The Continuing and Changing Role of Government in Promoting and Supporting Third Sector Organisations

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Abstract

This dissertation is an analysis of the role of the government in the UK in relation to the third sector at the end of the 20th century. Through an analysis of policy and legislative changes, as well as governance and ownership structures, this dissertation finds that the legal and regulatory environment, controlled by the state, has a far reaching impact on the sector, affecting particularly the capacity of the sector to enable ethical and empowering practices. Regulatory theory, post-structuralist and associationalist approaches help frame the meaning of this critique. The conclusion highlights in what ways the government might better promote and support the sector, and why it should do so, crucially, recommending that it frames the definition and aims of the sector more clearly; taking into account the political nature of its organisations.
Introduction

To understand changes in the definition of the sector, Lewis’s (1999) four stages of provider-partnership conceptualisations can be used (in Alcock, 2010:3). The first was of voluntary organisations as service providers (Victorian philanthropy). During the second voluntary services were viewed as complementary to state provision. The third stage consisted of the welfare reform of the 1940s producing comprehensive public provision and repositioning the voluntary sector as supplementary. Most recently the voluntary sector (now third sector) has been seen to be in ‘partnership’ with the government. I will focus on the last phase in which government promotes and supports rather than simply regulating.

This analysis focuses on New Labour policy and ideology and its effect on the sector. This period of policy making was highly influenced by Thatcherite policy; therefore the analysis should be understood as an overview of third sector policy at the end of the 20th century. It aims to present a critical analysis which enables a historical, policy and political perspective of the present day third sector policy – ‘The Big Society’.

The third sector is now considered by some to be a central feature of 21st century capitalism (Amin, et al, 2002: preface); defined by the Office for Third Sector (OTS) as a term encompassing ‘voluntary and community organisations, charities, social enterprises, cooperatives and mutuals both large and small’ (OTS website). For the purpose of this dissertation, and for clarity, I will use an esoteric definition of the sector. The term ‘third sector’ will be used in connection with the following organisations and movements; Voluntary, Community, Not for Profit, Civic, Non-Governmental, Self-Help, Co-operative, Social Enterprise, Charity.

Contemporary policy affecting the sector, and its analysis, has increasingly had to ‘embrace a larger slice of organisational activity’ (Alcock, 2010:2); what was known as the ‘voluntary sector’, later including the ‘community sector’ is now encompassed by third sector institutions and terminology. Furthermore, policy on the sector has become more complex as its role in domestic and economic strategy has widened.
Building on questions raised by Alcock and Kendall (2010), and research conducted by the TSRC and bodies, the intention of this dissertation is to assess the way government promotes and supports the sector. The third sector, for the benefit of this analysis, should be understood as a 'site for policy intervention and support and as a space for actors to share experiences and strengthen practice’ (Alcock and Kendall, 2010:17) as well as a sphere of non-state, non-private activities.

This analysis will explore the contradictions in third sector policy, contrasting the rhetoric with the reality. It will address how, why, and whether, or not, the government can (and should) promote and support the sector.

Chapter 1 is a definitional and methodological overview. Chapter 2 will explore the policy context of the contemporary third sector, looking at how the Thatcher administration reshaped Britain’s political landscape leading to the New Labour coming to power to create a new Third Way discourse of the sector based on partnership. It explores how the definition and expectations of the sector changed and the policy involving it became more complex as the sector’s role in the government’s domestic and economic strategy widened. In Chapter 3, criticism of the Third Way in relation to the sector will be addressed. The rhetoric and reality of the policy will be explored, specifically the concepts of community and equality, partnership, social capital and social entrepreneurship, in order to reflect on the contradictions in the policy. The second part of Chapter 3 consists of examples of legislative forms for third sector organisations to illustrate the contradictions in New Labour policy which mean that it fails to support or promote certain parts of the sector. This section seeks to highlight the legal environment and normative discourse within which the sector is embedded, and show that policy and practice implemented under New Labour was shaped by an economistic understanding. In the final chapter, Chapter 4, the implications of New Labour policy are analysed in relation to regulatory theory and post-modernism.

Alternative approaches are analysed along with a practical alternative approach based on a critique of the ‘shareholder movement’ (Davies, 2009). The policy analysis, legislative examples, and theoretical approaches explored seek to link the importance of legislative and policy support
and legal structures with a radical reading of how the third sector can effect social and political change.

1. Definition and Methodology

Third sector organisations make up a spectrum of hugely varying structures and aims. Alcock and Kendall (2010) give a thorough analysis of the ‘definitional debate’ within ‘third sector’ research, citing concerns regarding data collection and analysis as well as the historical, cultural and politically contingent nature of boundaries in this domain, as topics for consideration when dealing with ‘the third sector’ as a policy subject and policy actor (p.4). They point out two key tensions central to this analysis:

‘Fracture in policy and practice because of the potential or actual collision between the embedded discourses reproduced by specialist State bureaucracies with a stake in this domain, and those interwoven with the concrete practises of the third sector themselves.’

and

‘Chronic contestation within ideological debates, since a permissive definition of the sector necessarily accommodates a wide range of possible options for development, which must compete for attention and resources’.

(p.4)

It is also worth noting that the evolution and actions of third sector organisations must be carefully evaluated with regard to their adaptations due to the impetus or constraints inherent in public policy. The third sector was created by a shared discourse of policy and practice (Alcock, 2010:15). In order to clarify the subject of analysis it is necessary to take a dual approach in defining third sector organisations which takes into account their legal and institutional characteristics as well as drawing on a normative perspective.
The sector is defined normatively, or ethically, based on the principles that third sector organisations have in common. There is a general consensus that third sector organisations are characterised by the aim of serving members or the community rather than maximising profit; an independent management; a democratic decision making process and the primacy of people and labour over capital in the distribution of income (CWES, 1990:8 in Defourny, 2001). These principles are theoretically and practically implemented and upheld in widely varying ways, typical of the sundry nature of the sector, and crucially this ‘aim’ is regulated internally and externally, through various governance and ownership structures and regulatory mechanisms.

Politically, it is the normatively framed conception of the sector which most often highlighted, for example the capacity of a charity to give a voice to a disempowered group or individual such as Shelter, or for an employee buy-out of a company or organisation to sustain an otherwise impoverished community, such as the Tower Colliery in South Wales.

The significance of legal form and structure, on the other hand, is the most obvious manifestation of the government’s influence on the sector and is relevant to this analysis in two ways. Firstly, the legal forms available to, and most commonly used by, third sector organisations are the clearest and most formalised examples of government interaction with, and regulation of, the sector. The regulation of these organisations is generally regarded as a technical issue and not one of contestation. This fails to acknowledge the defining characteristics of regulation which are defined by the need to provide legitimacy and accountability, and are especially important for the sector and its normatively framed nature. Its supposedly ‘technical nature’ undermines this premise; a contemporary example of this is the regulation of financial services. They are regulated with a ‘disregard for matters of critical importance to the wider economic health of the community’ (Hatcher and Moran, 1989: 293). A closer look at legal structures as a form of regulation will show how different conceptions of ownership and governance shape the government influence on third sector organisations.

The second point to recognise in terms of the use of regulatory theory in this analysis is the influence that organisational structures have in the context of dictating ‘how things are done’ and ‘what can be done’ through standard operating procedure (Hancher and Moran, 1989: 288).
According to this theory, subcultures within organisations influence national variation in institutional structure and society in general. The example used here, which is relevant to most highly developed capitalist societies including the UK, is of highly formalised organisations, with distinct decision making procedures and certain assumptions as to the substantive purposes of activities which are being pursued. This understanding is based on a regulatory process identified by a ‘regulatory space’ influenced by large organisations with complex and hierarchical structures leading to a ‘regulatory task subjected to an elaborate and elongated division of labour’ (Hatcher and Moran, 1989:287). This organisational and regulatory ‘culture’ is describes as having far reaching influence, for example; where standard operating procedure of large firms has become juridified in the UK. Hancher and Moran (1989), in their detailed discussion of regulatory theory, envisage a symbiotic relationship between organisational structure, political institutions and legislation.

The third sector is defined by the ownership and governance structures and general ‘culture’ within the organisations in it. Arguably, this is just as true for the private and public sector, nevertheless our conception of the third sector as autonomous and ethical makes these characteristics particularly important. Moreover, it is a unique site for the support and promotion of social and economic alternatives to the mainstream as well as politically oppositional practices and ideas.

Internationally, the range of third sector legal and institutional structures past and present is composed of diverse and inter-changing entities. The importance of the legal and institutional environment within which third sector organisations are embedded, nationally and internationally is acknowledged by local, national and supra-national organisation and is of particular interest to those promoting organisational forms such as Co-operatives in development (EU, 2010; ICA, 2011; ILO,2008; UN, 2001).

