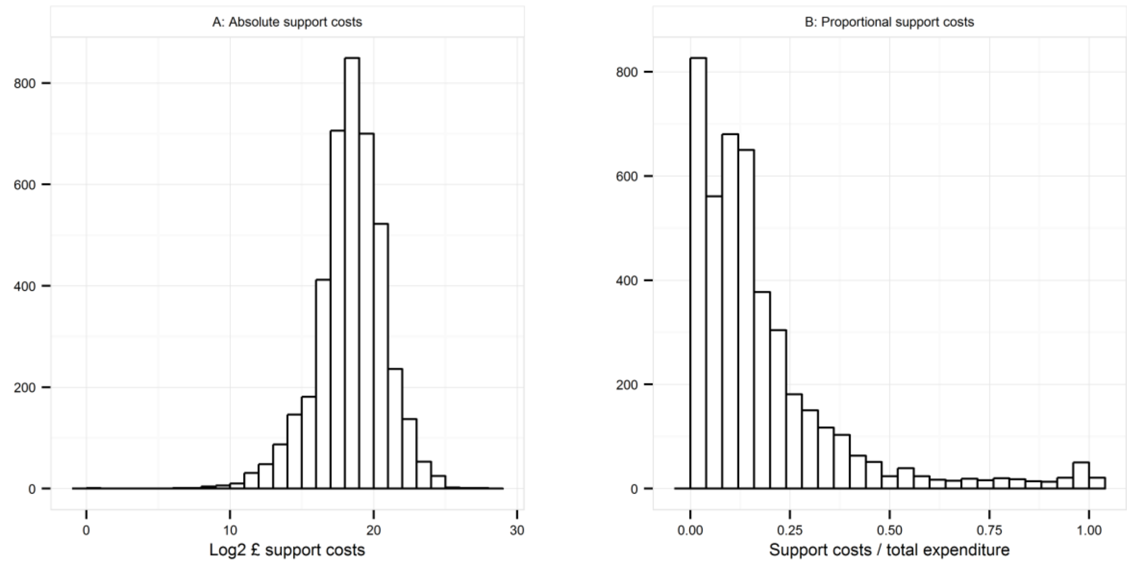

Figure 11.1: Absolute support costs and support costs as a proportion of total expenditure histograms. The left panel (A) shows a histogram of log2 £ support costs for the larger charities, with a bin-width of 1. The right panel (B) shows a histogram of support costs as a proportion of total expenditure for the larger charities, with a bin-width of 0.4.

The state funded larger charities had on average higher support costs than their non-state funded counterparts. The mean level is £669,288 for those without any state funding and £954,828 for those with at least some. For the medians the figures are £219,292 and £262,172 respectively. In both cases the lack of overlap in the confidence intervals makes sampling error an unlikely alternative explanation (not shown). The difference in means seems very large, though given the high levels of skew we should be cautious interpreting these figures. The difference in the more robust medians still amounts to over £40,000, however.

These figures, however, have to be taken in the context of very high levels of variation within the distributions overall. Figure 11.2 shows the entire distribution of log2 support costs for both state funded and non-state funded larger charities. It also shows the means and medians (of the untransformed data) transformed onto the log2 scale. The visual difference between the means does not appear to be notably reflected in a corresponding difference between the distributions, making it likely that a few extreme values are having a major impact on the results. The point-biserial correlation between having any state income and support costs is low at around r = .04 (r = .05 using log2 support costs). This suggests that while the differences in the averages are not themselves inconsequential, they do not account for much of the variation in support costs overall.

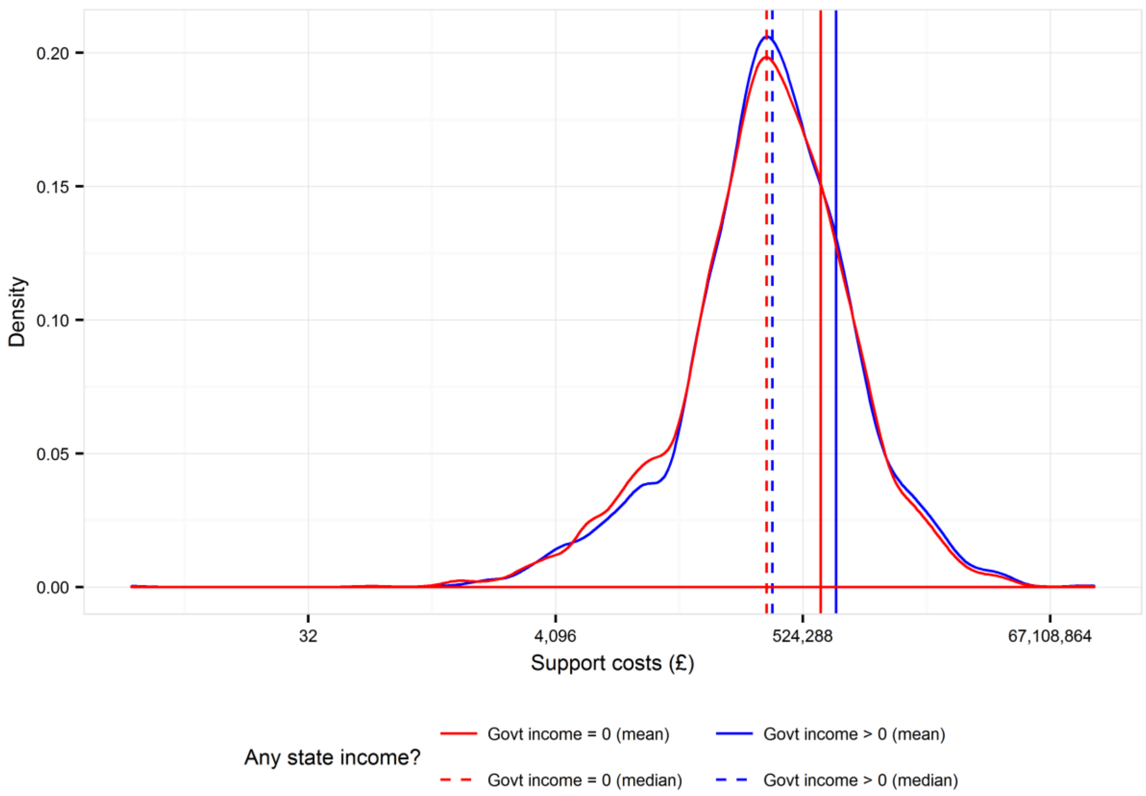

Figure 11.2: Colour coded density plots of support costs (£), for the larger charities with and without any state income, but at least some support costs. The log2 transformed means (not the geometric means) are shown by the vertical solid lines and the medians by vertical dashed lines. The X axis is log2 transformed.

For support costs as a proportion of total expenditure, there are small differences between both the means and medians. The mean proportion of expenditure spent on support costs is 20% for state funded charities compared to 17% for those with no state funding. The medians are 13% and 12% respectively. This suggests that proportional support costs are also slightly higher for state funded charities. Again, viewing the density curves on Figure 11.3, shown along with these measures of central tendency, puts thing into perspective. They show that the distributions are overall very similar. The correlation in this case is only slightly higher than for absolute levels of support costs, at r =.06.

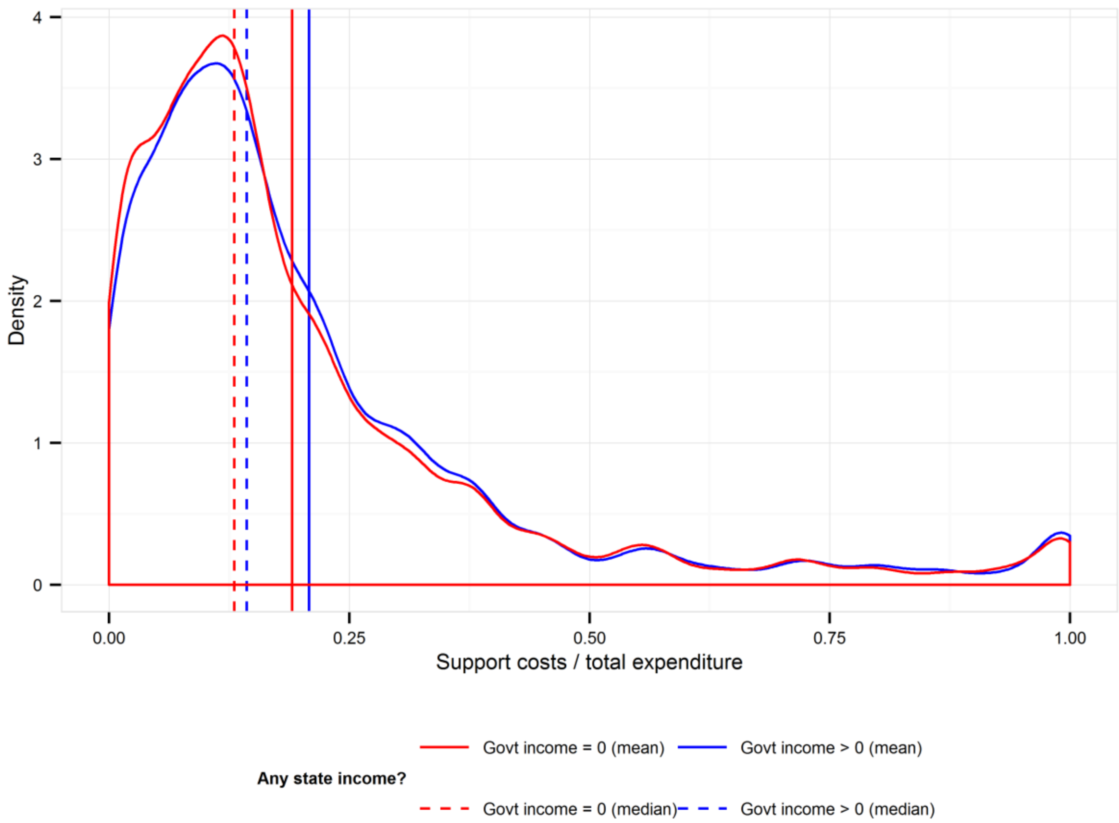

Figure 11.3: Colour coded density plots of support costs as a proportion of total expenditure, for the larger charities with and without any state income, but at least some support costs. The log2 transformed means (not the geometric means) are shown by the vertical solid lines and the medians by vertical dashed lines.

Perhaps unsurprisingly given the relatively small size of both relationships, they do not hold up well to conditioning by total income. The differences within different size categories are indistinguishable from sampling error. Most of the differences are still visible within the ICNPO categories, but it is no longer clear whether or not this is could be attributed to sampling error due to significantly overlapping confidence intervals. Interestingly, the differences for both outcome variables disappear when voluntary state income or local government income is used. Overall, the picture is one of relatively insubstantial differences that do not hold up well to disaggregation or conditioning by other variables.

A similar picture emerges when we consider the influence the *amount* of state funding makes on the overall level of support costs. A scatterplot of support costs versus state income (not shown, not including zero values, log2 transformed axes) reveals a trend familiar from analysis in previous chapters that focussed on the larger charities. The data appears to exhibit a curvilinear structure, with a positive linear pattern only emerging around the £500,000 mark along the x-axis (overall r = .33).

We know from the discussion in the chapter on voluntary characteristics, however, that within the larger charity subset this is the point at which increases in state income become more associated with increases in overall size. It is not surprising therefore that as observed previously, this relationship disappears after controlling for size using either linear modelling or co-plots. Controlling for ICNPO category or using different types of state income makes little difference to the results.

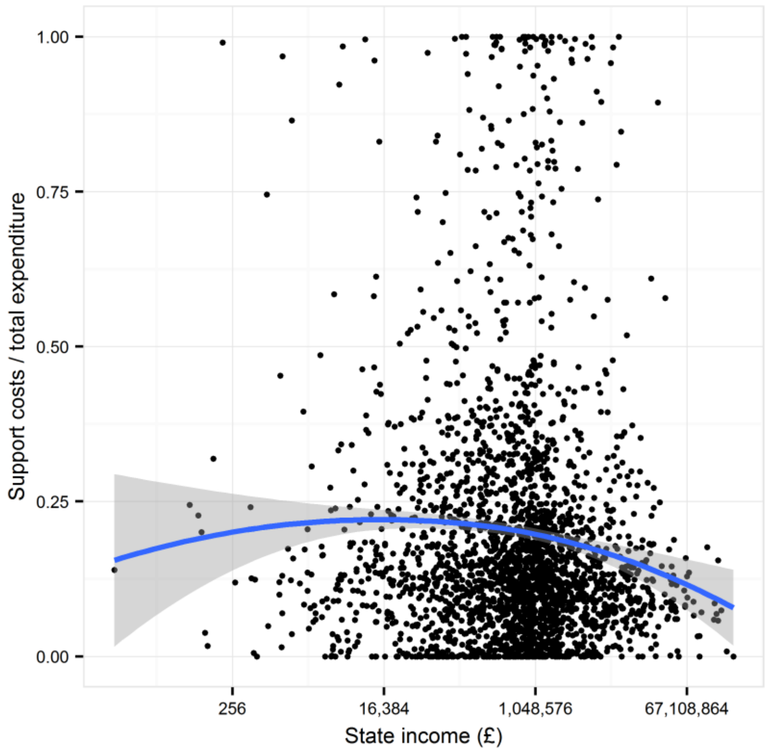

Figure 11.4 : Support costs / total expenditure versus government income for larger charities with at least some state income and some support costs. The blue line marks a loess curve with a grey 95% confidence band. X axis is log2 transformed.

Figure 11.4 shows the relationship between support costs as a proportion of total expenditure versus log2 state income. The linear correlation between these two variables is small at r = -.08. This too largely disappears after controlling for size, however, and isn't found in the Culture and Arts, Housing or Nursing Home ICNPO categories. The picture is again the same for all types of state income.

If government income as a proportion of total income is used as the input variable, the picture is largely unchanged. Whether absolute support costs are the outcome variable (r = -.08) or support costs as a proportion of total expenditure (r = - .02), there is only a very small negative relationship, which does not stand up to any disaggregation by size or industry.

11.2.1. Section summary

Overall state income does not appear to be a major factor in terms of predicting support costs. This is the case whether we consider the effect of having any state income or having more of it in proportional or absolute terms. It is also the case whether we consider support costs themselves in absolute terms or as a proportion of total expenditure. The only obvious relationship is between absolute state income levels and absolute support costs, but this is almost entirely due to the confounding effect of size; the fact that the income is from the state is not particularly relevant. Any other small differences either also disappear after controlling for size or industry; or aren't substantively important enough to be of particular note when considered in the context of very high levels of variation in support costs.

