Third Sector Organisations and the Co-production of European Union Funded Social Inclusion Initiatives

A cross-national case study on collaboration and organisational change

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1. Summary

This paper builds on a doctoral study which examined the benefits and challenges encountered by third sector organisations (TSOs) in the implementation of European Union (EU) funded urban renewal programmes. The purpose of this paper is to illustrate, through a number of examples, how services can be co-produced between public sector organisations, TSOs and citizens. Programme Managers and Local Development Partnerships (LDPs) have been found to be able to use EU funding to develop the organisational capacity of TSOs and, at the same time, to deliver targeted services in deprived neighbourhoods. The paper then argues that the extent to which LDPs have moved beyond the mere allocation of EU funding and engaged in a process of co-production could be an effective indicator of performance in relation to the reduction of social and economic exclusion in some of the most deprived urban neighbourhoods in Europe.

2. Introduction

The significance of TSOs as delivery mechanisms of European Union (EU) policy on social and economic inclusion is continually growing (Commission of the European Communities, 2005, 2006a, 2006f, 2007e). There is a strong affinity between arguments about the importance of social enterprises within Europe, and arguments about the importance of TSOs in delivering EU policy objectives on social and economic inclusion (Spear et al., 2001; Commission of the European Communities, 2006f). With regard to the provision of public services in the EU there is an important debate taking place about the nature of TSOs in the EU, which is briefly referred to below because this provides the context for arguments on co-production made later on in this paper.

Some scholars argue that social enterprises are the dominant organisational form of TSOs in Europe (Evers and Laville, 2004b) and suggest that the reforms of the welfare states in Europe have resulted in TSOs becoming more similar to market type or public sector organisations. The authors further argue that changes in European welfare, commercial markets and civil society required TSOs to combine multiple purposes and roles in one organization (Evers and Laville, 2004c). This is seen to support the creation of 'hybrid' organisations with blurred institutional boundaries, and Evers (2005) suggests that these developments have reached a point where the concept of third, public and private sectors is no longer a useful tool to identify distinctive organisational forms.

A similar proposition is made by Brandsen et al. (2005) who argue that TSOs are organisational 'hybrids', which combine elements of public, private and community organisations within them, but do not belong to any of these sectors. This argument is then extended by Brandsen and Pestoff (2008) who suggest that sector agencies are subject to the erosion of their defining institutional characteristics, and are increasingly drawn into a co-producing relation ship with TSOs and citizens to provide public services:
"As a result of contracting out, privatization and performance measurement, the traditional boundaries between market, state and third sector have been breaking down, leading to the emergence of a class of organizational hybrids. In concrete terms, it means that the third sector organizations have taken on more characteristics of state organizations (e.g. in terms of formalization) and of market organizations (e.g. in terms of maximising their income, but without maximising their profit). Although no organization can be regarded as 'pure', many organizations now reach the point where the ideal types of state, market or third sector no longer help us truly to understand them." (Brandsen and Pestoff, 2008, p.2, parenthesis in original)

Theoretical perspectives on the blurring of organisational boundaries are not new, however. Billis' theory of the third sector is based on the idea of the blurring of institutional boundaries (Billis, 1993a), and that TSOs have a range of organisational features, which when taken together makes them distinctive from organisations in the public and private sectors (Billis and Harris, 1992b; Billis, 1993b; Billis and Glennerster, 1998). There is now a substantial body of literature, and some agreement, that public sector funding can lead to a wide range of challenges in relation to the distinctive features of TSOs. These include changes amongst organisational members, affecting staff, volunteers and board members; changes to organisational goals and purposes; changes to the way in which TSOs engage with their operational environment and maintain support from their stakeholders; and changes to organisational systems and processes through which the work is done (Billis and Harris, 1996; Harris and Rochester, 2001).

Thus there are then arguments which suggest some inevitability in TSOs becoming increasingly similar to public and private sector organisations, and arguments which say that TSOs are different from public and commercial organisations, and that the blurring of boundaries is one of their distinctive features. In the context of EU policy on social and economic inclusion, these distinctive organisational features are arguably the reason why TSOs have a high profile: TSOs are seen to be close to citizens and able to reach deep into deprived communities by harnessing the support of volunteers and local networks. Furthermore, EU policy suggests that TSOs can provide diverse approaches which reflect local circumstances, and respond flexibly to highly localised needs, because their particular organizational features reflect local circumstances.