This study will focus loosely on the organisational form of ‘social enterprise’. The changing definition of this form of organisation is a key indication of the trends in third sector policy and practice. Other types of third sector organisations are equally significant, indeed there are important questions being asked as to the nature of NGO’s political influence (Alhadeff, G et
al., 2003) as well as the role played by Charities and Faith Schools in the UK. However for the purpose of this argument, especially in association with the expectations placed on the sector to solve the contradictions of late-capitalist societies, which will be explored in detail later, this category of third sector organisations is most relevant and is also subject to much political rhetoric and increasing scrutiny. This analysis focuses on the UK but this topic centres on a critique of social and economic policy, and legislation, the far reaching consequence and underlying motivations of which resonate globally.

2. Policy

New Labour’s politics, the ‘Third Way’ and its complex relationship with the third sector can only be understood in the context of Margaret Thatcher’s legacy: this chapter will explore how the Thatcher administration reshaped Britain’s political landscape before describing the Third Way discourse regarding the third sector and what New Labour set out to achieve.

The Thatcher administration’s policy regarding the third sector, I will argue, laid the foundations of New Labour’s strategy. Thatcherism involved a new policy discourse of ‘New Public Management’, entailing radical welfare reforms, whereby a ‘mixed economy of welfare’ and ‘welfare pluralism’ replaced ‘welfare statism’. Government activity and the provision of services was reduced, instigating a momentous shift in the government’s role towards the planning, monitoring and regulating of services provided by the ‘sectors’ (Harris et al., 2003:3), fear of ‘welfare dependency’ was a crucial proponent of the Conservative ideology. Promoting ‘efficiency’ and ‘effectiveness’, the government saw the ‘voluntary’ sector as an alternative provider in a mixed economy of welfare (Alcock, 2010:4).

Social policy related to the third sector was shaped by universal welfare provision up until the early 1980s. Policy papers, particularly the Wolfenden Report, (1976), influenced a shift in the government’s relationship to it; suggesting that the sector comprised cost effective, innovative, flexible and pioneering organisations (Harris et al., 2003:7). Based on the belief that ‘the social services....are more effective...where alternatives to statutory provisions are available’, it laid out
four systems of meeting social need: the informal, commercial, statutory and voluntary [now third] (Wolfenden, 1987:22-26). This categorisation of different systems, or sectors, had a ‘powerful influence on the development of policy, practice and academic endeavour’ (Harris et al, 2003:2).

An example of this policy was the 1990 NHS and Community Care Act and the Special Transition Grants (STGs), comprising the transfer of funds and responsibilities from central to local government, and encouraging and supporting the transfer of services from the statutory to the independent sector. This created a new ‘contract culture’, characterised by competitive tendering to a purchaser-led specification and tighter systems of monitoring (Taylor, 1997:10). These contracts and service level agreements constituted in many ways a new method of governing organisational and personal conduct in the public services representing a shift towards the use of ‘market-type mechanisms’ which now shape the role of the state (Du Gay, 2002:18).

The impacts of this policy shift on the sector and constituent organisations were paradoxical. The sector’s expanded role in welfare provision meant that it was no longer confined to complementing, supplementing or providing alternatives to government. It became ‘needed’ by the government, which, one could argue, gave the sector a stronger role politically. On the other hand, third sector organisations were placed in an environment of ‘providers’ and ‘contractors’, competing to sell services to government ‘purchasers’ and forced to be business-like (Harris, et al., 2003, 3-4). The market became the dominant model for understanding the relationship between government and organisations and agencies in other sectors; commercial business practices became the preferred model for managing all organisations.

The academic and general understanding of the sector at the time was characterised by a lack of theory specifying the role of voluntary organisations in society, at that time characterised by ‘a substantial system of state social services’ (Mellor, 1985:24). Wolfenden acknowledged that information was scarce but failed to differentiate between different organisations of varying scale and playing various roles (Mellor, 1985:24). The supposed advantages of the sector, the basis for Wolfenden’s recommendations, are criticised for being un-testable, based on inconsistent
empirical evidence (Harris et al, 2003:7) and reliant on concepts borrowed for theories of comparative advantage (Billis and Glennerster, 1998 in Harris et al, 2003:7).

Thatcherite neo-liberal ideology instigated changes to the government’s attitude toward the third sector which continues to resonate today. Grounded in a radical remodelling of state and economy and the 'colonising' of civil society by a ‘new neo-liberal common-sense’, its effects were 'epochal' (Hall, 2003). Thatcher ‘reengineered popular perceptions of what government could be expected to deliver’ (Klein and Rafferty, 1999:387).

Heavily influenced by this shift and having repeatedly failed to sustain the support of the electorate in the post-war period the Labour Party re-branded and re-positioned itself under Blair. The progression of the individual became their objective, promoting a socialism based on the ‘notion that a strong and active society is necessary to advance the individual’ (Blair, 1994: 3).

This distinctive policy approach came to be known as the ‘Third Way’ and became influential when New Labour came to power in 1997. It built on the previous ideas of a ‘mixed’ economy of welfare and represented a clear split away from ‘old’ Labour politics. New Labour aimed to distinguish itself from state and market led welfare towards a new middle ground. Combining social democratic and collectivist notions of creating an active and strong society whilst also adhering to swing voters’ desire to see the individual succeed, this ‘new progressivism’ stood to promote equal opportunity, personal responsibility, and the mobilising of citizens and communities (Giddens, 2000:2).

The party attempted to distance itself from the inequalities beginning to entrench themselves in UK society due to the implementation of Thatcherite neo-liberal policy. It placed ‘social exclusion’ at the centre of social domestic policy and the third sector as central to the strategy implemented to counter it.

It promoted local ‘social economy’ as the solution to problems of neo-liberalism – ‘the means through which the norms of the market economy can be made compatible with a socially-inclusive society in the UK’ (Amin et al, 2002:22). The language and style of policy discourse was more empathetic to the sector; conceptualising it as a space for contributions to civil society.
and new forms of governance to occur. This approach continued to conceptualise the third sector as a ‘provider base’, albeit with a growing role in economic regeneration (Alcock, 2010:5). It continued to expect the sector to demonstrate effectiveness and efficiency and submit itself to close monitoring and regulation, seeing the private and third sector as ‘key instruments for the delivery of its policies’ (Harris et al, 2003:4).

The Deakin Commission funded by The National Council for Voluntary Organisations (NCVO) played an influential role, recommending a more structured and proactive approach, framed within an ‘overarching concordat governing, directing and improving policy and practice in relations between the two’ (Alcock, 2010:5). It introduced the discourse of ‘partnership’ and called for a directive policy regime leading to the ‘hyperactive mainstreaming’ of the sector (Kendall, 2010).

It laid out a comprehensive analysis of the role of the sector and the government’s relationship to it. The report recognised the challenges faced by the sector having to evolve alongside developments in technology, politics, demography and society, and shifts in attitudes and values as well as the state withdrawing from many welfare functions it had previously undertaken (Deakins/NCVO, 1996). Deakins called for the government to recognise its obligation to support and promote a healthy voluntary sector, which does not necessarily share its objectives, ‘to the point of dissent’, and to transfer power to the sector (Deakin/NCVO, 1996). It called for law and tax reform and the development of a concordat between central government and the sector, which would lay down some basic principles for future relations. One of the key outcomes of this report, and the Labour policy document, ‘Building the Future Together’, was ‘The Compact’ (The Compact, 2001). This was an agreement between the government and the sector outlining ways of working with an emphasis on partnership and the mutual benefit to both sectors and to wider society (Simanowitz, VSSN, 2008).

The Third Way discourse of ‘Partnership’ referred to a system of welfare which involves users, citizens and communities. It understood third sector organisations as expressing and meeting needs, providing welfare services and assuming the role of partners or consultants in the planning and implementation of services. New Labour’s stated intention was to move from ‘contract
culture to a partnership culture’ (Taylor, 1997). The main elements of the sector’s relationship with government had generally included the government funding or supporting them in kind; regulating them and co-ordinating activities with them; consulting them or being lobbied by them. However the ‘language of partnership’ suggested, for example, more service delivery and an increase in the sector’s role in policy making (Taylor, 1997:9).

New Labour’s ‘new’ relationship with the sector created new expectations: moving from a relatively straightforward role providing personal services, background services and advocacy or as a pressure group (Mellor, 1985:47), the sector was promoted as being market friendly, ethical, and empowering; straddling the ‘non-ideological’ centre politics which New Labour has come to represent. I will explore these expectations briefly here before de-constructing the assumption and contradictions which underwrite them in the next two chapters.