At least using these measures, therefore, there is very little evidence consistent with the idea that state funded charities are systematically spending more on administration or bureaucracy compared to their non-state funded, or less state funded peers.

11.3. State income and fundraising costs

In addition to support costs as an overall measure of administrative activity, we can also explore whether pursuing state income is related to higher levels of spending on fundraising. This scenario was strongly suggested in much of the literature, due to the costs associated with searching for contracts and writing bids.

The fundraising ratio is the ratio between the total income a charity receives and the funds spent on income generation. Charities subject to SORP are required to record an estimate of their total fundraising costs for all income types, including spending on marketing and publicity. As with administration costs, it is not recommended that this measure is taken as a direct proxy for waste or inefficiency, but it should still be of interest to see how it relates to state income across all cases.

The fundraising ratio is taken here as the total income of an organisation divided by all recorded income generation costs for the charity. The fundraising ratio sometimes refers specifically to costs associated with voluntary income, but that is not the case here. It is not possible to identify expenditure put towards pursuing state funding specifically. Nevertheless, given the findings of the literature review, it is worth exploring whether charities with higher levels of state income spend more on fundraising costs in general.

As with some of the measures from previous chapters, the annual returns data and the accounts dataset provide two alternative measures of fundraising costs. The latter is restricted to the larger charities whereas the former is available for the entire sample. The variable from the accounts dataset, for all charities, suggests that 47.1% of charities have no fundraising costs, but no charities are coded as missing. It is impossible to tell which of these zero cases might be due to missing data and how many are genuinely due to a lack of any expenditure on fundraising. For the larger charities the figure is 30.3%. And the annual return data for the larger charities provides a slightly higher estimate at 33.5%.

It seems unlikely that so many charities with an income over £25,000 ostensibly spend no money at all managing an investment, filling out grant applications, bidding for contracts, or garnering donations and legacies. Although some of these cases may genuinely reflect zero fundraising costs, the most interesting data is likely to be provided by those that do have a non-zero figure recorded. These cases therefore form the focus of the analysis in this section, rather than exploring whether charities have any fundraising costs at all. There is a moderate risk that the potentially missing cases bias the results, but on balance the risk does not seem high enough to abandon the analysis altogether.

The mean fundraising ratio is 573 and the median level is 19, both using the accounts data for all charities. These seem like rather high estimates in substantive terms, indicating £573 or £19 of income for every £1 spent on fundraising activities. There is a risk that this is due to undercounting on the raw fundraising costs. It is also a plausible risk that state funded charities may be under more or less pressure than other charities to appear efficient and to manipulate their costs. There is no real evidence with which to judge the possibility. As with the missing values, at the very least it is worth noting that this issue exists, and provides an alternative explanation for any subsequent differences in the analysis.

For the larger charities the mean ratio is higher still at 922.3 for the accounts data and 1295.7 for the annual returns data. For the medians, which are less likely to be skewed by extreme values, the respective estimates are much lower (and more plausible), at 17.3 and 17.2 respectively. Both of these median estimates are also very similar, which can boost our confidence that the accounts data and annual returns are providing similar results for the majority of the larger charities. They are also both higher than the median for the unrestricted sample.

There are also some extremely high ratios in the dataset. The highest figure suggests Mental Health Concern received a return of £2,296,669 of income per pound for the £6 it spent on fundraising activities in 2013. Plausibly or not, a check of the accounts reveals that these figures are exactly as presented. Because these figures are possible, if perhaps not very plausible in many cases, it is difficult to make a case for removing them entirely. As with previous examples medians and log transformations were used in an attempt to make the analysis more robust to these extreme figures, and more representative of the majority of the population instead.

Moving onto the bivariate analysis the relationship between having at least some state income and fundraising costs was explored by comparing the median values. For the entire sample, the medians for the two groups are shown in Figure 11.5a. Charities with at least some state income have a significantly higher median fundraising ratio compared to those with no state income at all. The estimated median for the first group is 12.3 compared to 29.9 for the second, over double.

For the larger charities, the picture is very different, suggesting there is at least some interaction occurring with size, as measured by total income. Figure 11.5b shows a relationship with only slightly overlapping confidence intervals, but in contrast to the sample as a whole it is negative and notably smaller (20.5 versus 15.5; 19.3 versus 16.4 using the annual return data). At face value therefore there is a significant positive relationship for the sample as a whole, and a smaller negative one for the larger charities, bordering on insignificant.

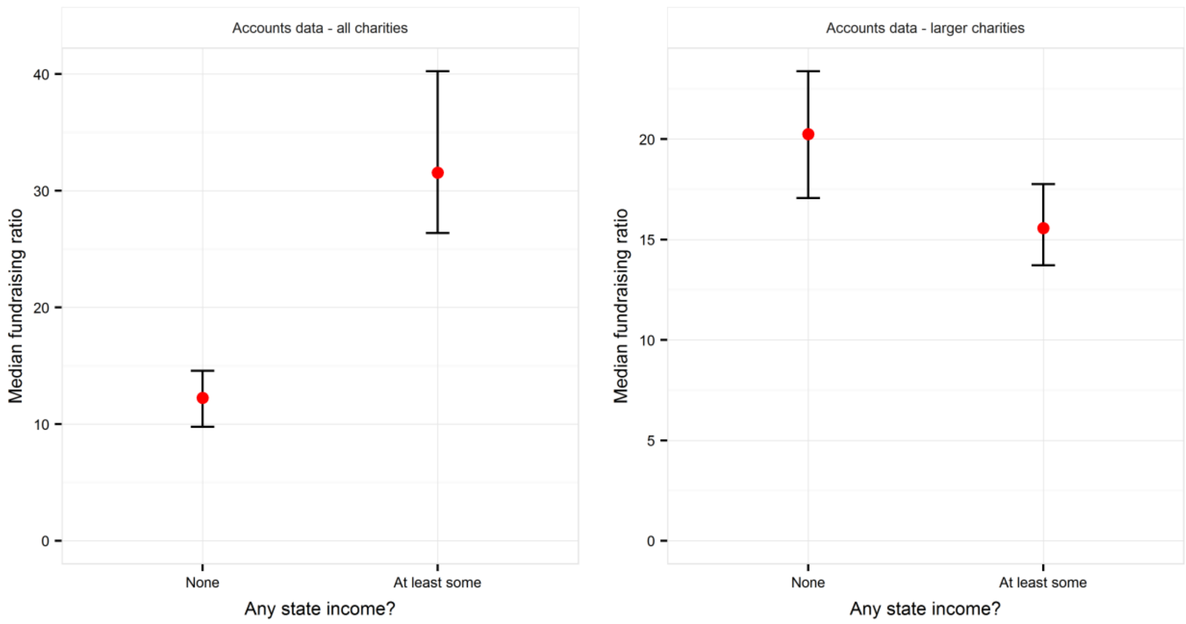

Figure 11.5: Average fundraising ratio for charities with and without any state income but at least some fundraising costs. The left panel uses the accounts data for the entire sample (A). The right panel uses the accounts data for the larger charities (B). Error bars show 95% confidence intervals.

Further exploration of the accounts data using co-plots does suggest a linear interaction between total income and the relationship of interest. The relationship seems strongest for the smallest charities; it weakens as charities get larger, and then sharply reverses for the largest charities, as shown in Figure 11.6. Linear modelling confirms the result with a significant, negative interaction effect between the log2 state income and log total income input variables.

Within each of the five selected ICNPO categories the relationship becomes quite unstable due to the reduced sample size. It remains clear and positive only within the Social Services charities, which may be where most of the overall effect is originating (though it is also the largest subgroup). Interestingly the relationship is not found to anywhere near the same degree for voluntary state income. This suggests that if having at least some state income is linked to a higher fundraising ratio, at least for the smaller charities, it may be contract or fee based state income that underlies the relationship.

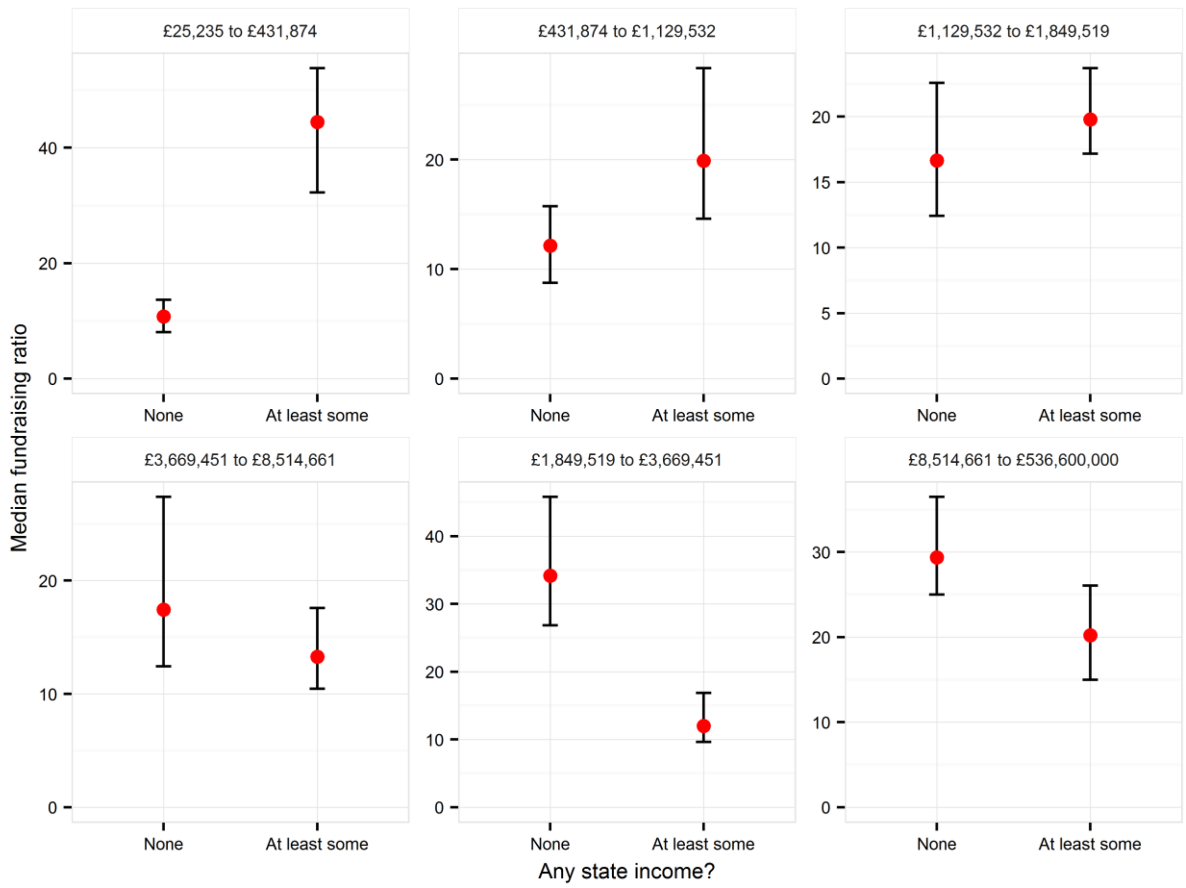

Figure 11.6: Median fundraising ratio for charities with and without any state income but at least some fundraising costs, disaggregated by size. Each panel shows the results for a different sextile group of the unweighted sample, ordered by total income. Error bars show 95% confidence intervals.

To summarise so far, it appears that having at least some state funding may in fact be associated with a higher fundraising ratio, but only for the relatively small charities and only using earned state income. This would mean having at least some state income is associated with more efficient fundraising, contrary to the literature. For the largest charities, the reverse may in fact be true.

Moving onto the continuous data, it appears that there is little relationship between the amount of state income received and the size of the fundraising ratio. There is no obvious pattern shown by a scatter plot and the Pearson correlation coefficient between log2 state income and the log2 fundraising ratio is .04. Controlling for size, however, reveals some interesting variations.

Using either of the measures for the larger charities shows a slightly more positive relationship, with a correlation coefficient of .12 in either case. This again suggests some form of interaction by size. Breaking the sample down into subgroups on the basis of total income, however, reveals a confusing picture that depends on the categories used. Slightly stronger relationships can be found using some size categories, notably those charities with an income over £10 million (r = .19), or under £100,000 (r = .23), but the somewhat erratic variation between categories makes it difficult to draw any firm conclusions. Controlling for ICNPO category does not add much to this interpretation, although there is a small positive relationship within Environment charities, even before controlling for size (r = .25). Substituting different forms of state income also has no notable impact.

Interpreting the relationship between the log2 fundraising ratio and government income as a proportion of total income is more straightforward. There is a positive relationship for both the sample as a whole (r = .24), and the larger charities regardless of the data source (r = .29 for the accounts data, r = .31 for the annual return data). The two graphs for the accounts data are shown below in Figure 11.7 below, and both demonstrate a positive, if slightly curvilinear trend.