The concept of co-production put forward by Pestoff and Brandsen (2008) offers a useful and fresh perspective to explore organizational change in TSOs which is related to funding relationships with public sector organizations, without getting trapped in the debate about the distinctiveness of TSOs and the blurring of organsiational boundaries. Pestoff (2006) distinguishes 'co-production' from other ways of producing services in the following way:

- Co-production occurs when consumers and producers undertake efforts to produce the same services. This can include the planning, management or delivery of public services.
- Regular production, in contrast, occurs when public agencies design and deliver public services
- Parallel production occurs when services are produced by groups or organisations in ways which do not involve public sector organisations. (Pestoff, 2006)

Thus, the concept of 'co-production' provides a focus on a particular process of service provision in which TSOs as recipients of funding and public sector organisations as controllers of funding come together to produce services both sides want to create. Co-production conceives the provision of public services as a process which can bring TSOs, citizens and public sector organisations together to jointly create desired services and service outcomes. In addition, co-production provides a helpful perspective to explore the collaborative production of services in different national and local contexts, because the concept of co-production transcends organisational or sectoral boundaries which are embedded in their social and institutional contexts (Pestoff, 2006).

3. The study

The findings reported here are based on a doctoral cross-national study which explored the benefits and challenges resulting from the use of European Union funding for TSOs that deliver urban regeneration projects. The study identified and compared organisational changes resulting from the use of EU funding from the URBAN II Community Initiative (Commission of the European Communities, 2000b) in England, Northern Ireland and Germany. In each country one URBAN II site was chosen (Belfast, Berlin and Bristol), and within each site three TSOs were studied in detail. The case study organisations ranged from small and entirely volunteer based to large formal organisations which employed several hundred staff. Data were collected through documentary analysis, observation and 44 semi-structured interviews with staff from TSOs and agencies responsible for the local programme delivery of URBAN II.

4. Study findings

This section provides an overview of the impact of URBAN II funding on TSOs, and the different approaches taken by the agencies responsible for programme implementation in Belfast, Berlin and Bristol. This is followed by examples which show how services aimed at the social and economic inclusion of deprived communities were co-produced between TSOs and public sector organisations.

4.1 Overview of organisational changes triggered by URBAN II funding

One of the key findings from this study is that the organisational change triggered by EU funding was largely beneficial to the TSOs concerned. While the actual process of changing their organisation was associated with at time severe pressures on paid and unpaid workers, as well as on members of the governing body, the organisational outcomes of this change process appear to have been predominantly positive for most TSOs. Benefits included an increase in the number of volunteers, and their training and development in service delivery and governance. Paid staff were drawn into

organisations to support volunteers, which involved the establishment of administrative systems to deal with the increase of activity and administrative requirements resulting from URBAN II funding.

The scale of the funding becoming available through URBAN II seemed to increase accountability processes to their local stakeholders, and in most cases, TSOs strengthened their links with local communities by involving residents in voluntary work. Furthermore, changes in membership of the governing body tended to lead to an increase in the number of local people on it, which made TSOs more inclusive of their local stakeholders. TSOs have also been found to be able to use EU funding to strengthen their governance structures and develop their organisational goals, which in turn improved their ability to provide more or better services for their local stakeholders. In addition, TSOs were able to use their increased capacity to access further resources from public sector organizations, while still maintaining their independence and accountability to their local stakeholders.

Most of these benefits were identified by TSOs working in Belfast and Bristol. TSOs in Berlin, in contrast, encountered primarily challenges from the use of URBAN II funding. These included that public agencies were using TSOs to subsidise the costs involved in delivering the URBAN II programme by asking TSOs to produce detailed project proposals to support their bid for URBAN II funding without reimbursing them for the time involved. In addition, there was little or no funding available for TSOs to support the administration of URBAN II funded projects, thus TSOs ahd to draw on their existing staff, volunteers and systems to fulfill what was described as onerous reporting requirements associated with the EU funding they had secured. Furthermore, much of the EU funding that was available to TSOs had to be used to refurbish local authority owned buildings, and TSOs were expected to pay rent during and following the refurbishment of the premises. The approach taken by the LDP in Berlin was found to lead to very little organisational change in TSOs, but very significant pressures on their staff, systems structures.

4.2 Approaches taken to programme delivery

The findings show that LDPs and Programme Managers took very different approaches towards delivering their local URBAN II programme.