In ‘market friendly’ terms the sector is claimed to be responsive to local needs; independent; close to the consumer; value-driven; flexible and innovative (Taylor, 1997:2). The sector, and especially social enterprise is argued to embody a ‘new entrepreneurship’. The market ideology of entrepreneurship as the engine for economic development and growth, based on theories like Schumpeter’s (1934), is seen to shape social enterprise today (Defourny, 2001). This is particularly the case with regard to innovative practice, the opening of new markets, and sourcing and acquiring of new resources.

The sector is regarded as ‘entrepreneurial’ for various reasons (Defourny, 2001). Firstly, that it develops in response to market and government failures; where needs are not met by the private sector or the state. Secondly, that it is an innovator in methods of organisation and, or, production; implied by its utilisation of different working relationships, partnerships and organisational structures, e.g. the ‘multi-stakeholder structure’ apparent in the UK quasi-public organisations now regulating and providing services throughout the public sector.

Thirdly, the sector’s symbiotic relationship with shifting market relations would suggest that it has effected new *market relations* in formerly restricted spheres; for example, families and communities were out sourcing services that they had formerly provided, due to trends such as increased female participation in the labour market and the isolation of family members.
Simultaneously a culture of ‘contracting out’ services replaced those previously carried out by public authorities or associated bodies. ‘Tutelary control’ was replaced by ‘competitive control’ (Defourny, 2001:534-43), and the sector was expected to fulfil an entrepreneurial role in providing these services and innovating this ‘market’ of need.

The government suggests that social enterprises can create jobs for the long-term unemployed; people looking for a career change; people with learning disabilities; disabled people; people with mental health issues; ex-offenders; minority ethnic groups; women; young people (i.e. in schools) (Business Link, 2011). It is supposed to constitute a new economic circuit of jobs and enterprises in a market composing socially useful good and services whilst simultaneously empowering the ‘socially excluded’ by combining training and skills formation with capacity and confidence building (Amin, et al, 2002: preface). The Office for third sector’s takeover of the Social Exclusion unit typifies this expectation (Alcock, 2010:7). Contemporary UK policy, and to an extent, policy across Europe, now counts on the sector for the allocation of resources through production of quasi-public goods and services and the regulation of economic life, e.g. through partners of public authorities in helping people back to work schemes (Defourney, 2001).

This brings us to the sector’s image is of a ‘good’ social phenomenon. With few exceptions (e.g. hate groups), third sector organisations are seen to have ‘intrinsic value’, enabling people to ‘experience social and moral pluralism’ (Vibert, 2003:8). They represent behaviour which is ‘spontaneous but not market’, and ‘public but not state’ (Vibert, 2003:9), which resonates with both liberal and communitarian values. As a sign of civic activism and social solidarity, the sector is thought to promote habits of affiliation, cooperation and associated qualities of trust and reciprocity; sustaining a healthy democracy.

There is also a sense that the sector contributes to the ‘formation of substantive norms of society’ (Vibert, 2003), i.e. what it is we should value and how we should value it. There are many examples of third sector organisations aimed at changing societal values through challenging prevailing views et cetera.
‘They enable individuals to contribute to the development of their communities. By so doing they promote citizenship, help to re-establish a sense of community and make a crucial contribution to our aim of a just and inclusive society’ (Home Office, 1998: 1).

The third sector is accredited with embodying a space, unofficial by nature, which allows organisations to provide services or ‘a voice’, support or countenance, to individuals or groups which are not provided for by the state; they go where government will not (Vibert, 2003: 9). Perhaps the most unique aspect of the sector, is that is seen to embody a space for humane, co-operative, sustainable and alternative forms of social and economic organisation (Amin, et al, 2002) – empowering individuals, groups or communities.

Questions of ‘ethics’ often effect the debate surrounding the sector, organisations sometimes provide a service or a voice for groups or individuals with controversial views, needs or positions. However, that aspect of the support or regulation of the sector will not be explored here, apart from to say that it is inevitable and favourable that there is open debate as to societies position on such issues. A second key debate, which will not be addressed here, is of particularism as opposed to universalist welfare. Support of the third sector is often correlated with a preference for choice and difference. This position is criticised in by many, not least for failing to ensure provisions for vulnerable groups. However, the intention of this study is not to defend the replacement of public services with third sector led ones, therefore it will not go into this debate.

New Labour claimed to promote and support the sector and instigated institutional and policy changes, including massive new funding streams directed at the sector, new departments relating to it and some changes to legislation for example changes to Charity Law (for details see Alcock, 2010). They focused on skills and capacity building through contract funding and the formalisation of the sector through a renewed procurement process, contract negotiations, necessary cost allocations, reporting, and evaluation (Alcock, 2010:6-12). It could be argued that a transformed sector has emerged characterised by the social enterprise, NGOs, semi-public organisations such as QUANGOs and even Corporate Social Responsibility models, in contrast to
the traditional sector made up of co-operatives, mutuals and voluntary organisations (including charities and foundations) (Spear, 2001).

New Labour policy was varied over the three terms that they were in power and local authority responses to this policy varied, generally in line with more traditional political stances with regard to privatisation of services as opposed to continued support for welfare (Taylor, 1997:11). Policy and practice vary between local authorities and different organisations, reflecting the political tradition of the area, traditions of local organising; patterns of local need and provision, the population profile, previous investment in the voluntary sector and community sectors and the role of other partnerships (Taylor, 1997: 29). However, New Labour continued with many of the centralising policies which Thatcherism had instigated (Klein and Rafferty, 1999), and there are key trends in how their approach affected the third sector.

Overall trends in the evolution of the sector since Thatcher include substantial negative effects, for example a loss of flexibility and independence due to tighter service specifications. Services are often not funded at full cost meaning that organisations have to ‘top up’ to cover core costs. Organisations are diverted from their original goals to local authority priorities having lost funding for ‘complementary services’ such as advocacy and campaigning activities, and infrastructure. Organisations have difficulties recruiting volunteers and trustees because of additional responsibilities, and crucially have lost stability; there is no guarantee that contracts will be renewed (Joseph Rowntree Foundation study, adapted from Bemrose and Mackeith, 1996, and the Commission on the Future of the Voluntary Sector, 1996 in Taylor, 1997:10).

The sector had to simultaneously manage growth and constraint (Russel et al, 1996, in Taylor, 1997:12); expected to take on new roles as the government retreated, whilst simultaneously taking on a new enterprising character and become financially independent. STG funding was being phased out by 1997 and the effects of short term funding, increased pressure to cover core costs plus the extra administrative and transaction cost which came with the adoption of the new regime, meant scarce resources (Taylor, 1997:12). The Compact is criticised for relying on complicated contract arrangements involving several different public bodies on different levels.
due to the Compact usually applying to one level of local government and over burdensome and disproportionate monitoring arrangements (Simanowitz , VSSN, 2008).

Between 2001 and 2006, Compact Voice – a sector representative, recorded a steady improvement in the relationship between the sector and government, however in 2007 DSC survey found that only 18 percent of respondents felt the relationship between government and the sector was getting better. Nearly half of respondents felt it was getting worse, particularly around funding. Criticisms of the Compact arrangement led to recent attempts to update it, however early reviews of the process cite deep-rooted problems due to the pretence inherent in the project that ‘the relationships between government and voluntary organisations are partnerships between equals.’ (Kennedy, 2011). Further asserting that the bulk of ‘the sector will remain un-interested, whilst organisations which do care will continue to lose faith and those which are influential enough to assert their own position will do so with little reference to the Compact’ (Kennedy, 2011).

In general the Deakins Report’s recommendations, and perhaps to a lesser extent the Compact, were regarded as sensible and progressive, and in line with the sector’s interests, by the sector at large. Unfortunately it seems to be the lack of implementation of this policy approach outside of the rhetoric which is problematic. This, as will be explored in the following chapters, is rooted in New Labour’s ideological contradictions.

3. Critique of New Labour

This chapter is going to explore some of the criticisms of New Labour policy and how this relates to the third sector. Hall asserts that New Labour’s strategy was what Gramsci called the 'transformism' of social democracy into a particular variant of free-market neo-liberalism (Hall, 2003). Certainly, New Labour has maintained an overarching neoliberal economic strategy through liberalisation, deregulation, privatisation, re-commodification, internationalisation, and reduced direct taxes (Jessop, 2007:283). Here I explore the ‘modification’ and ‘routinisation’ of neo-liberalism (Jessop, 2007:287), which characterises New Labour policy and played a crucial role in its relationship with the third sector. I examine the rhetoric and reality of the concepts of
community and equality; partnership; social capital and social entrepreneurship, in order to reflect on the contradictions in the policy.