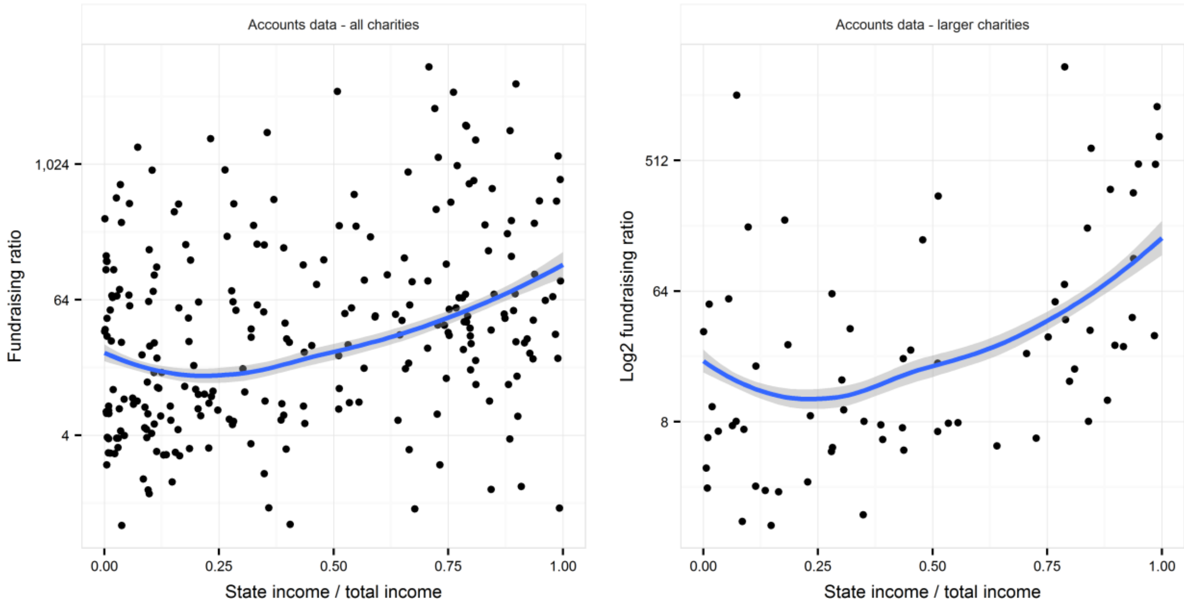

Figure 11.7: Fundraising ratio versus state income as a proportion of total income, for charities with at least some fundraising costs. The left panel shows a subset of the entire accounts dataset selected to be representative of the population (A). The right panel shows a comparable selection of the larger charities (B). Blue lines marks separate loess curves for each panel-group, calculated using the entire weighted dataset, with grey 95% confidence bands. Y axis is log2 transformed.

Controlling for size on this relationship has virtually no effect using either co-plots or linear models. In the latter case the coefficients for government income as a percentage are virtually unchanged by the introduction of size into the linear models. The non-linear interaction seen in the previous relationship is not repeated in this case. The relationship between state income as a proportion of total income and the fundraising ratio appears moderately positive in co-plots for all of the chosen ICNPO categories. It is strongest for Environment charities (r = .29) and weakest for Nursing Homes (r = .07), though the latter appears to be mainly due to outliers.

There therefore appears to a relatively significant, positive relationship between the proportion of income received from the state and the amount spent on fundraising per pound of income. Again, this suggests that those more reliant upon state income may be more efficient fundraisers.

11.3.1. Section summary

There does appear to be some degree of relationship between having at least some state income and the fundraising ratio. If measures are used to limit the influence of the skewed distribution and extreme values, then there is a clear and moderately sized, positive relationship. Contrary to the literature, this would in fact suggest a greater return on the investment for the fundraising costs of state funded charities. This seems to be somewhat dependent upon size, however, as the relationship gradually reverses direction as charities get larger. For the largest charities, having at least some state income appears to be related to a lower fundraising ratio, indicating a lower return in terms of income, though to a lesser degree. Although it is not possible to isolate spending on generating state income specifically, these results seem to contradict the idea that state income may be a relatively 'expensive' form of income, at least for the smaller charities.

For most charities there is little or no relationship between the amount of state income received and the size of the fundraising ratio. There may be a slightly stronger, positive relationship amongst the very smallest and largest charities, but overall the interaction with size is not very clear using this data. Somewhat contradictorily, however, there is a clear relationship between state income as a proportion of total income and the fundraising ratio, for all sizes of charity. This indicates a higher level of income for a smaller level of fundraising costs for those more reliant upon state funding, again contradicting what the literature might have led us to expect.

11.4. Chapter summary

The first section of this chapter explored the claims that state funding leads to greater spending on administrative and support costs. The following specific conclusions can be drawn from this analysis for the larger charities:

- There is no relationship between having any state income and support costs, in absolute terms or as a percentage of total expenditure
- There is a relationship between log2 state income and log2 support costs, but only due to the confounding impact of size
- Log2 state income is not related to support costs as a percentage of total expenditure
- Finally, state income as a percentage of total income is also not associated with support costs in absolute or proportional terms

Overall there does not appear to be much relationship between state income and support costs. Any relationships that were found were too weak to be considered particularly significant and did not stand up to further disaggregation. On this evidence at least, there is very little evidence consistent with the idea that state income is a particularly bureaucratic income stream.

The second section looked at the relationship between state income and spending on generating future funding, for all charities. In particular it explored the fundraising ratio: a ratio of fundraising costs against total income.

- Charities with at least some state income have moderately higher fundraising ratio than those without any state income
- This relationship gradually reverses as charities get larger, however, and there is a small negative relationship for the largest group
- For most charities there is no clear relationship between the log2 amount of state income and the log2 fundraising ratio
- There is a clear positive relationship between state income as a percentage of total income and the fundraising ratio, for all sizes of charity

The fundraising ratio is related to at least some degree, therefore, with the percentage of income received from the state and having at least some state income for all but the largest charities. On the other hand there is no relationship with log2 state income for most charities, and there is a negative relationship between having at least some state income and the fundraising ratio. Overall there is a reasonable degree of evidence that seems to contradict the idea that state income is a relatively expensive form of funding, and very little evidence that the reverse is true.

CHAPTER 12 DISCUSSION

12.1. Introduction

This chapter draws together the results of the previous four analysis chapters and reflects upon their contribution to the various debates reviewed earlier in the thesis. In particular, three defined literatures are considered. First, the results are compared to the review of empirical findings discussed in Chapter 6. The aim here is to establish what we now know that we did not prior to the research for this thesis. Second, the implications of the new findings for the wider policy and practitioner debate on independence, reviewed in Chapter 4, are considered. And third, the theoretical mechanisms discussed in Chapter 5 are revisited and their relevance explored in the context of the results. Some final reflections are also offered on the dataset used, the methodology adopted, and some potential directions for future research activity.

12.2. Empirical findings: the revised state of play

12.2.1. State funding levels

The univariate results on state funding levels have confirmed and expanded our understanding in a number of areas, including headline state income trends, changes to funding at an average, organisational level, and changes to the distribution in state income between charities.

One of the central premises underlying the debate on state funding is that over a number of years it has increased significantly, and in doing so it has become an ever more important source of income for the third sector. Prior to this thesis, our knowledge was largely restricted to the headline, aggregate total figures (NCVO, 2014). This study has confirmed that these figures were increasing between 2009 and 2011, but fell in both 2012 and 2013.

At the organisational level, the results show that the mean level had also been falling from 2012 after earlier increases. The average proportion of individual charities' income accounted for by state funding, however, declined steadily over the entire 5-year period. This raises doubts over whether state funding was really becoming ever more dominant within the sector over the period as a whole, even earlier on when the aggregate total and mean levels were still increasing.

In terms of the distribution between charities, we now know that the number of charities receiving any state income at all remained steady. Because the number of charities overall increased over the same period, however, this means that a smaller *proportion* of the population receive any state income. It has also been confirmed that the largest recipients dominate most of the available state income, and that state income fell more slowly for the top 10% of recipients between 2009 and 2013 than for the rest of the sample, resulting in ever greater levels of income concentration.

As expected from the literature review, the larger a charity is overall the more likely it is to receive state funding, and in larger amounts if it does (Morris, 2000; Chater, 2008; Independence Panel, 2012). This is at least consistent with the idea that there are barriers in place for smaller organisations to access this kind of funding. Conversely, it was found that larger charities do not receive a higher proportion of their funding from the state compared to smaller charities, a notable new insight.

Again as expected from the literature, the amount and importance of state funding differed between different industries (NCVO, 2014; Independence Panel, 2013). Social Service charities and Nursing Homes were particularly likely to receive state income and to be more reliant upon it (see also Charity Commission, 2007; IFF 2007), perhaps reflecting the established nature of contracting in the broad area of social care.

To summarise, these results largely confirm the pre-existing picture of state funding, but have also expanded that picture with new insights at the organisational level. Some of these findings also question the idea that state funding has been increasing in importance over the last few years, even before the aggregate levels began to drop.

12.2.2. Number of volunteers

The literature was generally quite negative about the relationship between state income and the role of volunteers within charities (Seddon, 2007; Chater, 2008). A variety of qualitative evidence suggested that state funding creates a more hostile volunteering environment (Alcock et al. 2004; Buckingham, 2012). This might ultimately lead to disengagement by volunteers or charities investing their efforts on recruiting paid staff instead (Russell and Scott, 1997).

The findings from Chapter 9 provided mixed evidence, but overall found some support for this narrative. The measure used to explore the relationship was a raw headcount of volunteers, available for the larger charities only. Given that this information was only made mandatory in the annual return for the most recent year of data (2013), the findings undoubtedly provide a fresh insight onto the topic.

In contrast to most of the literature, some of the findings were in fact ‘positive’ in nature. Having at least some state income increased the likelihood of having volunteers and using them in greater numbers. Initial increases in the proportion of income received from the state also increased the likelihood of using any volunteers slightly. It may be that having at least some state funding, especially in non-trivial amounts, is a signifier of the type of charity under consideration. State funded charities might be more closely aligned to the idea of a 'service charity' that provides services or goods, which may in turn be more likely to utilise voluntary labour beyond trustees and in greater amounts.

After controlling for size, however, the relationship between volunteers and absolute state income is negative, as is the relationship between volunteers and state income as a proportion of total income. The *proportion* of volunteers in the larger charities' workforces is also negatively related to state income in both absolute terms and as a percentage of total income. Having any state income at all is unrelated to the proportion of volunteers, except for the very largest charities where the variables are negatively related. These results *do* seem consistent with the idea of an antagonistic relationship between volunteers and state income, or at least provide no support to the countervailing possibility that higher state income levels promote the use of volunteers.

A less prominent claim found within the literature was that state income can crowd out donations from individuals (Hanvey and Philpot, 1996; Seddon, 2007). The results are again mixed, but overall seem to point more in favour of this 'crowding out' hypothesis than against it. Looking at the entire sample, no relationship was found between having any state income and having any donations at all. Having one source does not make having the other any more or less likely. This at least suggests there has not yet been a bifurcation between donative and non-donative charities (Knight, 1993; Hansmann, 1987).

But having at least some state income *was* generally associated with a lower average level of donative income, even after controlling for size. Similarly, for most charities, having at least some state income significantly reduces the average reliance of charities upon donations. This is consistent with the idea that the two sources are not mutually reinforcing and may crowd one another out. State income may not make it more likely a charity has *no* donations but it might make pursuing donative income a lower priority overall.

The exception in both cases is again for the very largest charities. In these huge organisations, at least some state funding is associated with both a higher level of donative income and greater reliance upon it. It is possible that for these huge charities there is an enabling effect, where state income can help to develop their professional fundraising capacities overall, ensuring greater financial support from the public.

For charities that do receive at least some of each funding source, after controlling for size, the relationship ranged from flat to moderately negative. The relationship is also negative if either or both of the variables is transformed into a percentage of total income.

Overall, therefore, the links between state funding and voluntary characteristics are mixed. State income and volunteering are clearly not necessarily conflicting resources. But the relationship of most relevance to the policy debate, between the reliance of charities on each resource, is moderately negative. And although the probabilities of having at least some of either state or donative income do not appear linked, the overall relationship between the two funding sources does appears in general to be negative.

The relationships are never large and do not establish causation, but on balance they are at least consistent with the negative view portrayed in the literature and provide the clearest relationships uncovered within this thesis. The results provide the first indication of how changes to volunteering within charities observed within individual case studies have played out in aggregate at the sector level.

12.2.3. Financial security

The literature review provided somewhat contradictory evidence on the financial implications of state funding for charities. Most of the evidence reviewed was negative, suggesting increased uncertainty and financial strain as a result of taking on state contracts (Smith and Lipsky, 1993; Leat, 1995a; Scott and Russell, 2001, Alcock et al., 2004; Martikke, 2008). The risks of chronic uncertainty were most heavily emphasised, due to the incremental, fragmented and short term funding model of much state funding (Martikke, 2008; Cunningham and James, 2007). Full cost recovery was also a major concern, with widespread suggestions that payment for service delivery may be insufficient to cover all costs (Scott and Russell, 2001; Martikke, 2008; Alcock et al., 2004). This could lead to making a loss, cross-subsidisation, debt, or running down of reserves.

Not all the state funding described fitted this mould, and so the impact was seen as depending on the length, terms and conditions and payment mechanism of the funding relationship (Common and Flynn, 1992). Some studies found that state income was perceived as more generous and secure than others sources, and could even provide a healthy surplus (Chater, 2008). More often than not though, the impression was that state income posed a particular challenge for financial stability.

Starting with profitability, the results from this study suggest that, for most charities, having at least some state income does not make a major difference to the likelihood of making a loss or a profit, nor the average level of that loss or profit. Having more state income or relying on it more are similarly unrelated.

The largest charities are again the exception. Having state income is modestly associated with the probability of making a loss, and a lower average profit margin overall. Perhaps the stakes are simply higher for these large organisations, who may have sizable teams of staff invested in delivering multiple or large state contracts. For most charities, however, state income did not appear to be a particularly important predictor of financial profitability in either direction, which is somewhat surprising given the generally pessimistic findings from the literature review.

If a charity does struggle to cover its costs due to state income, or has to invest in expensive assets to deliver contracts, then this could manifest itself in the form of higher debt levels. A range of small relationships were found which supported the idea that state income is related to indebtedness, but the effect sizes were generally small and stood up poorly to any disaggregation, indicating it is at best a very minor predictor. The same is true for short term assets and debts as measured by the current ratio.

In contrast there was a much clearer relationship between state income and reserve levels. And although the relationship is not large, it is distinctly negative. Amongst the larger charities for which data was available, those with state funding have slightly lower average reserve levels. A larger amount of state income and a higher proportion of income from the state are also both moderately related to lower reserves. These results do lend at least some support to the idea that state funding is causing charities to run down their reserves through cross-subsidising government contracts, and is certainly not consistent with the idea that it puts them in a stronger position to build up reserve levels.

Overall the link between state funding and financial health, using this data source, appears less negative than the wider literature would suggest. There is little evidence using these indicators that state funding is related to obvious financial distress and indebtedness across the sector as a whole, though the relationship with reserves may be worth pursuing further.

12.2.4. Bureaucratisation

The qualitative evidence uncovered from the literature review suggested very strongly that the whole process of applying for and receiving state funding was a huge administrative burden. Gutch (1992) famously described state contracting in the US early on as a 'vast bureaucratic paper chase', and based on a wide range of case studies, the UK appeared to have followed suit (Scott and Russell, 2001; Alcock et al., 2004; Audit Commission, 2007; Martikke, 2008; Cunningham, 2008; Buckingham, 2008; Bennett, 2014).