New Labour instigated a process of formalisation of its relationship with the sector and a new discourse of ‘governance’ was created. ‘Agencies previously outside of formal planning policy’ became constituted as ‘governable terrain’ and therefore a site of policy intervention and control (Carmel and Harlock, 2008 in Alcock, 2010:8). This is primarily reflected by the financial support for the sector. As a result of government initiatives, in 2001 it accounted for one-third of the sector’s total income, and around 27,000 charities (a quarter of the third sector) rely on it for over three-quarters of their funding (Wood and Leighton, 2001:16). This has created an environment of dependency on state funding and changed the nature of the sector. Hall (2003) argues that the term 'governance' is itself a problematic concept, signifying, rather than 'government', 'a new process of governing, a changed condition of ordered rule, specifically designed to blur the difference between state and civil society' (Hall, 2003).

The autonomy of the sector can be hugely undermined by this development: an example of how this can affect the ethical and empowering nature of the sector is the impact on the ability of organisations to retain the right to confidentiality. Within the sector there are two voluntary organisations representing women who use the maternity services: the National Childbirth Trust (NCT) receives public funding and potentially could take over all of maternity education from the public sector in the near future; the Association for Improvements in the maternity Services, (AIMS), on the other hand, is a small organisation with no public funding. AIMS has retained the ability to criticise government policy without fear and the right to support women and respect their confidentiality, ‘saying the things that other midwifery journals don’t say’ (Kirkham, 2010:10); sustaining a service which is highly unusual in comparison to other services working with families where usually the government’s position on child protection effectively limits confidentiality; organisations may be essentially co-opted into state surveillance. Accountability in this context can be problematic. It is not a homogenous process and must be selective and able to deal with conflicts of interests (Mellor, 1985:150).
The drive to ‘modernise’ the public sector was a key priority and can be criticised for undermining the nature of the public sector, which is by definition ‘inefficient’ both because its social objectives are inherently beyond economic efficiency and value-for-money measurements, and because of disinvestment. The simple message from the modernisation agenda was that ‘it can only save itself by becoming more like the market’ (Hall, 2003). This brings us to the charge of privatisation. Though New Labour rhetoric suggests an ideology opposing the privatisation enacted under the previous Conservative government, the reality is contradictory. Forcing the public and third sectors to ‘mimic’ the market in their internal operations, ‘fatally blurring the public/private distinction’ through Public Finance Initiatives, public-private ‘partnerships’, allowed private investment and corporate penetration of major parts of the public sector (the prison service, schools, the NHS) (Hall, 2003).

Another aim of the policy, described by Wood and Leighton (2001) in their work with Demos an influential Third Way Think Tank, was the ‘standardisation’ of the third sector. Though aimed at promoting the third sector, recommendations such as ‘standardisation’ undermine the vibrancy of the sector. Its diversity and variety is crucial as, ‘it creates the capacity to respond to the diversity of need and to give a voice to many different communities’, offering opportunities to draw on ‘the widest possible range of resources and energies in meeting need, by providing different ways for people to become involved in social action’ and the opportunity for innovation’ (Taylor, 1997:2). Although New Labour recognised that diversity was the ‘essential strength of the sector’ (Labor Party, 1997 in Taylor, 1997:2), their policy did not reflect this. Rather it confined the sector to the role of ‘providers’ competing to sell services to government ‘purchasers’ and forced to be business-like through the marketisation of the relationship between government organisations and agencies in other sectors and promoting commercial business practices as the preferred model for managing all organisations (Harris et al, 2003:3-4).

One of the institutional changes which exemplified the dialectic within New Labour policy is the creation of the Civil Renewal Unit outside of the OTS in 2004, followed by their merger in 2006. They have distinct aims and tactics shown in Table 1:
Table 1. Civil Renewal Unit and OTS Aims and Tactics

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<tr>
<th>AIM</th>
<th>Civil Renewal Unit</th>
<th>Office of Third Sector</th>
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<td></td>
<td>Community Engagement</td>
<td>Service provision</td>
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<td>TARGET ORGANISATIONS</td>
<td>Small organisations</td>
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<td>POSITION IN POLICY CREATION</td>
<td>Outsiders</td>
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<td>OUTCOME</td>
<td>Non-engagement and regulations</td>
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(Adapted from Alcock, 2010: 13)

This shows the contrasting aims within the government, the institutionalisation of which created a bifurcation between these two sides of the sector. The OTS was by far the dominating institution; the ‘empowering’ quality of the sector is represented as key to the policies rhetoric but in reality is relegated to a perfunctory position. This is highlighted by Alcock (2010) as being symptomatic of the ‘division between this dimension of policy engagement and partnership and the Treasury led support for public service delivery’ (p.13).

Detailed studies of the impacts of this modified neo-liberal approach are coming to light for example the JRF study (see Taylor, 1997). New Labour continued Thatcher’s ‘contract culture’, known to be problematic because of the high transaction costs and the impetus for services to be driven by priorities of the government as opposed to the mission of the organisation (Alcock, 2010:12). This contradicts the assumption that the sector can provide services that the government would be unable to provide, or that are politically oppositional. It affected the ability of organisations to combine advocacy with service delivery, or continue with activities which were not a priority for purchasers. The outcome of the changes to the sector’s role and relationship to the state mean that there is a significantly increased administrative workload, an increased gap between senior managers and trustees or management committees, a pattern of rationalisation of management and the professionalisation of volunteers. Attempts to involve
users, and members of disadvantaged communities, in management has lost priority and effectiveness, undermined by unsustainable mechanisms for accountability, professionals taking over and bureaucratisation. Overall this has led to increased polarisation within the sector (Taylor, 1997:19). This competitive and harsh environment favoured formalised and private sector style organisations: supporting a market friendly sector but not an ethical or empowering one.

A trend commented on by Mellor (1985) of the ‘statutory master’ and ‘voluntary servant’ (p.124), seems not to have been changed as much as the New Labour rhetoric of partnership suggests. Thatcher’s ‘New Managerialism’, resurfaced in another form as the ‘New Public Management’ approach, arguably another ‘vehicle by means of which neo-liberal ideas actually inform institutional practices’ (Hall, 2003). It led to greater trust being placed in management consultants and other private sector services than in the expertise, experience, and opinions of public sector professionals (Jessop, 2007: 285). Replacing professional judgement and control with micro-management practices of auditing, inspection, monitoring, efficiency and value-for money, undermines institutions and public bodies (I am including third sector organisations here) as their public role and the public interest cannot be adequately re-framed and measured by the market as Hayek proposed (Hall, 2003).

New Labour’s powerful rhetoric, in many ways did not match the reality of the policy which they implemented. The Third Way has been criticised for having been a ‘fuzzy concept’; ‘political expediency in need of intellectual and moral justification’ (Klein and Rafferty,1999:379). This was especially problematic as it embodied a new ‘centre’ politics where ‘anything goes’, based on undefined concepts which cannot be held to political accountability (Klein and Rafferty,1999:379). Some of the key terms or concepts used by New Labour were that of community and equality, partnership, social capital and social entrepreneurship.

Community and equality were crucial elements of New Labour rhetoric. Callinicos (2001) discusses the contradictions within this ideological position, focusing on New Labour’s economic and social policy. Themes running throughout are ‘equality through equality of opportunity’, egalitarianism through the equalisation of ‘productive endowments’, and the ‘knowledge
economy’ as the means to reconcile social justice and enhanced efficiency. This approach on the whole accepts neo-liberal economics, monetarism and Friedman’s ‘Non-Accelerating Inflation Rate of Unemployment’, based on supply-side policy. Callinicos asserts that this policy approach could not adequately deal with rising inequality in the UK due to its authoritarian nature and the continuation of the previous Conservative administrations’ policies (p.51-54). The prevalence of individual blame and responsibility led to the contradiction described by Cohen (2000) as the ‘co-existence of egalitarian structures with in-egalitarian attitudes’ (quoted in Callinicos, 2001:63).

In an attempt to promote equality in this way, the Third Way has gone further than its Conservative predecessors in promoting the corporate penetration of every aspect of social life (Callinicos, 2001:64). New Labour invoked ‘the stake holding society’, ‘the giving society’, communitarianism’, ‘social citizenship’, ‘social capital’, ‘partnership’, and ‘the Third Way’ to distinguish its approach from Thatcherite neo-liberalism (Jessop, 2007:287). However, the emphasis on communitarian themes and policies, were subordinate to a focus on ameliorating the effects of a neo-liberal accumulation strategy rather than an alternative ideological goal. In particular, attempts to secure social inclusion were approached primarily through labour market attachment and the economic regeneration of marginalised communities, via Ricardian rather than Keynesian elements in the Blairite economic and social vision. The strong focus on ‘workfare’ characterised the subordination of social policy to the imperatives of economic flexibility (Jessop, 2007). Social inclusion was central to this policy as part of the government’s role in ameliorating the negative effects of neo-liberalism. However, critics argue that the language of ‘social exclusion’ presupposes societal separation and marginalisation, and Labour’s move away from universalism to localism undermined the collective nature of the problem of inequality (Amin et al., 2002:9).

The second key concept was of partnership. There existed inevitable tensions in this ‘partnership’; ‘between the responsibilities of government and the goals of particular voluntary organisations; between public accountability and organisational autonomy; between voluntary principle and the efficiency in welfare delivery; between interdependence and independence.’ (Taylor, 1997:1). Despite the rhetoric of ‘partnership’ there remained considerable ambivalence between local and national government and the sector and tension between leadership and
participation according to the Joseph Rowntree Foundation (JRF) research by Taylor (1997); ‘Overall, the reality falls some way short of the rhetoric of partnership and the expectations of voluntary and community partners’ (p.21-22). The question of who participates is key, barriers exclude people and organisations from this process, for example in terms of financial resources, location or reputation of potential players (Russel et al., 1996 and Skelcher et al., 1996 in Taylor, 1997:22). This further divides the sector, with organisations able to participate representing only certain aspects of the sector.

Thirdly, ‘Social Capital’ underpinned much of the Third Way strategy. Social capital is,

‘the kinds of social relationships people have with one another, and the trust and shared values that emerge from them, influence the capacity of communities to work together to tackle common problems’ (Skinmore and Craig, 2005: 17-18).

Putnam was an early adviser to the New Labour administration suggesting that the third sector could contribute to democratic politics through promoting engagement in social action (Alcock, 2010:12). ‘Social capital’ is a term of contemporary mature capitalist society: emphasising common needs and responsibilities, as well as the potential for individuals and their communities to address them without overzealous state intervention, it is a ‘political idea for an anti-political age’ (Skinmore and Craig, 2005: 18). New Labour’s use of the concept to support its aims was linked to the idea that the third sector can turn needs into markets (Amin et al, 2002:52); an economistic approach which shaped the policy emphasis. The potential of ‘Social Capital’ is seen as the resource fuelling the sector. This policy approach fails to conceptualise the sector in relation to the state or mainstream economy (Amin et al, 2002). In relation to the state, the sector is highly dependent and should be viewed as a different use and distribution of resources rather than resource generation. In relation to the private sector, it thrives where the private sector is strong, deriving staff, materials, financial donations and benefiting from the capacity of the labour market to absorb trainees coming through the sector. Failing to acknowledge these relationships between sectors undermines the New Labour premise of promoting ‘equality of opportunity’. The foundation of social capital needed to support the ‘social economy’ is most often found in wealthier areas (Amin et al, 2002), therefore the contention that it can counter
social exclusion, job creation and support regeneration is contradictory, social capital can be
developed but it requires government investment (Taylor, 1997:29).

Rarely is the ‘social economy’ genuinely rooted in resources of the local community (Amin, et al.,
2002), moreover the composite skills and resources which allow for a thriving sector are not
available in areas of marked social exclusion. Third sector organisations usually rely on public
sector leadership, peripatetic professionals, social entrepreneurship, dedicated organisations
(religious/ethnic), and, or, special market links. Furthermore ‘participation’ is highly dependent
on the nature of local community (is it cohesive, self-identifying, active?) and the nature of
engagement which is attempted (is there a focus on empowerment and involvement?). Amin et
al.’s (2002) research suggests that this gap in understanding is a key barrier to the promotion of
the third sector. This undermines the prevailing view that the sector is more market friendly that
the public sector and that the sector can support different communities equally as part of national
policy and service provision.

Finally, ‘Social Entrepreneurship’ is a theme which ran through New Labour rhetoric. Again it is
a term symptomatic of the new ‘centre left’ embracing all thing neo-liberal. Jessop (2002 in
Jessop, 2007) describes New Labour policy as promoting a new state form; the Schumpeterian
workfare post-national regime (p.285). This represents a shift from Keynesian to Schumpetarian
aims and modes of intervention, and from the primacy of the state in compensating for market
failures in a mixed economy to an emphasis on networked, partnership-based economic, political,
and social governance arrangements. This is a strategy centred on attracting the best of global
investment and is symptomatic also of attempts to create a new ‘knowledge-based’ economy.
Additionally, whilst this is now common to most OECD countries, it is promoted in variant ways.
New Labour’s preferred model is neo-liberal rather than neo-corporatist or neostatist (Jessop,
2007:286). New Labour’s emphasis on enterprise and growth has promoted the image of ‘the
businessman’ and ‘the entrepreneur’ as the principal social role model, spreading the gospel of
‘entrepreneurial values (efficiency, choice, selectivity)’ (Hall, 2003).

This shift is symptomatic of an ‘economising logic’ which is inherently neo-liberal.
'Entrepreneurial governance', in this way, promotes competition between service providers,
focuses not on inputs but on outcomes (delivery), redefines clients as consumers, de-centralises authority through ‘participatory management’, and prefers market mechanisms to administrative ones (Hall, 2003). ‘Payment by results’ has become the norm undermining the ability of organisations to be flexible and participatory and empowering.

To summarise, the Third Way policy, while employing the rhetoric of community, equality, diversity and partnership, in reality promoted a more divided and standardised sector, valued and understood in economistic terms. An example of this is the attempts to measure social value developed in order to address this new policy environment. In true economistic style, the ‘Social Return on Investment’ (SROI) is an indexing tool which seeks to ‘reflected the overall value of a social enterprise, by adding together economic, social and environmental returns’ (Wood and Leighton, 2001:24). Clearly the concept of value is complex and political. The New Economics Foundation (Nef) assert that this index accounts for a ‘much broader concept of value’ (than simply ‘economistic’), incorporating social, environmental and economic costs and benefits into decision making in order to provide a’ fuller picture of how value is created or destroyed’ the end product of which is a monetary figure. For every £1 invested, £10.50 of social value was created (quoted in Wood and Leighton, 2001:19).

These ‘codes of conduct’ work ‘with the grain of existing investment and accounting practices, seeking to subtly alter management incentives so that nonfinancial goals are pursued in addition to profit.’ (Davies, 2009: 43). The Centre for Social Justice promoted the SROI in 2010 as a yardstick for assessing viable projects, recommending that a SROI watchdog be created, modelled on the National Audit Office but able to scrutinise a spending programme before it was implemented (CSJ, 2010). This has the potential to open up the sector to even more thorough regulation and control. The obvious drawback of this kind of accountability and regulatory mechanism is that evaluations like the SROI are complex and resource intensive to carry out (Wood and Leighton, 2001: 28). Factors such as ‘impact’ and ‘outcomes’ are extremely hard to quantify in this context for example with regard to lobbying activities undertaken (Wood and Leighton, 2001:38).
To conclude New Labour policy led to a loss of autonomy and diversity within the sector. It supported the market friendly qualities of the sector but not ethical or empowering ones and failed to live up to its claims to support diversity within sector. The policy rhetoric proved different to the reality. The neo-liberal and competition based stance inherent in the economising concepts of capital, entrepreneurship and a false partnership reflected a particular and contradictory approach to addressing social need.

**Examples**

These examples seek to show that the policy and practice implemented under New Labour was economistic rather than prioritising ethics and empowerment. This section will assess two types of third sector organisation, looking at the legislative frameworks in which they find themselves, how these environments affect them and in connection to this whether they support the market-friendly, ethical and empowering qualities of third sector organisations.

The legislation affecting third sector organisation often lags behind the fast moving innovations in mainstream business legislation causing there to be extra burdens laid on the sector. For example, in 2006, the definition and regulation for charities in the UK was revised and simplified for the first time since the 17th century (Charities Act, 2006). Moreover, the legal status of a organisation has a crucial impact on both its ability to gain funding and on its autonomy of internal democratic procedure (Mellor, 1985:98). The regulation of third sector organisations has traditionally been used to satisfy government agencies set up to ensure that legal, or other privileges, given are not misplaced or abused, and that the organisation is working constitutionally and effectively enough to justify the allocation of public funds or other resources to it (Mellor, 1985:142). The law and regulation can also be understood as instruments of abstraction; the history of legislation affecting some third sector organisations has been one of conflict with the government (Yeo, 2005:18).

Enterprises within the sector can be differentiated from both commercial and public sector organisations, on the basis of legislation (Spear, 2002:8), specifically, they are registered under Companies Limited by Guarantee, Industrial and Provident Societies (IPSs) and Community
Interest Companies CICs. An example of the way that legal and institutional definition can affect the public’s attitude to a sector or organisation, as well as its potential to be financially viable, is through tax exemption. Within the organisation it can affect ownership, governance and finance; influencing its internal culture and structures of power.