A suitable measure was available for the larger charities that measures their overall spending on administrative support activity. The results overall did not appear consistent with the hypothesised link between bureaucracy and state income. There was very little evidence that support costs were higher for state funded charities, those with higher levels of state spending, or those that received a higher proportion of their income from the state. Although these findings are limited to the larger charities and the measure is not a perfect indicator of administrative activity, the results on support costs are currently not at all favourable to the widespread bureaucratisation hypothesis.

The second indicator used to explore the links between state income and bureaucracy was the fundraising ratio, which reveals the amount of overall income received per pound spent on income generation. The higher the ratio, the greater the income a charity receives in return for its investment in fundraising. The results for this section were more mixed. The relationship between the fundraising ratio and the absolute amount of state income varied depending on the size of the charities examined, somewhat unpredictably. There was a clear, positive relationship between the proportion of income received from the state and the fundraising ratio, however, and for all but the largest charities, having at least some state income was associated with a higher average fundraising ratio. For the largest charities, the reverse is true, to a lesser degree. There was no evidence to suggest that state income might be linked to a *lower* fundraising ratio, and some clear evidence that it was associated with a higher level.

Although the fundraising ratio tells us about the costs of fundraising for income overall, rather than state income, it is remarkable given the findings from the literature review that not only do these results *not* support the bureaucratisation hypothesis, but actually run in the opposite direction. This might suggest that state income is actually a relatively inexpensive form of income to develop. There is certainly no evidence from this measure that state funding leads charities to spend *more* on generating income.

12.2.5. Mediating factors

The emphasis placed upon size in the literature appears justified by the results in this thesis (Independence Panel, 2013; Morris, 1999; Cunningham, 2008). In the course of the analysis, size emerged repeatedly as a major predictor for many of the organisational characteristics explored within the analysis, often acting as a confounding or mediating variable for state income. In particular, the very largest charities often stood out as an exception to the general trend. Although the aim of the study was not to directly explore the impact of size itself, it is hard to escape the impression that the differences between large charities and smaller ones far outweigh any influence state funding may have.

It is also clear that in some cases, the size and even direction of the relationship between state funding and other variables differs between ICNPO categories. But there is very little overarching pattern to how this occurs. In the case of voluntary characteristics, Nursing Homes appeared to buck the trend more often than in the other categories, but this was not found in the other topics of study. Nevertheless, to the extent that the research attempted to verify, at the general level, that the impact and distribution of state funding varies by industry, this does appear to have been confirmed.

The distinction between either local and central government income, or grant and contract income, is not as clear cut. Although caveats were raised concerning the blurred nature of the latter distinction in particular, it was heavily emphasised in the literature as a major mediating factor in the influence of state funding. Although some exceptions were uncovered, generally speaking this was not the case in these results. Where a relationship was found between state funding and some other characteristic, it was generally found regardless of the type or source of that state funding.

12.3. Narrative of lost independence

Having reviewed the additional knowledge contributed by this thesis, it is worth considering the implications of those findings for the wider policy and practitioner debate on state funding and the third sector. The dominant narrative on third sector independence, as outlined in Chapter 4, is that it is either in significant peril or that it has already been fatally undermined by state interference, largely conducted via a highly contingent funding regime. Carmel and Harlock (2008) argued that the third sector was rendered 'governable' under New Labour. Seddon (2007) claimed that state funding and independence are intrinsically incompatible. The final report by the Baring Panel on the Independence of the Voluntary Sector (2015) found unequivocally that independence and freedom were being routinely undermined and that TSOs were increasingly shackled to the will of the state. The NCIA has campaigned vociferously against contracting, which they claim renders TSOs as servile and degrades their integrity and values (NCIA 2013b; Rochester, 2013).

All these points of view seem to share a common understanding that there is something unique and valuable to be found within the third sector and that this third sector 'essence' is being systematically undermined due to state influence, particularly via service delivery contracts. And in order for this to be plausible, the implication is that state funding must be having a large scale and widespread impact upon its third sector recipients.

As discussed in the evidence review in Chapter 6, much of the research on this debate is based on high quality, intensive qualitative work within individual case studies. There is also a good deal of fairly anecdotal commentary, however, which sometimes borders on the polemic. Although this thesis is inevitably constrained by the data and indicators available within the charity accounts, it offers the first major insight into whether the changes observed in *some* organisations have translated into widespread trends at the aggregate, sector level.

Based on the results, the conclusion, by and large, must be that there is at best only very limited evidence from the accounts and annual return data which supports the dominant narrative on state funding. On a number of the potential relationships explored, there was little or no relationship between the indicator chosen and state income at all, either in binary, absolute or proportional terms. In particular, there was no evidence to suggest a link to the level of financial surplus or loss, and very little to link state funding to indebtedness.

The level of financial surplus is available for the entire sample and is perhaps one of the most reliable measures included in the accounts dataset, given the relative lack of subjectivity involved. If state income was systematically leading to severe uncertainty and a lack of full cost recovery, above and beyond other income sources, then it is not plausible that this would fail to show up even slightly within the data. Similarly, the small and inconsistent relationships between state funding and the various measures of debt are not what we would expect if state income was having a major, sector wide impact on indebtedness.

At the very least it is incumbent upon those who might oppose state funding on these grounds to construct a plausible argument as to why no substantial correlation has been found. Perhaps the third sector as a whole, even when limited to the subsection outlined in Chapter 7, is too broad a population and a more refined sub-sample is needed. But this does not reflect the language currently deployed in the independence debate, which routinely refers to the third or voluntary sector as a whole.

Even more stark is the lack of a significant correlation between state income and the support costs recorded by the larger charities. There is a great deal of variation in support costs between these charities, and state income accounts for very little of it. Yet the administrative burden of state contracting at the bidding and delivery stages was highlighted repeatedly in the literature and was one of the most emphatic findings from the existing qualitative research. The lack of a sector-wide correlation does not of course mean that state funding is not bureaucratic, but there is no evidence at the aggregate level that it is any more so than any other income source. And if there is no systematic link, then it follows that state income is no more likely to draw funding and resources away from the front-line and beneficiaries or lead to disproportionate opportunity costs.

In the case of the fundraising ratio, although the results were somewhat difficult to interpret and potentially vulnerable to the quality of the reporting from charities, the evidence in fact pointed in the opposite direction to the literature. It suggested that having some state income or being more reliant upon it might be related to a higher return on investment in fundraising costs. There was almost no evidence in favour of the hypothesis that state funding was increasing relative spending on fundraising costs.

However, there were also some relatively clear relationships uncovered that were at least consistent with the dominant narrative. Perhaps most notably charities with at least some state income, more of it, and those more reliant upon it, were somewhat less likely to be reliant upon volunteers compared to paid staff. This suggests that state funded charities are more professionalised than their counter-parts. Similarly, state funded charities were likely to have lower levels and be less reliant upon donations.

Even with these seemingly more confirmatory results, it is important to keep the results firmly in perspective. First, correlation is only the first step towards demonstrating a causal link. It was not possible to rule out all the potentially confounding factors using the accounts dataset, and nor was it possible to track change over time.

Second, the correlation between, for example, the proportion of all income received from the state and the proportion of volunteers in the workforce is -.22, a small but not trivial effect size for the social sciences. But this means the proportion of state funding can account for just 5% of the variation in the reliance upon volunteers (the R^2), even if we ignore the possibility of other confounding factors or that the direction of causation might be reversed. Similar correlations, such as that between state income as a proportion and log2 months' reserves, are smaller still at r = .17. So whilst this suggests that state income might be a small but significant predictor of some outcomes, it does not offer support for the idea that the sector as a whole has been shaped decisively or dramatically by its receipt of state income.

This limited interpretation of the results is important, as it has implications for the changes that might be considered appropriate or desirable for policy and practice. The supporters of the dominant narrative disagree as to their preferred response to a loss of third sector independence, but all have clear views that the status quo must change more or less radically.

At one extreme Seddon (2007; also Knight, 1993) recommends a model of complete separation, with the true voluntary sector relying purely on donations and eschewing all state income. The NCIA appear to desire a return to predominantly third sector specified grant funding as part of a supplementary model (2014; 2015; Aiken, 2014). The Baring Panel (2011, 2015) calls for moves towards a more partnership based model of state funding, though not necessarily a reduction in contracting. This would be consistent with a more complementary view of the third sector's role (Salamon, 1987).

In the context of at best rather limited results, these radical demands as to how the sector as a whole ought to be reshaped to operate in relation to the state begin to seem somewhat out of proportion, even quite imperialistic. There is no evidence to suggest a stark bifurcation between professionalised, state funded charities and their non-state funded counterparts has occurred, or needs recognising in policy terms. And there is no evidence that contract funding is having a dramatic, transformative impact, distinct from that of grant funding.

Instead, the results seem to favour those who have challenged the dominant narrative, without necessarily precluding the need for some concern or positive change. This includes authors such as Blackmore (2008) who pointed out the weak evidence base within the independence debate. Or Chater (2010), who found that few of his case studies in the Housing field saw dependence on state funding as inimical to autonomous action. Many also noted the two-way exchange of resources between the sectors that helps to balance out state dominance (Alcock et al., 2004; Chater, 2008; Saidel, 1991).

Of course this does not mean that no changes are necessary, that the issues unearthed in case study work do not need addressing, or that the relationships uncovered are no cause for concern at all. More research into the relationship between state funding and voluntary characteristics, and reserve levels, certainly appears justified. Nor is the impact upon the voluntary sector the only reason why contracting might face critique as a social policy. There are a variety of reasons why quasi-markets might prove problematic as a welfare delivery model, not least a very limited evidence base for their effectiveness (PASC, 2008). But it does mean that if a major rethink of inter-sector relations is being called for, on the basis that the third sector is being transformed wholescale into something fundamentally new and less valuable, then policy makers and practitioners would be well advised to look sceptically at the limited supporting evidence available so far.

12.4. Theories of organisational change: diversity and uniformity under the same roof

The theoretical review in Chapter 5 identified a range of theories which suggest a link between an organisation's sources of income and changes to its characteristics and behaviour. And in aggregate, if many organisations face the same pressures, we might expect them to begin to look more similar to one another, and more distinct from those not subject to the same pressures. In other words, we would expect to see correlations. As discussed in the above sections, however, the results of this study showed that despite historic levels of state funding, the third sector, and state funded charities specifically, continue to demonstrate more in the way of diversity than uniformity. This suggests that despite many organisations potentially facing the same external pressures from state funding, the range of organisational outcomes remains highly diverse.

One seemingly intuitive explanation for the observed diversity is simply that the influence of external pressures, such as those resulting from state funding, are overrated. Perhaps there is more room for individual agency than assumed in many of the more structuralist theories. As outlined in Chapter 5, strategic choice theories focus on the ability of actors to pursue their own idiosyncratic strategies and goals on the basis of internal decision making. It may be that TSOs are able to strategically determine their spending priorities, their emphasis on volunteers and to navigate financial stresses fairly independently of any pressure emanating from state funders.

The problem with these approaches is that they inevitably lack explanatory power, whether the observed outcome is diversity or uniformity (Hay, 2002). Strategic choice theory would not explain why patterns were found, despite their limited size, between state income and volunteering, reserve levels or spending on fundraising, or why these patterns sometimes differed on the basis of overall size. But nor would it particularly explain why organisations ended up experiencing such diverse outcomes, other than due to 'natural', exogenously defined differences in their aims and characteristics. Furthermore, an entirely agent centred account would contradict findings from qualitative research that at least some organisations clearly do experience pressures from their funders, and change their behaviour accordingly.

On the other hand, a simplistic reading of environmental, 'adaptive' theories would swing too far in the other direction. The central premise of resource dependency, as outlined by Pfeffer and Salancik, 1978) is that in order to understand the behaviour of an organisation you must first understand the context and contingencies that surround it. This makes it tempting to expect resource dependency theory to predict outcomes fairly deterministically on the basis of the demands of resource providers and the reliance of recipients on the relevant resources.

But in fact the majority of Pfeffer and Salancik's 1978 book is actually given over to the many ways that organisations can resist, avoid, mitigate, or adapt to the pressures that their dependencies create. They outline how the power of suppliers varies based on a host of factors including the size, formalisation and frequency of the resource exchange, and the reciprocity between the different actors (see also Mictchell, 2014). They also outline how organisations are likely to face a range of competing demands from different sources which pull them in different directions. They must interpret and prioritise these demands on the basis of imperfect knowledge and a finite ability to process information.

In this light, the diversity of results observed, alongside a few aggregate patterns which still break through, seems to fit more comfortably within the scope of resource dependency theory. In most cases organisations will not react deterministically to external pressures resulting from state funding, but in a few cases the demands may be strong enough and recurrent enough to result in a correlation at the population level. On the other hand, the fact that organisations face demands but often resist them also does not take us too far forward in terms of predicting which organisations might successfully avoid compliance and when.

This suggests that we might need to know more about the funding relationship and resource exchange in order to better predict where the greatest impact will occur. By and large this level of detail lies beyond the scope of the accounts dataset, as we do not know the frequency, level of reciprocity or a range of other factors relating to the resource exchanges between an organisation and the state. We also know little about the formalisation of the arrangements beyond whether a source is broadly categorised as a grant or contract. But it might be possible in future to categorise the raw accounts data in more detail to determine whether an organisation is reliant upon a single state contract or many different contracts. Resource dependency theory would suggest that any work which helps to distinguish between different types of resource relationship would be beneficial to advancing our understanding.

New institutionalist theories, like resource dependency theory, are also 'adaptive' in the sense that they predict organisational change in response to external environmental forces. They have also been accused of being overly deterministic (Fligstein and McAdam, 2013; Zucker, 1987). To recap, regulatory institutionalism focusses on behavioural change caused by the threat of direct or indirect sanction from an external resource provider or regulator (Scott, 1995). Lower volunteer levels, for example, might result from demands from state funders and regulators for qualified staff in certain roles. Normative institutionalism focuses instead on normative expectations as to what is considered appropriate and legitimate behaviour for organisations of a particular type (March and Olsen, 1984). So TSOs might maintain a higher proportion of staff because this is seen as 'normal' and appropriate behaviour for a state contractor in the field of social care. And finally cognitive institutionalism suggests some of these norms are internalised not just to the extent that they define what a state contractor ought or should do, but to a degree what a state contractor actually *is* (Zucker, 1987). Perhaps an organisation with no staff is simply not recognised as a service provider by the state or other actors at all. All of these pressures relate in some way to actors following a set of explicit or implicit rules.