This section is an interpretive analysis, as formal evidence concerning the legislative barriers which affect different kinds of third sector organisation is not available. Data collection of this kind is often problematic as the third sector embodies an unofficial space. For example, the Freedom of Information Act does not apply to charities so information inconvenient to the government can effectively be hidden. As commented on before, the one sided nature of discourse on the sector is aggravated by processes of formalisation and professionalisation, is exaggerated by the academic and policy tendency to focus on large scale and more easily recognisable organisations; ‘Public policy is the poorer for the emphasis on the professionalised sector, as is research.’ (Harris and Rochester, 2003:13). This analysis allows for a relatively broad spectrum of organisations to be explored.

The importance of organisational and legal models is acknowledged by the sector along with its representatives and institutions supporting it internationally (EU, 2010; ICA, 2011; ILO, 2008; UN, 2001). It relates to things like how far private equity can be used to pursue non-financial goals and can define an organisation. The examples here, illustrate the trends towards an economistic conception of organisations which, I will argue, undermines third sector organisations ability to be ethical and empowering.

A comprehensive review of the legal forms currently available for social enterprise can be found online, on ‘on-board’s’ website (www.on-board.org). The two organisational forms which have been chosen for this study are the Social Enterprise (SE); specifically the Community Interest Company (CIC), and Co-operative Mutual Enterprise (CME); specifically the Co-operative Industrial and Provident Society (CIPS) form. Though both can described as ‘social enterprise’, the CIC is what we would generally understand as a ‘Social Enterprise’, whereas a CME incorporated as an CIPS is more likely to be a Building Society or Co-operative. These examples are comparable in their activities and yet, significantly, different enough to illuminate the bias of
New Labour policy; crucially, due to a powerful lobby, Social Enterprise was at the heart of its third sector activity (Peattie and Morley, 2008). The CIC characterises this priority.

The definition of ‘Social Enterprise’ applies to organisations which trade as businesses, but have explicit social or environmental purposes, and use their surpluses to reinvest in the business rather than paying out dividends to shareholders. CICs were established in 2005 as a new organisational form (Companies Act, 2004), which exists to serve a community purpose, but which can still sell shares and return a dividend, capped at 5 per cent. Assets are locked in to the company, to prevent it being bought and sold for greater profit (Davies, 2009:47). This has been developed as a ‘brand’ (CIC Regulator, 2011) as a key element of New Labour’s promotion of the sector.

This new legal model is designed to address the legal problems that confront many social enterprises. When SE’s are established as charities they are financially constrained, with limited opportunities for growth, entrepreneurship or access to capital and strict regulation in terms of organisational aims and accountability. On the other hand, when they are incorporated as private companies, they risk losing public trust and have constraints placed on them by shareholders (Davies, 2003). The ‘community interest’ of CICs is regulated by a special regulator appointed by the Secretary of State for Trade and Industry, testing individual CIC’s to ensure that they benefit the community (CIC Regulator, 2011). They are shaped by the expectation that they can play a critical role in economic regeneration and neighbourhood renewal by promoting business and social development in ‘rundown areas’ (Alcock, 2010:7).

However examples of implementation issues that suggest the flimsy nature of this legislation, and the danger of privatisation vis a vis this legislative process, have already invoked criticism. Ealing Community Transport (ECT), a darling of the SE sector and one of the largest UK SE’s, in 2008 disposed of most of its operations, selling off many of them to private companies. It has been criticised for undermining CIC’s as a model for the control of assets (Gosling, Co-operative News, 2008). If assets can be sold in this way then the ‘ethical’ nature of CICs is undermined.

Moreover CIC legislation is criticised for being ‘entirely agnostic on what ‘community interest’ actually means’, the policy for being ‘less concerned with improving social outcomes than with
propping up public confidence in social enterprise’ (Davies, 2003). Enterprise speculates on uncertainty and the danger is that this ‘underestimates how intrinsically disruptive successful entrepreneurship is’ (Davies, 2003).

CIPS and CMEs in general, on the other hand, are based on a ‘far more radical break from the conventional understanding of company ownership, be it public or private equity’ (Davies, 2009:47). ‘Mutual’ organisations are where neither the company nor its shares can be bought or sold at all, challenging contemporary assumptions about the meaning and value of ownership. Mutuals are societies, trusts or cooperatives that own assets and are run on behalf of their members, e.g. Credit Unions or Housing Associations.

CMEs, and in particular co-operatives were explicitly formed as part of a movement to address social needs. Co-operatives growth was parallel to the industrial revolution and sought to counter some of the gross inequalities caused by the rapid technological changes and ensuing social upheaval caused by the division of labour and the creation of the a new working class. Based on eight ‘Rochdale rules’, a model, still regarded as influential, was created, combining a one member/one vote system, forms of accountability, organisational structure and dividend payments. CME’s began with the idea of ‘full enfranchisement’; regarded as a ‘full’ conceptualisation of citizenship through self-governing consumption and self-governing production (Yoe, 2005:23). Decision-making power within the organisation is not based on capital ownership; instead democratic participation is part of its constitution.

Almost all CMEs are registered under the CIPS legislation or Company law (limited by guarantee) (Spear, 2002:9). As democratically run organisations, the rules governing these associations differ depending on their goals. The thing that they hold in common is that, while members are the owners of these organisations, they cannot sell this member-ownership (Davies, 2009:47), e.g. a housing co-op (for details see Radical Roots, 2010). CME’s in the UK have never experienced an easy partnership with government support or promotion. Legislation governing the co-operative sector has remained untouched for the main part since 1968, apart from worker co-op legislation in the 1970s (Co-op Party UK, 2010). A new ‘Co-operatives and Community Benefit Societies Act’ was passed in July 2003 leading to the first ‘asset lock’ for
community benefit societies, including housing associations, community childcare facilities, football supporters’ trusts and social clubs’ (Co-op Party UK, 2010); a crucial regulatory mechanism for the legitimization of CME. However for cooperatives, the lack of case law regarding CIPS’s and the lack of a strong regulator or general legal understanding of co-operatives means that they are extremely hard to regulate, e.g. Housing Co-operatives are sometimes taken over by one or more tenants and sold for their own profit, other members of the co-op have very little power to do anything about it.

There is a trend towards CMEs choosing to gain the status of Trusts or Charities in order to gain legitimacy, and some fear that this will lead to a separation of CME’s from democracy; their membership from governance and their owners from control (Yeo, 2005:21). This shift away from their radical past and aims of ‘socialisation’ can be understood as a wider societal shift towards system differentiation affected by the dominant political and economic models. However, there is a spectrum of different organisational forms which have evolved from this early radical model.

The Co-operative Party has lobbied over the years for many policy changes in line with co-operative principles and models. It was associated with the Labour party, and was a trailblazer with regard to workers rights; Co-op’s were first to introduce the eight-hour day in a UK factory; the Co-operative Wholesale Society introduced the minimum wage in 1901; the Women’s Co-operative Guild began to discuss the National Health Service in 1929, almost 20 years before it was eventually founded (Elliot, The Guardian, 02/09/10).

However the disastrous demutualisation of building societies in 1997 was not stopped by the newly elected New Labour administration and it did little to promote co-operatives as an alternative business model during its three terms. Critics argue that Co-ops had the wrong sort of image for New Labour; regarded as failing to keep up with the dynamism of private companies driven by shareholder value (Elliot, The Guardian, 02/09/10) and their model of participation was sidelined in favour of economic growth in line with neo-liberal trends. There have been no state policies specifically supporting them (Spear, 2002:10).
The difference between a CIC and a CIPS is that the latter is an actual democratically governed organisation, enabling debate, ambiguity of purpose and plurality of voices, at the very top of an organisation (Davies, 2009:51). Mellor (1985) poses the question that ‘it is curious that there are no vociferous requests that [all third sector organisations].. should not be democratised’ (p.99).

The obvious limitation of a CME and this form of ownership is that, while expansion occurs almost entirely through bank loans or retained earnings, organisational growth can be problematic. However, examples of hybrid options which give access to equity finance within the strictures of a mutual structure exist (see Davies, 2009:47).

The contemporary concept of Social Enterprise is dominated by theories stressing state and market failure (demand side theory) and the role and profile of entrepreneurs (supply side theory) or the dynamics of institutional choice (historical and contextual factors, embeddedness etcetera.) (Spear, 2001). Dialectically, third sector organisations are seen to represent a new or renewed expression of civil society in the context of, an ever more pronounced, economic crisis as well as the weakening of social bonds and weakening welfare state (Deforney, 2001).

The CIC legislative model prioritises market friendliness over other qualities; it disregards the importance of ownership and governance and autonomy. An organisation incorporated as a CIC is undermined by the Secretary of State for Trade and Industry’s role of appointing the regulator and deciding what the ‘community interest is’. In conclusion, what these example show is that the support for CICs as opposed to CMEs illustrated where the government’s priorities lay. The latter representing an alternative model which firmly places ethics and empowerment at its core.

4. Theoretical Approaches and the Importance of Organisational Model/Form

Returning to the ideas of regulatory theory mentioned previously, and to conclude this analysis of New Labour policy, let us turn to the overarching effects that their policy has had on society particularly those aspects relating to the third sector, finally, analysing some of the alternative approaches.

The state undoubtedly has an 'educative' function, which combines intensive micro-management and centralisation of targets with more strategic interventions exercised 'culturally' and 'at a
distance’ (Hall, 2003). New Labour’s approach, described as a ‘governmentality’ approach, characterised by ‘controlling behaviour and outcomes not by direct constraints but through the consent and ‘freedom’ of individuals’, falls into the latter category, and can be understood in neo-Foucaultian terms (Hall, 2003).

The effect of a governmentality approach was the marketisation of the state, democracy has been replaced by managerialism. This market fundamentalism can be framed within a regulatory theory framework. New Labour’s policy was embedded in the notion that the role of the state in contemporary late-capitalist society is not to support the less fortunate or less powerful in a system which produces huge inequalities of wealth, power and opportunity, but to help individuals ‘themselves to provide’ for all their social needs (Hall, 2003). For critics this was shamelessly turning their backs on questions of principle and purpose under the guise of pragmatic practicalities of ‘delivery’ (Hall, 2003), while for protagonists it was the realities of a post-Fordist globalised economy. The ‘corporate enterprise’ has become the new model of the state (Hall, 2003), and has been described as the ‘best ideological shell’ for neo-liberalism today (Anderson, 2000 in Callinicos, 2006:8).

In order to appreciate the significance of this policy approach, it is useful to contextualise New Labour’s dogma in relation to post-modernism. The influence of post-modernist ideas, of thinkers such as Bauman, Lyotard and Bell, is particularly prevalent in contemporary social policy research and practice in the UK. Post-modernism’s focus on the decline of the state fits with social policies’ recent emphases on particularity, localism, decentralised administration and supra-national institutions. The post-modernist position, argues Taylor-Gooby (1994), stands in direct contrast to prevailing neo-liberal trends and, in overlooking these trends, is problematic for social policy. Policy has developed, on the one, with an emphasis on individual responsibility, consumerism, decentralisation and choice, and on the other hand consisting of state policies which reinforce inequalities, and increasingly ‘monitor the regimes of vulnerable groups’, such as long-term unemployed people’ (Taylor-Gooby,1994:168).

Postmodernist influence is characterised by a move away from a universalist approach to social issues, reflected by the diversity and ‘choice’ implicit in welfare politics and social policy. It
ignores the sustained influence of market liberalism on the international and national political economy which is rooted in the economic thinking of the Enlightenment and modernity. The implication for social policy is that a post-modernist approach ‘cloaks’ important developments. Including, increased inequality in living standards, the privatisation of state welfare systems and stricter regulation of the lives of some of the poorest groups, trends which may fail to ‘attract the appropriate attention if the key themes of policy are seen as difference, diversity and choice’ (Taylor-Gooby, 1994: 168).

This brings up a sub question of whether it is advisable for the government to support or promote the third sector. Is the government’s role a contradiction in terms? If the sector needs to be autonomous then can policy makers prescribe goals for it? What is shown by the examples in Chapter 3 is that the legal and regulatory environment, controlled by state, can be a help or a hindrance to the proliferation and success of organisational forms which best facilitate the qualities which characterise the benefits of the sector. Moreover the type of organisations which they support has implications for the sector and for society, implicit in which is a political or ideological stance.

As mentioned in the introduction, regulatory theory supports the idea that subcultures within organisations have a meaningful impact on national variations in institutional structure (Hancher and Moran, 1989: 288). Skidmore and Craig (2005), recommend that government take more notice of internal dynamics of community organisations; asserting that a key element of the most successful community organisations is their focus on the people with whom they work. They suggest that through learning from the participation achieved by successful third sector organisation, other institutions could be radically altered; ‘bringing to life the public realm’ (p.22). They highlight the importance of faith in collective action, support of politicised organisations and protest and attention to the negative effects that regulation of the sector can have. However they do not make recommendation that demand the changes that would be necessary to engage with these ideas, suggesting only more unbiased support for organisations – such as the National Lottery is supposed to provide.
The sector, particularly more radical organisations such as producer cooperatives, is thought to represent economic and social alternatives to dominant neo-liberal models or even the ‘institutional forms of socialist globalization’ (Sklair, 2002:302). Gibson-Graham (2006) discuss these organisations in terms of a social and political movement, signifying a new way of thinking about economy and economics. This ‘post-capitalist’ politics uses new practices of the self and of the inter-subjective relations that enable new discourses to be inhabited in everyday life. This ideological shift allows for a new economics based on ‘ethical self transformation’ and ‘micro-politics of (re)subjectivation (Foucault in Gibson-Graham, 2006: 79) and the re-socialisation of economic relations.

Through the extension of Marxist language of class, this movement seeks to supply ethical coordinates for negotiating interdependency in actual projects of economic construction, placing the issues of necessity, surplus, consumption and commons in the foreground of ethical deliberation and decision (Gibson-Graham, 2006: 101). This is enacted through projects which treat the economy as a political and ethical space of decision. They use the example of the Mondragon Corporation (Mondragon, 2011) to highlight the potential of this model and its powerful political message based not on economic theory and dynamics but on the ‘history and practical philosophy of economic self-determination and the values and practices of association and co-operation’ (Laclay, 1995 in Gibson-Graham, 2006:103). Its grounding principles function as a ‘cultural commons’, facilitating a new economics and a comprehensive economic and political model of organisation.

This more radical, poststructuralist, approach aims to extend and radicalise democracy by changing social relations based on domination (Baumeister, 2000:62). The democratisation of the capitalist modes of production, housing and many other projects taken on by the sector are a way of democratising these spheres and gaining autonomy through collective organising. Feminism’s post modernist conception of ‘agent’ and the fact that it does not ‘attempt to construct essences but to explore these contingent relationships’ (Baumeister, 2000:56) is mirrored by this movement.
Another approach, the ‘associationist’ approach is rooted in new theorisations of the socioeconomy within heterodox institutional economics and institutional sociology (Amin and Thrift, 1995:42). Associationism focuses on institution building for a more democratic system. Grounded in sociological and anthropological conceptions of the economy being embedded in interpersonal relations; institutional economics; neo-Gramscian conceptions of the economy and organisational theory (Amin and Thrift, 1995:50-52). In practical terms it is an approach based on voluntary, autonomous and context driven processes whereby a community can engage with institution building through processes of negotiation. Its efficiency is dependent on the nature of the meso-structures in the given social and economic environment with regard to domestic and international competition (Hausner, 1994 in Amin and Thrift, 1995:55), e.g. the legal and regulatory frameworks.

As Amin and Thrift’s (2010) distinction between ‘practical associationism’; focused on economic success, and ‘associationism’ defined by a political conception; engaging with ‘oppositional’ politics and political organisation, reflects the distinction between CICs and CMEs. They argue that only the latter can guarantee democracy and social equity (Amin and Thrift, 2010:58). This reinforces the idea that New Labour’s approach did not promote the empowering qualities endowed on the sector.

There are a number or criticisms of these alternative approaches. One is that the more radical conceptions of the potential for these organisations to play a pivotal role in social change are simply utopian and the alternative models and politics that they represent remain marginal (Amin et al, 2002:7-8). Another criticism is of democratic idealism in the definition and expectation placed on third sector organisations. They cannot be expected to be intrinsically equitable and consistent, they can be as contradictory as the state and the market, containing the capacity for ‘scapegoating, racism and violence’ (Benington, 1997:151 in Deakin, 2000). A third criticism is that third sector organisations will always be influenced by the political stance of the institutions with which they co-operate (Callinicos, 2001:124) (whether they be capitalist and neo-liberal or otherwise) and that they cannot prevent this dialogue leading to their incorporation.
Though relevant, these criticisms do not undermine the argument that there should be better government support and promotion as well as regulation of the sector. Nor do they counter the argument for organisational pluralism, which will be explored here.

In the wake of the financial crisis, Davies (2009) suggests that in addressing the banking system, business leaders, policy makers, commentators and citizens have begun to reflect on how alternative types of capitalist structures offer different ownership models and corporate governance structures that can be ‘inclusive of all stakeholders, be more resilient in the long term and reduce the risk of future crises’ and ‘that can generate wealth as well as positive benefits for society and shareholders alike’ (p.11).