Part of the reason that new institutionalism is often seen as deterministic is the centrality of the concept of isomorphism. As referred to briefly in Chapter 5, 'isomorphic pressures' are frequently conflated with the concept of 'isomorphism' as an outcome of those pressures: namely homogeneity within a field of organisations which share similar institutional pressures (e.g. Leiter, 2005; Olivier, 1998). In their original treatise on isomorphism, DiMaggio and Powell (1983) assert that organisations in fields all move towards an archetypal bureaucratic agency model, as a result of isomorphic pressure. When writers such as Milbourne and Cushman (2015) write about the influence of isomorphic pressures due to the state, they explicitly argue that this means a predictable direction of travel towards the shared endpoint of 'isomorphism'.

Reconciling these expectations to the results of this study is challenging for variety of reasons. How much similarity is necessary between organisations in order to judge that isomorphism as an outcome has occurred? And would we expect the similarity to occur between state funded charities only or more widely? If the former, or if state funded charities were moving more quickly, then we would expect to see correlations between state funding and at least some organisational characteristics. As explained above, there are some limited correlations for some of the indicators explored in this study, but not others. This leads to further questions as to which organisational characteristics we would expect to exhibit isomorphism and why.

It is worth addressing some of these issues in more detail, as it helps to explain why the variation of outcomes remains so high amongst both the state funded providers in this study, and the wider sample, as well as perhaps suggesting the way forwards in research terms. The general conclusion is that despite a wealth of evidence in Chapter 6 that individual TSOs do face institutional pressures, the theoretical and empirical basis for expecting predictable, homogenous outcomes at the aggregate level is rather weak.

First, a central premise of isomorphism theory is that isomorphic pressures and the resulting homogeneity take place within fields. DiMaggio and Powell (1983) originally defined a field as all the organisational actors involved in the delivery of a particular good or service (DiMaggio and Powell, 1983), similar to the idea of an industry or service area. In practice the concept of field draws much more heavily on the ideas of Bourdieu, with the salient identifying features including a high level of interaction between participants, flows of information, and a shared awareness of membership and common interests (DiMaggio and Powell 1983; DiMaggio 1983; Scott, 1995). Furthermore, isomorphism is expected to be higher in more 'structurated' fields, where these salient features occur to a higher degree (Di Maggio, 1982). In these fields the higher levels of interaction provide greater opportunities for coercive, mimetic and normative isomorphic pressures to occur and therefore institutions to pass more easily between organisations.

The centrality of the field concept, however, raises the dilemma of how to identify a field in practice. It is certainly possible that the third sector as a whole, or more specifically the part of it involved in state contracting and receiving state funding, is insufficiently structurated and lacks the intensive interaction necessary for isomorphism to occur (Leiter, 2005). But if so, then how does research move forwards while still addressing the core concerns of the debate on third sector independence? One option is to further incorporate the idea of an industry into research design, as DiMaggio and Powell (1983) originally suggested. ICNPO categories were used as a control variable in this study precisely because the concept of an industry or service field was identified as an important factor within the research literature. But while these, and the Standard Industrial Classifications used by Leiter (2008), are better than no industry classification at all, there are severe limitations, some of which were discussed in the methodology chapter (Chapter 7). These include the mutually exclusive nature of the categorisations, the very broad definitions used and the need for automatic classifications on the basis of key words and charity names.

In order to identify a single field to act as the population of a research study, however, a more bespoke and nuanced approach might be possible. Fligstein and McAdam identify strategic action fields as arenas in which organisations interact and compete under a set of common understandings. These include the purpose of the field; the position, role and power of different actors; and the field institutions or rules (Fligstein and McAdam, 2011). Taking this definition as a starting point might better reflect the environment in which pressures occur, though it poses some severe measurement challenges. A detailed mapping exercise might make it possible to delineate a field of relevant organisations in this way.

Another, perhaps more practical option might be to build a field based population around the idea of a 'stake' or common resource, around which actors compete (Bourdieu and Wacquant, 1992). This might be easier to identify, such as by identifying all organisations that bid for a central government funding source such as the Work Programme. DiMaggio (1982) argued that state funding is a particular cause of field structuration as it centralises resources, provides a common focus and adversary, increases the potential for coercive isomorphism and regulation, grants legitimacy to recipients, increases the need for networking, and reinforces a sense of shared purpose and field ideology.

A second major issue, identified above, is that it is not very clear from isomorphism theory which organisational characteristics we would expect to exhibit homogeneity (Oliver, 1988, Frumkin and Galaskiewicz 2004). The relevant characteristics might be those most related to the source of interaction within the field, or could be towards one of various 'archetypes' (Slack and Hinings, 1994; Frumkin and Galaskiewicz, 2004). DiMaggio and Powell suggested the direction of travel is towards a bureaucratised and professionalised, archetypal organisation, while Leiter (2005, 2008) seems to be looking for organisations to move towards some sort of statistical average of the field.

Without more clarity, the risk is that the concept of isomorphism can only be applied descriptively, post-hoc. So we might judge from this study that state funded organisations are becoming isomorphic in relation to their workforces and volunteers, but not indebtedness levels, without any firm theoretical foundation as to why. Alternatively, it could be argued that stronger correlations, or homogeneity between state funded charities, were not found because we lack the right measures and indicators in the accounts dataset. Or the concepts themselves under exploration were perhaps not those where isomorphism is most likely to occur.

The central idea, however, that organisations facing similar external pressures will end up looking similar in terms of their characteristics is fraught with difficulties. Even if we can identify the point of equilibrium towards which organisations are heading, some might adapt at different paces, and there is no guarantee that this 'end destination', whether an ideal type or average, will remain stationary. It is also unclear what timescale isomorphism is supposed to take place over (Oliver, 1988). As Leiter (2008) reflects, different NPOs start from different positions in terms of their values, ideologies, boards, strategies, resources and power, and their perceptions of the environment and its pressures. As Ramanath (2009) discovered in the field of Indian Housing NGOs, organisations facing similar pressures from the state still experienced different challenges and responded in different ways. Their response depended partly on their idiosyncratic histories and values. This represents a form of path dependency: previous change constrains and inhibits future change.

As with the more explicit demands relating to resource dependency or regulatory isomorphism outlined above, organisations may also resist or subvert the pressures to act legitimately or appropriately, or perhaps even seek to redefine those expectations (Lowndes, 2010; Zucker, 1987). The extent to which they are successful in these attempts depends upon their position, resources and power within their field. Nor will the expectations and potential responses be laid out on an easy to follow map. Organisations also must interpret their environment and arrive at a strategy in the face of a bounded rationality and a lack of comprehensive information with which to interpret potentially conflicting demands. In sum, as Lowndes (2010) puts it, “rules produce variation and deviation as well as conformity” (p.100).

These limitations of isomorphism theory again draw us closer to the strategically selective environment outlined by Hay (2002), or Strategic Action fields (Fligstein and McAdam, 2011) as outlined in Chapter 5. The key to both theories is combining the idea of strategic and reflexive agency with environmental and structural constraints. Hay’s ideational and material feedback loops identify the limited options and resources faced by actors, but also take account of their strategies and remaining choices between viable options. And at the field level, Fligstein and McAdam (2011) explicitly try to overcome the more deterministic elements of institutional theory by incorporating a much stronger emphasis on agency. They focus their attention on the varying resources, standing, position and power of different actors, and the shared rules and understandings of the fields in which they operate.

The methodological challenge that such an approach poses for future studies is considerable, but not insurmountable. It is likely that a mixed method approach would be needed that can combine field level, aggregate statistics and quantitative methods, with more perception based qualitative data from organisational actors. The reward, however, would be a more nuanced understanding of the pressures that third sector organisations face, and the patterns that emerge in terms of how subsets of these organisations are able to respond to those pressures. This means understanding more about the pressure that emanates from a funding source, incorporating many of the insights from resource dependency theory, as well as more about the recipient, and its power and inclination to react to those pressures. In this way, we might be able to move towards a more comprehensive explanation for both the diversity and conformity of results within highly state funded fields. On a practical level, investing resources in a rich descriptive study that aimed to map the resource flows and the position of actors within a particular service field, perhaps within a local area, would be a valuable next step.

12.5. Future research

On the basis of the results it is worth reflecting briefly on a few methodological and substantive issues that might be worth pursuing in future research, as well as the overall approach taken for the analysis. These include further work on industrial classifications, expanding the analysis to smaller charities, and conducting further longitudinal analysis in the most promising areas, specifically those relating to voluntary characteristics.

The previous section has already outlined the potential benefits of a more field based, mixed methods approach. But even for purely quantitative based studies that wish to incorporate a measure of field or industry, there is substantial room for improvement. There is ample evidence from the results here and in other studies that these distinctions are important, and that it is difficult to draw firm conclusions about the nature of the third sector as a single entity. At the same time, while they are better than no industry classification at all, there are limitations to the existing sets of classifications that have already been covered. Given the overlapping and complex nature of industrial fields (Fligstein and McAdam, 2011), there seems a great deal of potential benefit in the development of a new, complementary way of identifying different spheres of activity within quantitative third sector datasets. These would still need to be applied on the basis of key word searches in the first instance, but could be developed on a bespoke basis allowing greater attention to checking the classification. There would also be no need for mutual exclusivity when applied to charities, allowing us to capture the full extent of an industry field.

Many commentators have also lamented the lack of attention paid to the smallest charities and those 'below the radar' that aren't officially registered with the commission. It is undeniable that for largely pragmatic reasons this study has done little to reverse this imbalance by restricting the sample to those charities with an income over £25,000. Although including unregistered organisations poses major issues, including the smallest registered charities may be possible if it was made a priority in future waves of the account data.

From the initial unsuccessful attempts at analysis including micro charities in the analysis, it seems clear that the small number of accounts collected by the charity commission for accountability purposes are insufficient to represent this size strata. Clearly, there are resource implications for any solution, but charities with an income under £25,000 *are* required to present accounts when requested. By asking for a wider group to provide their accounts for use in the dataset, it may, therefore, be possible to include these charities more successfully in the future. In addition, there is arguably greater scope within the process used to produce the accounts dataset to introduce more logic checks to continuously improve data quality. This would help foster greater confidence in the classifications used in the dataset, particularly for the smaller organisations.

This study also restricted itself to a single year of the dataset. Partly this was due to the limited number of years available at the time of the analysis, and partly due to the decision to prioritise breadth over depth when working with a new dataset. As more waves become available, however, there is clearly scope for more longitudinal work using the accounts data. If state income was to form the focus of any further analysis, then the link with voluntary characteristics arguably has the most promise to produce interesting results over time. The new requirement for charities to explicitly list their state funding in their annual return will also strengthen this analysis, and provide a means to confirm the exploratory results of this study. More broadly, there is also significant potential to explore financial vulnerability and survival using panel analysis.

In terms of the overall approach to the analysis, the exploratory data analysis used in this study generally paid dividends. The approach provided the flexibility needed in the face of a largely untapped dataset and weakly specified hypotheses. The predominantly visual methods revealed a number of interactions and cases of non-linearity that may otherwise have been missed. They also hopefully succeeded in providing a more accessible medium for presenting the results, while describing in depth the shape and size of the patterns in the data.

At the same time, the need for more heavily quantified information such as correlation and regression coefficients to help interpret the visualisations became increasingly apparent throughout the analysis. To successfully conduct an exploratory analysis, a full toolkit of analytical techniques is needed, often looking at the same relationship in a range of different ways to aid interpretation. The inductive approach also has a cost in terms of our confidence in the results. None of the findings in this study can be taken in complete confidence until they are confirmed by further data. There is a very real risk that some of the relationships uncovered, or ruled out, are the result of quirks within this particular sample. Confirmatory analysis is now necessary, perhaps using the forthcoming measure of state funding levels that charities will be required to include in their annual returns, as of 2014.

12.6. Conclusion

The findings of this thesis, perhaps inevitably, defy simple summaries or sweeping conclusions. This in itself provides an important counterbalance to the often strident claims made in the debate on state funding for charities.

Starting on the negative side of the balance sheet, many of the findings in this study suggest that state income is not a major predictor of the organisational characteristics it is often linked to in the literature. Where it *is* associated with voluntary characteristics, financial indicators, or measures of administrative spending, often there are caveats related to which charities the relationship applies to and the size of any correlations are at best moderate, but usually quite small. Organisations are of course complicated entities, and it should perhaps come as no surprise that they do not shape themselves on the basis of their funding source in a predicable or deterministic manner.

Despite the limitations, we undoubtedly now know more about the relationship between state funding and charities' characteristics than we did before. For the first time we have some reasonably reliable figures that we can attach to estimates concerning state funding, or its relationship with other factors.

We know that total state income levels have been falling in recent years, along with the mean level. The number of organisations in receipt of state funding has stayed roughly the same, but a smaller proportion of charities now receive any state funding at all. At the same time, state income is now even more concentrated within the biggest recipients, while on average charities rely less on their state income than they did. We have also confirmed the unequal distribution of state funding between different groups of charities, and the dominance of both contract and local authority funding. We now know that there is often a difference between the impact of having any state income at all, having greater levels of it, and it accounting for a higher proportion of total income. This was shown repeatedly throughout the bivariate analysis.

We know that that for the larger charities, despite some mixed evidence, there are clear links between state income and lower numbers of volunteers. And for those larger charities with a large amount of state income, there are also links between state income and a lower ratio of volunteers to paid staff. We know that state funded charities are likely to have a lower level of donations and rely on them less. So too are those that rely on the state for a higher proportion of their income. We know that generally speaking state income is a poor predictor of profitability for most charities. State income is only weakly related to current or long term debt levels, but for the larger charities state funding is associated with a lower level of reserves. On the issue of bureaucratisation and support costs, we know that state income is not generally related to how much charities spend on administration and non-front line activities. On the other hand we now have qualified evidence that state income is a somewhat inexpensive form of income compared to other sources.

Perhaps the most important contribution of the study, however, is not so much any individual link or relationship, but that for the first time we have been able to view the relationship between state funding and other characteristics at a broad level, across many charities and using a range of measures. We have been able to obtain a better understanding of the scale of the relationships involved at this aggregate level. There is plenty in the above results that could be taken up by those who are concerned by, or campaign against a close funding relationship between the state and third sector services providers (Independence Panel, 2015; NCIA, 2015). The relationship between state income and the various outcome variables is generally either in the direction predicted, or there is little relationship at all. Very rarely does the evidence support a diametrically contradictory interpretation to these critical voices.

My overall evaluation, however, is that while the evidence presented here does not necessarily directly undermine the arguments these authors make, it does not offer it a great deal of support either. Claims that the third sector as a whole is being changed beyond recognition due to state funding appear exaggerated (NCIA, 2013a; NCIA, 2013b). There is no 'smoking gun' in these results to support such an outlook. The results are strongest regarding voluntary characteristics, but for most of the results concerning financial health or bureaucratisation there is little supporting evidence to be found at all.

The only sensible advice to put forward to practitioners or policy makers concerned about this area is that they should focus on the specific circumstances of charities' individual funding relationships, rather than state income as a general class of funding. At the individual level, qualitative evidence tells us that the relationship with a government funder can be problematic and challenging. But at the aggregate, statistical level there is meagre evidence to suggest that state funding is particularly unique in this respect or wields a disproportionate influence over how charities look and behave.

REFERENCE LIST

6, P. and Leat, D. (1997) ‘Inventing the British Voluntary Sector by Committee: from Wolfenden to Deakin’, *Non-Profit Studies*, **1** (2), pp. 33-47

Åberg, P. A. (2013) ‘Managing Expectations, Demands and Myths: Swedish Study Associations Caught Between Civil Society, the State and the Market’, *Voluntas,* **24** (3), pp. 537–558

Åberg, P. A. and von Essen, J. (2010) ‘Isomorphic processes and discursive strategies Swedish study associations caught between civil society, the state and the market’, *ISTR Conference Working Papers,* 7, pp. 19-30

Aiken, M. (2007) ‘What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?’, Cabinet Office Think Piece, November, London: Office for the Third Sector

Aiken, M. (2014) *Voluntary Services and Campaigning in Austerity UK: Saying Less and Doing More*, NCIA Inquiry into the Future of Voluntary Services, Working Paper 16, December, London: NCIA

Alcock, P. (2010) ‘A Strategic Unity: Defining the Third Sector in the UK’, *Voluntary Sector Review*, **1** (1), pp. 5-24

Alcock, P., Brannelly, T. and Ross, L., (2004) *Formality or flexibility? Voluntary sector contracting in social care and health*, Birmingham: University of Birmingham

Aldrich, H. (1976) ‘Resource Dependence and Interorganizational Relations: Local Employment Service Offices and Social Services Sector Organizations’, *Administration & Society*, **7** (4), pp. 419–454

Arber, S. (2001) 'Secondary analysis of survey data', in N. Gilbert (ed.) *Researching Social Life*, 2nd ed., London: Sage publications, pp. 269 - 286

Audit Commission (2007) *Hearts and minds: commissioning from the voluntary sector*, Public services national report, July, London: Audit Commission

Backus, P. and Clifford, D. (2013) 'Are big charities becoming more dominant? : Cross-sectional and longitudinal perspectives', *Journal of the Royal Statistical Society*, **176** (2), pp. 761–776

Bartlett, W. and Le Grand, J. (1993), 'The Theory of Quasi Markets' in W. Bartlett and J. Le Grand (eds.) *Quasi-markets and social policy*, Basingstoke: Macmillan, pp.13-34

Bennett, H. (2012) *Pricing out Third Sector Organizations: The unequal outcome of the Freud Report*, Conference paper, Joint Annual Conference of the East Asian Social Policy Research Network and the UK Social Policy Association, July 16th-18th, York : University of York

Bennett, H. (2013) *The marketisation of UK employment programmes: the impact on a third sector organisation*, PhD Thesis, April, Edinburgh: The University of Edinburgh

Benson, A. (2014) *"The Devil that has come amongst us", The impact of commissioning and procurement practices*, NCIA Inquiry into the Future of Voluntary Services Working Paper 6, May, London: National Coalition for Independent Action

Bielefeld, W. (1992) ‘Non-profit-funding environment relations: theory and application’, *Voluntas*, **3** (1), pp. 48-70

Billis, D. (1989) *The theory of the voluntary sector: Implications for policy and practice*, London: Centre for Voluntary Organisation, London School of Economics and Political Science

Billis, D. (1993) *Organising Public and Voluntary Agencies*, London: Routledge

Billis, D. (2010) ‘Towards a theory of hybrid organisations’, in D. Billis (ed.) *Hybrid organisations and the third sector: Challenges for practice, theory and policy*, Basingstoke: Palgrave Macmillan

Billis, D. and Glennerster, H. (1998) ‘Human services and the voluntary sector: Towards a theory of comparative advantage’, *Journal of Social Policy*, **27** (1), pp. 79-98

Blackmore, A. (2008) *Standing apart, working together: A study of the myths and realities of voluntary and community sector independence*, 2nd ed., London: NCVO Policy Team

Bode, I. (2006) ‘Disorganised welfare mixes: voluntary agencies and new governance regimes in Western Europe’, *Journal of European Social Policy*, **16** (4), pp. 346-359

Bovaird, T. and Downe, J. (2006) ‘N generations of reform: A loosely-coupled armada or ships that pass in the night?’ *International Public Management Journal*, **9** (4), pp. 429–455

Brandsen, T., van de Donk, W. and Putters, K. (2005) ‘Griffins or chameleons? Hybridity as a Permanent and Inevitable Characteristic of the Third Sector’, *International Journal of Public Administration*, **28** (9), pp. 749-765

Brillinger, D. R. (2011) 'Data Analysis, Exploratory' in B. Badie, D. Berg-Schlosser and L. Morlino (eds.) *International Encyclopedia of Political Science*, London: Sage, pp. 530-537

Brown, K., Kenny, S., Turner, B., Prince, J., (2000) *Rhetorics of Welfare: Uncertainty, Choice and Voluntary Association*, London, Macmillan

Bruce, I. and Chew, C. (2011) ‘Debate: The marketization of the voluntary sector’, *Public Money & Management*, **31** (3), pp.155-157

Buckingham, H. (2009) ‘Competition and contracts in the voluntary sector: exploring the implications for homelessness service providers in Southampton’, *Policy and Politics*, **37** (2), pp. 235-254

Buckingham, H. (2010) *Accommodating change? An investigation of the impacts of government contracting processes on third sector providers of homelessness services in South East England*, PhD Thesis, February, Southampton: University of Southampton

Buckingham, H. (2011) ‘Hybridity, diversity and the division of labour in the third sector: what can we learn from homelessness organisations in the UK?’, *Voluntary Sector Review*, **2** (2), pp. 157–75

Buckingham, H. (2012) ‘Capturing Diversity: A Typology of Third Sector Organisations’ Responses to Contracting Based on Empirical Evidence from Homelessness Services’, *Journal of Social Policy*, **41** (3), pp 569-589

Cabinet Office (2010) *HM Government Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery*, Green Paper, December, London: Cabinet Office

Cairns, B. (2009) 'England – The independence of the voluntary sector from government in England' in M. Smerdon (ed.) *The First Principle of Voluntary Action: essays on the independence of the voluntary sector from government in Canada, England, Germany, Northern Ireland, Scotland, United States of America and Wales*, Working paper 3, London: The Baring Foundation, pp. 35 – 50

Cairns, B., Harris, M. and Hutchison, R. (2006) *Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal*, June, London: IVAR

Cairns, B., Harris, M. and Young, P. (2005) 'Building the Capacity of the Voluntary Nonprofit Sector: Challenges of theory and practice', *International Journal of Public Administration*, **28**, pp. 869-885

Carmel, E. and Harlock, J. (2008) 'Instituting the "third sector" as a governable terrain: partnership, procurement and performance in the UK', *Policy & Politics,* **36** (2), 155–71

Chapman, T., Brown, J. and Crow, R. (2008) 'Entering a brave new world? An assessment of third sector readiness to tender for the delivery of public services in the United Kingdom', *Policy Studies,* **29** (1), pp. 1–17

Charities Act (2006) (c.50) London: The Stationary Office

Charity Commission (2005) *Accounting And Reporting By Charities: Statement Of Recommended Practice (revised 2005),* February, London: Charity Commission

Charity Commission (2007) *Stand and deliver: the future for charities providing public services*, February, Liverpool: Charity Commission, Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284716/RS15text.pdf

Charity Commission (2013a) *Charity Reporting and Accounting: The essentials*, January, London: The Charity Commission

Charity Commission (2013b) *Charitable purposes and public benefit* [online], September. Available from: https://www.gov.uk/government/collections/charitable-purposes-and-public-benefit

Charity Commission (2015)*, Charities SORP (FRS 102),* London: Charity Commission

Chater, D. (2008) *Coming in from the cold? The impact of the contract culture on voluntary sector homelessness agencies in England*, Voluntary Sector Working Paper 10, June, London: LSE

Chew, C. and Osborne, S.P. (2009) 'Exploring Strategic Positioning in the UK Charitable Sector: Emerging Evidence from Charitable Organizations that Provide Public Services' *British Journal of Management*, **20** (1), pp. 90–105

Cleveland, W. S (1985) *The elements of graphing data*, New Jersey: Bell Telephone Laboratories

Cleveland, W. S. (1993) *Visualizing data,* New Jersey: Hobart Press

Clifford, D. and Backus, P. (2013), *Trends in the concentration of income among charities*, Working Paper 39, June, Birmingham: TSRC

Clifford, D. and Mohan, J. (2016) 'Which third sector organisations are involved in the delivery of public services? Evidence from national survey data in England' in J. Rees and D. Mullins (eds.) *The third sector Delivering public services Developments, innovations and challenges*, Bristol: Policy Press, pp.63-84

Clifford, D., Geyne-Rahme, F. and Mohan, J. (2012) 'Variations between Organisations and Localities in Government Funding of Third sector Activity: Evidence from the National Survey of Third-sector Organisations in England', *Urban Studies,* **50** (5), pp. 959-976

Cohen, J. (1990) 'Things I Have Learned (So Far)', *American Psychologist*, **45** (12), pp. 1304-1312

Committee of Public Accounts (CPA) (2006) *Working with the voluntary sector*, Thirty–second Report of Session 2005–06, HC 717, London: The Stationary Office

Common, R. and Flynn, N. (1992) *Contracting for Care,* York: Joseph Rowntree Foundation

Cooney, K. (2007) 'Fields, Organizations, and Agency: Toward a Multilevel Theory of Institutionalization in Action', *Administration & Society*, **39** (6), pp. 687–718

Corry, O. (2010) 'Defining and Theorizing the Third Sector' in R. Taylor (ed.), *Third Sector Research*, New York: Springer-Verlag, pp.11-20

Coule, T. and Patmore, B. (2013) 'Institutional logics, institutional work, and public service innovation in non-profit organizations', *Public Administration*, 91 **(4)**, pp.980–997

Crisp, R., Roberts, E. and Simmonds, D. (2011) ''Do-gooders, pink or fluffy, social workers' need not apply? An exploration of the experiences of the third sector organisations in the European Social Fund and Work Programme', *People, Place & Policy Online*, **5** (2), pp.76-88

Crouch, G. (2010) 'A new age of interdependence: managing relationships between the voluntary sector and government', *Voluntary Sector Review*, **2** (2), pp.247–56

Cunningham, I. (2008) 'A Race to the Bottom? Exploring variations in employment conditions in the voluntary sector' *Public Administration*, **86** (4), pp.1033–53

Cunningham, I. and James, P. (2007) *False Economy? The Costs of Contracting and Workforce Insecurity in the Voluntary Sector,* London: UNISON

Cunningham, I. and James, P. (2009) 'The outsourcing of social care in Britain: what does it mean for voluntary sector workers?' *Work, Employment & Society* **23** (2), pp.363–75

Damm, C. (2012) *The third sector delivering employment services: an evidence review,* TSRC Working Paper 70, Birmingham: Third Sector Research Centre

Davies, S. (2008) 'Contracting out employment services to the third and private sectors: A critique'. *Critical social Policy*, **28** (2), pp. 136-164

Dayson, C. (2013) 'Understanding financial vulnerability in UK third sector organisations: methodological considerations and applications for policy, practice and research', *Voluntary Sector Review*, **4** (1), pp. 19-38

de Vaus, D. (2001) *Research Design in Social Research,* London: Sage Publications

Deakin Commission (1996) *Meeting the Challenge of Change: Voluntary Action into the 21st Century, Report of the Commission on the Future of the Voluntary Sector in England*, London: NCVO

Deakin, N. (1995) 'The perils of partnership', In J. Davis Smith, C. Rochester, R. Hedley (eds.) *An Introduction to the Voluntary Sector,* London: Routledge, pp. 40-65

Department for Business Innovation and Skills (BIS) (2011) *A guide to legal forms for social enterprise*, November, London: BIS

Department of Communities and Local Government (DCLG) (2011) *Citizenship Survey: 2010-11 (April 2010 – March 2011)*, *England*, Cohesion Research Statistical Release Number 16, London: DCLG

Department of Communities and Local Government (DCLG) (2012), *50 ways to save Examples of sensible savings in local government* , December, London: DCLG

Department of Work and Pensions (DWP) (2007) *Ready for work: full employment in our generation*, Cm 7290, December, London: DWP

Department of Work and Pensions (DWP) (2008) *DWP Commissioning Strategy*, Cm 7330, February, London: DWP

DiMaggio, P. (1979) 'Review Essay: On Pierre Bourdieu', *American Journal of Sociology*, **84** (6), pp. 1460-1474

DiMaggio, P. J. and Anheier, J. K. (1990) 'The Sociology of Nonprofit Organizations and Sectors', *Annual Review of Sociology,* **16**, pp. 137-159

DiMaggio, P. J. and Powell, W. W. (1983) 'The Iron Cage revisited: institutional isomorphism and collective rationality in organizational fields', *American Sociological Review*, **48** (2), pp. 147-160

DiMaggio, P. J., & Powell, W. W. (1991) 'Introduction' in P.J., DiMaggio and W. W. Powell (eds.) *The New Institutionalism in Organizational Analysis*, London: University of Chicago Press, pp. 1-38

Donk W. van de. (2001) *De Gedragen Gemeenschap*, SDU: The Hague

Duncan-Smith, I. (2005) *Breaking the big state big charity duopoly* [Online] Available from: http://www.iainduncansmith.org