The ‘shareholder value creed’ is based on the belief that a company’s primary purpose is to maximise its value for the benefit of external shareholders and represents part of the neoliberal ‘intellectual edifice’ according to Davies (2009:13). Shareholder value philosophy presents companies as comparable to any other economic object that could be owned, traded, invested in and profited from, supporting the view that the price of a company’s stock is the best and most complete representation of its true value, and satisfying shareholder interests was the overriding goal of management (Davies, 2009). This approach ignores a number of critical aspects of how a company or organisation works. This includes the importance of intangible assets (e.g. people, relationships, intellectual property (IP) and reputation), which are hard to measure and the value of which can be damaged by treating them like physical items of property tradable, dispensable, swiftly exploitable (for example in mergers and acquisitions). Furthermore it ignores the internal distribution of power and political nature of choices made in an organisation (Davies, 2009: 13-14).

If we acknowledge these understanding of an organisation, two things follow. Firstly, we can begin to explore the range of available models for an organisation’s ownership and control, ending the present financial and organisational monoculture. Secondly, we can begin to question what kind of politics we want in our organisations. As key players influencing the well-being and
fabric of civil society, it seems obvious that they should become part of a public debate about our society and political economy.

Davies’ (2009) contention is that people must be supported, encouraged and empowered to form the social and economic relationships that they desire; ‘such that the state is not society’s dominant source of collectivism and security’ (p.15). New Labour, while supporting the idea of ‘social enterprise’ and presenting a new role for government in promoting and supporting alternative forms of economic organisation, failed to support the organisational structures most apt at meeting its own aims of ethical organisation and empowerment.

Davies presents a strong argument that due to a crisis in banking, competitiveness, fiscal management and a moral vacuum created by the shareholder creed we need to move toward the alternative which is pluralism of organisational forms. This is particularly relevant to the third sector, particularly to ‘Social Enterprise’ and represents an alternative approach to the sector than the modified neo-liberal one which shaped New Labour’s strategy. Employee ownership, an example of a third sector model, is a ‘political framework’ seeking to deliver ‘greater autonomy in our economic lives (including in our workplaces) as a component part of a society less liable to domination’ (Davies, 2009:16). It combines high levels of economic performance with politically progressive forms of accountability and governance, as well as various financial, managerial and cultural ‘ingredients’, offering diverse means of producing, serving, employing, cooperating and owning. A high profile example of this is John Lewis, however smaller scale organisations often better illustrate the potential for an organisational culture centred on highly democratic decision making, co-operation and mutuality.

To summarise, there is a political argument for installing democratic structures within organisations to ensure that they serve the interests of their shareholders (Davies, 2009:50), this is particularly relevant to sustaining the ethics that the third sector is supposed to embody. Though Davies suggests that there is no reason this approach could not greatly change the private sector too. What is shown by the examples in Chapter 3 is that the legal and regulatory environment, controlled by state, can shape the proliferation and success of organisational forms which best
facilitate the qualities which characterise the benefits of the sector. It is this aspect of the government’s role in relation to the third sector which needs to be better understood and acknowledged.

5. Contemporary Context, Relevance and Conclusion

Thatcherism changed the role of the government in the UK, while New Labour represented a modified continuation of that role. The Third Way - third sector is an example of how this played out in terms of policy and practice, having major implications for how we conceptualise the third sector.

New Labour’s rhetoric of ‘partnerships’ and Giddens’ ‘third way’ promoted the idea of the sector as a space for contributions to civil society and new forms of governance to occur (Harris et al, 2003:4). The Deakins Report encouraged the government to recognise its obligation to support and promote a sector which does not necessarily share its objectives and to transfer power to the sector through law and tax reform. New Labour’s rhetoric promoted the sector’s market friendly, ethical, and empowering qualities of the sector; however, its rhetoric of equality, community and partnership contrasted with the reality of governance and marketisation and led to a loss of autonomy and diversity in the sector. The legislative choices made supported the market friendly qualities in the sector but not the ethical or empowering ones. Support for CICs as opposed to CMEs illustrated where the government’s priorities lay; the latter organisational model representing an alternative social and economic model which engages with the political nature of an organisation to support ethical practice and empowerment.

Having explored the policy context of the contemporary third sector we can draw conclusions which have significant implications for the sector, for the influence of organisational models on society and politics and for Cameron’s ‘Big Society’. Although the government has plans to promote the ‘John Lewis’ model (services such as fire services will potentially become employee owned) there are already fears from the sector that the ‘Big Society’ will fail to implement policies associated with its own rhetoric, in particular legislative changes (Dobson, The Guardian, 4th April 2011). An example of Conservative policy so far is the ‘localism bill’ which includes
the ‘right to challenge’ forcing LAs to put services out to tender whereby third sector organisations have to compete against the private sector for the work (Tyler, The Guardian, 15th Feb 2011). So far not so good, however the government’s plans for the sector remain unclear, a white paper on the future of the sector is due at the end of 2011.

The third sector undoubtedly represents a policy challenge; much of the innovation that occurs in this field cannot be anticipated or prescribed by government - much like the private sector, and it requires ‘political maturity’ to support autonomy and empowerment outside the confines of traditional power structures (Mellor, 1985: 167). Notwithstanding, as this study has shown, the legal and institutional environment within which third sector organisations are embedded is crucial to the shape and success of the sector and therefore the government plays a key role in its promotion and support. The character of the mainstream debate concerning the third sector is shaped by efficiency rather than ideology (Deakins, 2002:284). It fails to acknowledge the political nature of New Labour’s stance on the third sector as neo-liberal in many respects. The government can fulfil its role of supporting and promoting the sector through a more direct definition of the sector’s aims.

The alternative definition or role for the sector could be one of creating new forms of democratic, participatory and economic opportunity and influencing other organisations. It should be conceptualised as a space for organisations wanting to push the frontiers of social provision; individuals and groups seeking to influence their social environment and a counter to the confrontational nature of party politics (Mellor,1985:174).

Davies (2009) suggests that government could take a leading role in illuminating the range of models available for organisations, using the tax system to both highlight and incentivise them. However, as the contrast between rhetoric and reality in New Labour policy has shown, promises of similar support for the sector have failed to materialise in the past and the new policy rhetoric of the ‘Big Society’ looks set to prove even more damaging to the sector in real terms. Recommendations by the Deakins report and by critics such as Davies (2009) highlight actual changes that the government could take which would best fit its role of supporting and promoting such as altering tax incentives; restoring and defending mutualism in banking; facilitating finance
for mutual and employee-owned business; piloting mutualised public service providers; spreading the benefits of share ownership (countering elitist tendencies; whereby those earning more can buy into the company more); an agenda for professional services (communicating benefits); celebrating new models; establishing and converting more firms to these models. According to Amin and Thrift (2010), whether or not political empowerment and political practice are taken into account is pivotal in assessing the government’s support for the sector.

This is a key social and economic strategy to deal with inequality in the UK which New Labour failed to implement. In order to analyse in depth the UK’s legal and regulatory environment in relation to the sector, cross-country comparative data on organisational structure and legislative environments would be useful but is not readily available and is outside the scope of this work. It could highlight differences indicative of varying types and levels of government support and promotions.

The most contemporary changes to regulation include potential changes to the Financial Services Authority (FSA), through which IPS’s are registered (HM Treasury, 2011:89-90 - 5.56). The government talks of ‘minimising the burdens that may be placed on mutuals’ (HM Treasury, 2011:89-90) however, as shown in this study, the role of government in supporting the sector is politically motivated and the outcome of this regulatory change has the potential to further constrain CMEs. The difficulty with legislation supporting the sector is that it can be seen as anti-corporate legislation. This is a policy and legislative area which has massive impacts for the fabric of society and would benefit from further analysis.

Third sector organisations have their own ‘subcultures’ which have a symbiotic relationship with institutions and society – thereby affecting social and political change. The potential for the sector to have a positive and democratising effect on society needs to be enabled by the government; this can be developed by diversifying ownership and governance structures. The prerequisites for organisational pluralism include more suitable financial and organisational models, more understanding of the implications of ownership, governance and regulation, and making the link between this strategy and social change and cohesion especially in the present political environment of cuts to services. Democracy and greater equality within the workplace
are shown to be key to engaging with rising inequality and societal trends of ill health and social malaise (Wilkinson and Pickett, 2009). Inequality is a symptom of the ‘choices we make about the organisation of risk, reward and power within our dominant economic structures’ (Davies, 2009:94), in the current political environment we need to ask questions as to how our government can make the choices which we want.

Acknowledgement

I would like to thank my reviewer Charlie Dannreuther for his encouragement in pursuing this research, and my friends and family for their support.

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