Eikenberry, A. and Kluver, J. D. (2004) 'The Marketization of the Nonprofit Sector: Civil Society at Risk?', *Public Administration Review,* **64** (2), pp. 132 - 140

Eikenberry, A. M. (2009) 'Refusing the Market: A Democratic Discourse for Voluntary and Nonprofit Organizations', *Nonprofit and Voluntary Sector Quarterly*, **38** (4), pp. 582-596

Etherington, S. (1996) 'To the millennium The changing pattern of voluntary organisations', in C. Hanvey and T. Philpot (eds.) *Sweet Charity: The Role and Workings of Voluntary Organisations,* New York: Routledge, pp. 7-21

Evers, A. (1995) 'Part of the welfare mix: the third sector as an intermediate area', *Voluntas*, **6** (2), pp. 159-182

Evers, A. (2007) *Mixed Welfare Systems and Hybrid Organisations - Changes in the Governance and Provision of Social Services*, Conference Paper, Toronto: Sixth International Conference of the International Society for Third-Sector Research

Evers, A. and Laville, J. L. (2004) 'Defining the third sector in Europe', In A. Evers and J. L. Laville, *The Third Sector in Europe*, Cheltenham: Edward Elgar, pp. 11-42

Field, A. (2013) *Discovering Statistics Using IBM SPSS Statistics,* 4^{th} ed., London: Sage Publications

Fligstein, N. (2001) 'Social skill and the theory of fields'*, Sociological theory*, **19** (2), pp. 105-125

Fligstein, N. and McAdam, D. (2011) 'Toward a General Theory of Strategic Action Fields', *Sociological Theory*, **29** (1), pp. 1-26

Flynn, N. (1996) 'A mixed blessing? How the contract culture works' in C. Hanvey and T. Philpot (eds) *Sweet Charity: The Role and Workings of Voluntary Organisations*, London: Routledge, pp. 58–68

Foster, W. and Bradach, J. (2005) 'Should Nonprofits Seek Profits?' *Harvard Business Review*, **83**, pp. 92-100

Frumkin, P., and Galaskiewicz, J. (2004) 'Institutional isomorphism and public sector organizations', *Journal of Public Administration Research and Theory*, **14** (3), pp. 283–307

Gorard, S. (2001) *Quantitative Methods in Educational Research: The Role of Numbers Made Easy*, London: Continuum

Gorard, S. (2002), 'Fostering Scepticism: The Importance of Warranting Claims', *Evaluation & Research in Education*, **16** (3), pp. 136-149

Grønbjerg, K. A. (1993) *Understanding nonprofit funding: managing revenues in social services and community development organizations*, San Francisco: Jossey-Bass

Guidestar (2004) *Why Ratios Aren't the Last Word* [online], June. Available from: https://www.guidestar.org/Articles.aspx?path=/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx

Gutch, R. (1992) *Contracting Lessons from the US*, London: National Council for Voluntary Organisations

Hacking, I. (1999) *The Social Construction of What?* Cambridge MA: First Harvard University Press

Halfpenny, P. and Reid, M. (2002) 'Research on the voluntary sector: An overview', *Policy and Politics*, **30** (4), pp. 533-550

Hands, D., Coleman, L., Hems, L., Bovaird, T. and Johnson, D. (2008) *The environment for a thriving third sector – chapter 3: determining the survey population*, Research Report, April, Birmingham: BMG Research

Hannan, M. T. and Freeman, J. (1977) 'The population ecology of organizations', *American Journal of Sociology* **82,** (5), pp. 929-64

Hansmann, H. (1987) 'Economic theories of nonprofit organizations' in W. W. Powell (ed.), *The nonprofit sector: A research handbook*, New Haven, CT: Yale University Press, pp. 27-42

Hanvey, C. and Philpot, T. (1996) 'Introduction' in C. Hanvey and T. Philpot (eds.) *Sweet Charity: The Role and Workings of Voluntary Organisations,* New York: Routledge, pp. 1-6

Harris, B. (2010) 'Voluntary Action and the state in historical perspective', *Voluntary Sector Review*, **1** (1), 25–40

Harris, M. (2010) 'Third Sector Organizations in a Contradictory Policy Environment', in D. Billis (ed.) *Hybrid organisations and the third sector: Challenges for practice, theory and policy*, Basingstoke: Palgrave Macmillan, pp. 25-45

Harris, M. and Young, P. (2009) 'Developing Community and Social Cohesion through Grassroots Bridge-Building: An Exploration', *Policy & Politics*, **37** (4), pp. 517-534

Hartwig, F. and Dearing, B. E. (1979) *Exploratory Data Analysis,* London: Sage

Hawley, A. (1986) 'Human ecology' in L. Sills (ed.) *International Encyclopedia of the Social Sciences*, New York: Macmillan, pp.328-37

Hay, C. (2002) *Political Analysis: A Critical Introduction*, Basingstoke: Palgrave Macmillan

Hay, C. (2006) 'Constructivist Institutionalism' in R. A. W. Rhodes, S. A. Binder and B. A. Bert (eds.) *The Oxford Handbook of Political Institutions*, pp. 56-74

Hay, C. and Wincott, D. (1998) 'Structure, Agency and Historical Institutionalism', *Political Studies*, **46** (5), pp. 951, 957

Hayek, F. A. (1979) *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy, Volume 3: The Political Order of a Free People* (London, Routledge).

Hedley, R. and Davis Smith, J. (1994) *Volunteers and the Contract Culture*, Voluntary Action Research, Third Series, Paper 1, London: The Volunteer Centre UK

Hillman, A. J., Withers, M. C., and Collins, B. J. (2009) 'Resource Dependence Theory: A Review', *Journal of Management*, **35** (6), pp. 1404-1427

HM Government (HMG) (2010) *Building a Stronger Civil Society: A strategy for voluntary and community groups, charities and social enterprises,* London: The Cabinet Office

HM Government (HMG) (2011) *Open public services: white paper*, White Paper, July, Cm 8145, London: The Stationary Office

HM Government (HMG) (2011) *Open Services White Paper*, Cm8145, July, London: The Stationary Office

HM Treasury (HMT) (2002) *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, London: The Stationery Office

HM Treasury (HMT) (2005) *Exploring the Role of the Third Sector in Public Service Delivery and Reform*, London, HM Treasury

HM Treasury (HMT) (2011) *Spending Review 2010*, October, Cm 7942, London: The Stationary Office

IFF Research (2007) *Third Sector Market Mapping*, February, London: Department of Health

Independence Panel (2011) *Voluntary Sector independence*, July, London: The Baring Foundation

Independence Panel (2012) *Protecting independence: The voluntary sector in 2012*, January, London: The Baring Foundation

Independence Panel (2015) *An independent mission: the voluntary sector in 2015*, February, London: The Baring Foundation

Independence Panel, (2013) *Independence under threat: The voluntary sector in 2013*, January, London: The Baring Foundation

Ipsos MORI (2010) *National Survey of Charities and Social Enterprises*, London: Cabinet Office

Jochum, V. and Pratten, B. (2008) *Values into Action: How Organisations Translate their Values into Practice*, London: NCVO

Jones, R. (1996) 'Swimming together: the tidal change for statutory agencies and the voluntary sector' in C. Hanvey and T. Philpot (eds.) *Sweet Charity: The Role and Workings of Voluntary Organisations,* New York: Routledge, pp. 22-38

Joy, I., McKenzie, D. and Rotheroe, A. (2008) *Keeping account: a guide to charity financial analysis,* December, London: NPC

Kane, D., Clark, J., Clifford, D., Mohan, J., Dobbs, J. and Bass, P. (2013), *Collecting and classifying data from charity accounts for England and Wales*, Working Paper 93, January, Birmingham: TSRC
Kelley, H. H., (1971), *Attribution in social interaction*, Morristown: NJ: General Learning Press

Kendall (2003) *The Voluntary Sector: Comparative Perspectives in the UK*, London: Routledge

Kendall, J. (2000) 'The mainstreaming of the third sector into public policy in England in the late 1990s: whys and wherefores', *Policy and Politics*, **28** (4), pp. 541-562

Kendall, J. (2005), *The third sector and the policy process in the UK: ingredients in a hyper-active horizontal policy environment*, Third Sector European Policy Working Paper 5, October, London: Centre for Civil Society, London School of Economics and Political Science

Kendal, J. (2009), *Losing political innocence? Finding a place for ideology in understanding the development of recent English third sector policy*, Third Sector Research Centre (TSRC) Working Paper 13, Birmingham: TSRC

Kendall, J. and Knapp, M. (1995) 'A loose and baggy monster: boundaries, definitions and types', In J. Davis Smith, C. Rochester and R. Hedley, *An Introduction to the Voluntary Sector*, Routledge, London, pp. 66-95

Kendall, J. and Knapp, M. (1996) *The Voluntary Sector in the UK*, Manchester University Press, Manchester

Knight B. (1993) *Voluntary Action*, London: Home Office

Kramer, M. and Grossman, B. (1987) 'Contracting for Social Services: Process Management and Resource Dependencies', *Social Service Review*, **61** (1), pp. 32-55.

Kramer, R. (1990) 'Non-profit organisations and the welfare state: some research considerations', in H.K. Anheier and W. Seibel (eds.), *The Third Sector. Comparative Studies of Non-Profit Organisations*, New York: de Gruyter, pp. 255 - 268

Kramer, R. M. (1994) 'Voluntary Agencies and the Contract Culture: "Dream or Nightmare?" ', *Social Service Review,* **68** (1), pp. 33-60

Kramer, R. M. (2000) 'A Third Sector in the Third Millennium?', *Voluntas*, **11** (1), pp.1-23

Le Grand, J. (1991) 'Quasi-Markets and Social Policy', *The Economic Journal*, **101** (408), pp. 1256-1267

Le Grand, J. (2002) 'Models of public service provision: Command and control, networks or quasi-markets?' in HM Treasury (ed.) *Public Services Productivity: Papers presented at a seminar held in HM Treasury on 13 June 2002,* pp. 15-18

Le Grand, J. (2003) *Motivation, agency, and public policy: of knights and knaves, pawns and queens* Oxford: Oxford University Press

Le Grand, J. (2007) 'The politics of choice and competition in public services', *Political Quarterly*, **78** (2), pp. 207-213

Leat, D. (1995a) 'Funding Matters', In J. Davis Smith, C. Rochester and R. Hedley, *An Introduction to the Voluntary Sector*, Routledge, London, pp. 157-189

Leat, D. (1995b) *Challenging Management: An Exploratory Study of Perceptions of Managers who have Moved from For-profit to Voluntary Organisations*, London: City University Business School

Leiter, J. (2005) 'Structural Isomorphism in Australian Nonprofit Organizations', *Voluntas,* **16** (1), pp. 1-31

Leman, J. (2007) *Frontline Hopscotch. VCS Engagement in Delivering Change for Children and Young People: A Jumpy Start or a Step Back?* April, Sheffield: NAVCA

Lewis, J. (1993) ‘Developing the mixed economy of care: emerging issues for voluntary organisations’, *Journal of Social Policy*, **22** (2), pp.173-92

Lewis, J. (1996) ‘What does contracting do to voluntary agencies?’ in D. Billis, M. Harris (eds.) *Voluntary agencies: Challenges of organisation and management*, Basingstoke: Macmillan, pp. 98–112

Lewis, J. (1999) ‘Reviewing the Relationship between the Voluntary Sector and the State in Britain in the 1990’s’, *Voluntas*, **10** (3), pp. 255-70

Lewis, J. (2005) ‘New Labour’s approach to the voluntary sector: independence and the meaning of partnership’, *Social Policy and Society,* **4** (2), pp. 121–31

Lowndes, V. (2010) ‘The Institutional Approach’ in Marsh, D. and Stoker, G. (eds.) *Theory and Methods in Political Science*, 3rd ed., Basingstoke: Palgrave Macmillan, pp. 60-79

Lumley, T. (2010) *Complex Surveys: A Guide to Analysis Using R,* New Jersey: Wiley

Macmillan, R. (2010) *The third sector delivering public services: an evidence review,* TSRC Working Paper 20, Birmingham: Third Sector Research Centre

Macmillan, R. (2013a), 'Distinction' in the third sector', *Voluntary Sector Review,* **4** (1), pp. 39-54

Macmillan, R. (2013b) ‘Decoupling the state and the third sector? The 'big Society' as a spontaneous order’, *Voluntary Sector Review*, **4** (2), pp. 185-203

Macmillan, R. (2016) ‘Talking up the voluntary sector in criminal justice: market making in rehabilitation’ in Rees, J. and D. Mullins (eds.) *The third sector Delivering public services Developments, innovations and challenges*, Bristol: Policy Press, pp.237-260

March, J. G. and Olsen, J. P. (1984) ‘The New Institutionalism: Organizational Factors in Political Life’, *The American Political Science Review*, **78** (3), pp. 734-749

Marrett, C. B. (1971) ‘On the specification of interorganizational dimensions’, *Sociology & Social Research,* **56** (1), pp. 83-99

Marsh, D. (2010) ‘Meta-Theoretical Issues’ in D. Marsh and G. Stoker (eds.) *Theory and Methods in Political Science*, 3rd ed., Basingstoke: Palgrave Macmillan, pp. 212-231

Martikke, S. (2008) *Commissioning: Possible Greater Manchester VCS Organisations' Experiences in Public Sector Commissioning*, November, Manchester: GMCVO

McCabe, A., Phillimore, J. and Mayblin, L. (2010) *Below the radar: a summary review of the literature*, TSRC Working Paper 29, Birmingham: TSRC

Mcdonald, D. M., Shaw, M. and Ayliffe, R. (2007) *Independent Inquiry into DWP Pathways to Work Contracting*, August, London: Association of Chief Executives of Voluntary Organisations

McKay, S., Moro, D., Teasdale, S. and Clifford, D. (2011) *The marketisation of charities in England and Wales*, Working Paper 69, November, Birmingham: Third Sector Research Centre

McLaughlin, K. (2004) ‘Towards a 'modernized' voluntary and community sector?’, *Public Management Review*, **6** (4), pp. 555-562

Meyer, J. W. and Rowan, B. (1977) ‘Institutionalized Organisations: Formal Structure as Myth and Ceremony’, *American Journal of Sociology,* **83** (2), pp. 340 – 363

Milbourne, L. and Cushman, M. (2015) ‘Complying, transforming or resisting in the new austerity? Realigning social welfare and independent action among English voluntary organisations’, *Journal of Social Policy*, **44** (3), pp. 463 - 485

Mitchell, G. E. (2014) ‘Strategic Responses to Resource Dependence Among Transnational NGOs Registered in the United States’, *Voluntas*, **25** (1), pp. 67–91

Morgan, G. (2011) 'The Use of Charity Accounts for Researching the Performance of Voluntary Organisations', *Voluntary Sector Review*, **2** (2), pp. 213-230

Morris, D. (1999) *Charities and the Contract Culture: Partners or Contractors? Law and Practice in Conflict*, July, Liverpool: Liverpool University Charity Law Unit

Morris, D. (2000) 'Charities in the contract culture: survival of the largest?', *Legal Studies,* **20** (3), pp. 409–427

Najam, A. (2000) ‘The four-Cs of third sector-government relations: cooperation, confrontation, complementarity, and co-optation’, *Non-profit Management and Leadership*, **10** (4), pp. 375-393

National Audit Office (NAO) (2007) *Office Of The Third Sector – Implementation Of Full Cost Recovery,* June, London: National Audit Office.

National Audit Office (NAO) (2010) *The Pathways to Work Prime Contractor Delivery Model*, November, London: National Audit Office

National Audit Office (NAO) (2012) *Department of Work and Pensions: The introduction of the Work Programme*, HC 1701, January, London: National Audit Office

National Coalition for Independent Action (NCIA) (2011) *NCIA – Plans and Progress 200811; A Report to Tudor Trustees*, London: NCIA

National Coalition for Independent Action (NCIA) (2013a) *An Inquiry into the Future of Voluntary Services Getting Down to the Detail*, NCIA Inquiry into the Future of Voluntary Services, London: NCIA

National Coalition for Independent Action (NCIA) (2013b) *Position paper on the role of the state and voluntary services agencies in the provision of public services – outline brief*, NCIA Inquiry into the Future of Voluntary Services, London: NCIA

National Coalition for Independent Action (NCIA) (2015) *Fight or Fright, Voluntary Services in 2015, A Summary and Discussion of the Inquiry Findings*, January, London: NCIA

National Coalition for Independent Action (NCIA) (2015) *Fight or Fright, Voluntary Services in 2015, A Summary and Discussion of the Inquiry Findings*, NCIA Inquiry into the Future of Voluntary Services, January, London: NCIA

National Council for Voluntary Organisations (NCVO) (1993) *The ups and downs of local funding*, NCVO News 47, September, London: NCVO

NCVO (2012) *Why are our estimates lower than the Charity Commission's figures?* [Webpage], Available at: https://data.ncvo.org.uk/a/almanac12/why-are-our-estimates-lower-than-the-charity-commissions-figures/

NCVO (2013) *UK Civil Society Almanac 2013*, NCVO Almanac Series, London: NCVO, Available at: https://data.ncvo.org.uk/a/almanac13/

NCVO (2014) *UK Civil Society Almanac 2014*, NCVO Almanac Series, London: NCVO, Available at: https://data.ncvo.org.uk/category/almanac/?publication=almanac14

NCVO (2015) *UK Civil Society Almanac 2015*, NCVO Almanac Series, London: NCVO, Available at: https://data.ncvo.org.uk/category/almanac/?publication=almanac15

Nicholls, V. (1997) 'Contracting and the voluntary sector: a critique on the impact of markets on Mind organisations', *Critical Social Policy*, **17** (51), pp. 101- 114

North, D. (1998) 'Ideology and Political / Economic Institutions, *Cato Journal*, **8** (1), pp. 15-28

OCVA-Framework (2008) *The Tender Subject of Tendering: Research into the Effects of Competitive Tendering of the Service Delivery Voluntary Sector in Oxfordshire*, August, Oxford: OCVA

Office of the Third Sector (2006) *Partnership in Public Services: an action plan for Third Sector involvement*, London: Office of the Third Sector

Oliver, C. (1988) 'The Collective Strategy Framework: An Application to Competing Predictions of Isomorphism', *Administrative Science Quarterly*, **33** (4), pp. 543-561

Osborne, S. P. and McLaughlin, K. (2004) 'The cross-cutting review of the voluntary sector: Where next for local government-voluntary sector relationships?', *Regional Studies*, **38** (5), pp. 573-582

Parsons, C. (2010) 'Constructivism and Interpretive Theory' in D. Marsh, and G. Stoker (eds.) *Theory and Methods in Political Science*, 3rd ed., Basingstoke: Palgrave Macmillan, pp. 80-98

Paton, R. (1991) 'The social economy: value-based organizations in the wider society' in J. Batsleer, C. Cornforth and R. Paton (eds.) *Issues in voluntary and non-profit management*, London: Addison-Wesley Publishing Company, pp. 3–12

Pestoff, V. (1992) 'Third sector and cooperative services: from determination to privatization', *Journal of Consumer Policy*, **15** (1), pp. 21–45

Pfeffer, J. and Salancik, G. R. (1978) *The External Control of Organizations: A Resource Dependence Perspective*, New York: Haper & Row

Public Administration Select Committee (PASC) (2008) *Public Services and the Third Sector: Rhetoric and Reality Eleventh Report of Session 2007–08*, Volume I, June, HC 112–I, London: The Stationary Office

Public Administration Select Committee (PASC) (2011) *The Big Society Seventeenth Report of Session 2010–12*, Volume 1, December, HC 902-I, London: The Stationary Office

Public Services (Social Value) Act (2012) (c.3), London: The Stationary Office

Ramanath, R. (2009) 'Limits to Institutional Isomorphism: Examining Internal Processes in NGO--Government Interactions', *Nonprofit and Voluntary Sector Quarterly*, **38** (1), pp. 51–76

Rees, J. (2008) *Who Delivers Services? A Study of Involvement in and Attitudes to Public Service Delivery by the Voluntary and Community Sector in the North West of England*, April, Manchester: Centre for Local Governance

Rees, J. (2013) 'Public sector commissioning and the third sector: Old wine in new bottles?', *Public Policy and Administration* [online], December. Available at: http://ppa.sagepub.com/content/early/2013/11/27/0952076713510345.full.pdf+html

Richardson, J. (1993) *Reinventing contracts: Transatlantic perspectives on the future of contracting*, London: NCVO

Roberts, M. (2010) *By their fruits… Applying payment by results to drugs recovery*, Evidence Review, February, London: UK Drug Policy Commission

Rochester, C. (2013) *Rediscovering Voluntary Action. The Beat of a Different Drum,* Basingstoke: Palgrave Macmillan

Russell, L. and Scott, D. (1997) *JRF Findings: The impact of the contract culture on volunteers*, Social Policy Findings 119, June, York: JRF

Saidel, J. R. (1991) 'Resource Interdependence: The Relationship between State Agencies and Nonprofit Organizations', *Public Administration Review*, **51** (6), pp. 543-553

Salamon, L. M. (1987) 'Partners in public service: toward a theory of government nonprofit sector relations', in W. W. Powell, *The nonprofit sector: a research handbook*, New Haven: Yale University Press

Salamon, L. M. and Anheier, H. (1997) 'Towards a common definition', In L. M. Salamon and H. Anheier, *Defining the nonprofit sector: a cross-national analysis*, Manchester University Press, Manchester, pp. 29-50

Scott, D. W. and Russell, L. (2001) 'Contracting: the experience of service delivery agencies', In M. Harris and C. Rochester (eds.), *Voluntary organisations and social policy in Britain: perspectives on change and choice*, Basingstoke: Palgrave, pp. 49-63

Scott, W. R. (1995) *Institutions and Organizations*, Thousand Oaks, Sage

Searle, J. (1969) *Speech Acts,* Cambridge: University Press

Seddon, N. (2007) *Who Cares? How State Funding and Political Activism Change Charity*, London: Civitas

Shared Intelligence (2008) *Evaluation of the National Programme for Third Sector Commissioning: Baseline Report*, February, London: IDeA

Simmonds, D. (2011) *Work Programme results: perform or bust. Working Brief*, Working Brief, May 2010, London: Centre for Social and Economic Inclusion

Simmonds, D. (2012) *The Work Programme and the Voluntary Sector,* London: Centre for Economic and Social Inclusion

Skills-Third Sector, NCVO, TSRC, (2013) *UK Voluntary Sector Workforce Almanac 2013*, London: Skills-Third Sector. Available at: http://www.3rdsectorworkforce.org.uk/

Slack, T. and Hinnings, B. (1994) 'Institutional Pressures and Isomorphic Change: An Empirical Test', *Organization Studies,* **15** (6), p.803 – 827

Smith, R. S. and Lipsky, M. (1993) *Nonprofits for Hire: The Welfare State in the Age of Contracting*, Cambridge, MA: Harvard University Press

Snowdon, C. (2012) *Sock Puppets, How the government lobbies itself and why*, IEA Discussion Paper 39, London: Institute of Economic Affairs

Steinburg, R. and Morris, D. (2010), 'Ratio discrimination in charity fundraising: the inappropriate use of cost ratios has harmful side-effects', *Voluntary Sector Review*, **1** (1), pp. 77-95

Swartz, D. (1998) *Culture and Power: the sociology of Pierre Bourdieu*, Chicago: Chicago University Press

Tanner, S. (2007) *Common Themes on Commissioning the VCS in Selected Local Authorities in Greater London*, May, London: London Councils

Tarling, R. (2000) 'Editorial. Statistics on the voluntary sector in the UK', *Journal of the Royal Statistical Society*, **163** (3), pp. 255–261.

Taylor, M. (1996) in D. Billis and M. Harris (eds.) (1996) *Voluntary Agencies: Challenges of Organisation and Management*, Basingstoke: Macmillan, pp.13-28

Taylor, M. and Kendall, J. (1996) 'History of the voluntary sector' in J. Kendall and M. Knapp (eds.), *The Voluntary Sector in the UK*, Manchester: Manchester University Press, pp. 28 – 60

Taylor, M. and Langan, J. (2006) 'Map of the new country: what is the voluntary sector?' in C. Hanvey and T. Philpot (eds.) *Sweet Charity: The Role and Workings of Voluntary Organisations,* New York: Routledge, pp. 22-38

Taylor, R., Rees, J. and Damm, C. (2016) 'UK employment services: understanding provider strategies in a dynamic strategic action field', *Policy and Politics,* **44** (2), pp. 253-267

Teasdale, S., Alcock, P. and Smith, G. (2012) 'Legislating for the big society? The case of the Public Services (Social Value) Bill', *Public Money and Management*, **32** (3), pp. 201-208

Teasdale, S., Kerlin, J., Young, D. and In Soh, J. (2013) *Oil and water rarely mix: exploring the relative stability of nonprofit revenue mixes over time*, June, Working Paper 99, Birmingham: Third Sector Research Centre

Third Sector (2010) *Nick Hurd interview: Tories aim for a sector transformed* [online], August, Available from: http://www.thirdsector.co.uk/nick-hurd-interview-tories-aim-sector-transformed/fundraising/article/1022203

Third Sector Task Force (TSTF) (2009) *Welfare to Work reform: the third sector's role*. Available: http://www.acevo.org.uk/document.doc?id=42

Tsoukas, H., (2005) *Complex knowledge: Studies in organizational epistemology*, Oxford: Oxford University Press

Tufte, E. (1983) *The Visual Display of Quantitative Information*, Connecticut: Graphics Press

Tukey, J. W. (1977), *Exploratory Data Analysis,* Cambridge: Pearson

UK Statistics Authority (2012) *Official Statistics and the Voluntary Sector*, Monitoring Brief, May London: UKSA, Available at: www.statisticsauthority.gov.uk/reports---correspondence/correspondence/letter-from-andrew-dilnot-to-nick-hurd-03052012.pdf

Unwin, J. (2004) *The Grantmaking Tango*, June, London: Baring Foundation/Joseph Rowntree Foundation

Van de Ven, A. H. and Poole, M. S. (2005) 'Alternative approaches for studying organisational change', *Organisation Studies*, **26** (1), pp. 1377–1404

Verbruggen, S. Christiaens and J. Milis, K. (2009) *Can resource dependence explain not-for-profit organizations' compliance with reporting standards?,* October, HUB research paper, Brussels: Hogeschool – Universiteit Brussel

Weber, M. (1952) *The Protestant Ethic and the Spirit of Capitalism*, New York: Scribner

Weisbrod, B. A. (1975) 'Toward a theory of the voluntary non-profit sector', in E. Phelps (ed.) *Altruism, Morality and Economic Theory*, New York: Russell Sage, pp. 171–195

Westall, A. (2009) *Economic analysis and the third sector: Overview of economic analysis in relation to the third sector*, Third Sector Research Centre Working Paper 14, September, Birmingham: TSRC

Wolfenden Committee (1978) *The future of voluntary organisations*, London: Croom Helm

Work and Pensions Select Committee (WPSC) (2007) *The government's employment strategy*, HC 63-I, London: House of Commons

Work and Pensions Select Committee (WPSC) (2009) *DWP's commissioning strategy and the Flexible New Deal*, HC 59-I, London: House of Commons

Work and Pensions Select Committee (WPSC) (2010) *Management and administration of contracted employment programmes*, HC 101, London: House of Commons

Work and Pensions Select Committee (WPSC) (2013) *Can the Work Programme work for all user groups?*, HC 162, London: House of Commons

Young, D. R. (1995) 'Steven Rathgeb Smith and Michael Lipsky, "Nonprofits for Hire: The Welfare State in the Age of Contracting" (Book Review)', *Social Service Review*, **69** (2), pp.362-365

Young, D. R. (2000) 'Alternative models of government-nonprofit sector relations: Theoretical and international perspectives', *Nonprofit and Voluntary Sector Quarterly*, **29** (1), pp. 149-172

Young, D. R., Wilsker, A. L. and Grinsfelder, M. C (2010) 'Understanding the determinants of non-profit income portfolios, *Voluntary Sector Review,* **1** (2), pp.161-73

Ziliak, S. T. and McCloskey, D. N. (2008), *The Cult of Statistical Significance: How the Standard Error Costs Us Jobs, Justice, and Lives*, Michigan: University of Michigan Press

Zucker, L. (1977) 'The Role of Institutionalization in Cultural Persistence ', *American Sociological Review*, **42** (5), pp. 726-743

Zucker, L. (1987) 'Institutional Theories Of Organization', *Annual Review of Sociology*, **13** (1), pp. 443–464