Programme Managers in Belfast and Bristol used their technical skills and access to decision making processes to provide support for TSOs which reflected the specific needs of TSOs. This organisational development support had a dual purpose: to support the delivery of a specific URBAN II funded project *and* to increase the organisational capacity of the TSO delivering the project. Thus URBAN II funding was used as a mechanism through which organisational capacity was built, so that TSOs were better able to deliver an EU funded project. In addition, TSOs were better placed to sustain themselves as a result of delivering their service:
"We are not just a distributor of funds. We are a regeneration resource for the community. URBAN is not about administering grant, that's part of it, but it's about doing that in a way which will have a long lasting impact on the people and community organisations around here." (Programme Manager)

"Right from the start, even before the application was made, we would have said that if the reason for the URBAN II programme is disadvantage, we can't deliver a programme which doesn't recognise people's limitations in managing the funding. We need to deliver a programme which maximises people's ability to access the funds. It's hard enough working out there without piling the EU bureaucracy onto them." (Programme Manager)

"We recognised very early on that those organisations in particular simply didn't have the capacity to develop a cogent bid for URBAN. Or at least a lot of them didn't have the capacity and the ones that did would therefore be disproportionately advantaged. So therefore some of the smaller organisations who desperately needed the kind of help we could give them and were capable of offering us the kind of outputs that the programme needed to develop, just simply wouldn't have been able to make a successful bid to URBAN II without development help." (Programme Manager)

The LDP and Programme Manager in Berlin considered TSOs to be providers of pre-specified services, relationships were hierarchical and largely based on contractual agreements. TSOs were given very little flexibility by the LDP in Berlin. Although many of the projects that were being funded had been designed by TSOs, they were expected to compete for the contracts to deliver these projects. This allowed a wide range of third sector providers to compete for EU funded contracts, and at the same time provided the justification for public sector staff to draft detailed specifications about how the projects were to be delivered and the outputs that had to be achieved. URBAN II funding was considered to be an extension of mainstream public sector funding, and officials saw themselves as responsible for determining how the funding was to be used. Any problems TSOs encountered in the delivery of the URBAN II funded projects were not considered to be anything to do with public agencies or the Programme Management, but entirely attributed to TSOs:

"Some TSOs thought that they would sail through the application process because we had used their ideas in our proposal. That was not the case. They had to go through a competitive bidding process to secure the funding for their project idea. It was good to do it that way. This process avoids that you just follow a nice idea, instead you try to get the best deal. It's this process that makes the final decision." (Local authority official)

"I don't know in detail what their problem is. I can't get involved in all the URBAN projects. The question is, if they do have substantial problems what are they going to do about it? That's their problem, isn't it?" (Local authority official)

4.3 Examples of co-production

This study identified four cases where the interactions between TSO and Programme Manager went beyond the provision of technical advice, guidance and support, and created a situation where outcomes were *jointly* produced. These cases are coded as TSO-A/B/C/D, all of which were found in the URBAN II sites in Bristol and Belfast. No examples of co-production were identified in Berlin.

TSO-A

In the case of TSO-A, the Programme Manager seconded an Outreach Worker to support a volunteer who had established and become the Chair of a project which provided bereavement counseling and support for people who have lost someone through suicide. From the start, the project had a large following of volunteers and attracted substantial interest from the media and public sector agencies. The Outreach Worker had previously worked in the health service and was able to support the Chair in establishing contact and entering into negotiations with public sector providers which were aimed at obtaining more input from them, rather than attempting to provide the services themselves:

"That's why we turned around and said, 'no that handing over the money doesn't mean that you wash your hands of the responsibility'. The responsibility can't be put on the community and this is what they were trying to do. And we said, "no, no, no that cannot happen", because at the end of the day, we can only do so much. At the end of the day, the government can't come shouting at us here if the suicide rate hasn't dropped. We can only do the work that we can do but at the end of the day, there needs to be professional services. (Chair, TSO-A)

TSO-A wanted to provide training for its large volunteer base to develop a 24 hour emergency response team, and was offered URBAN II funding for this. But because the organisation was not formally constituted and had only rudimentary administrative systems in place the Programme Manager took on the role of the banker. The organisation could therefore draw on the URBAN II funding without having to administer it. In addition, the Programme Manager arranged for the local health authority to second an administrator to the organization, to support the co-ordination of the volunteer training project. Thus both Programme Manager and volunteers jointly brought about a substantial increase in the activities, profile and connections of TSO-A with the local community:

"We didn't have volunteers as such prior to last year. It was still very much a two-man show, the Chair and the Outreach Worker did all the work themselves. ... We've now trained 208 people, so this is the start. This is our pool of volunteers." (Administrator, TSO-A)

TSO-B

TSO-B was a community association run entirely by volunteers. There had been paid staff in post in previous years, but consecutive cut backs by the local authority led to the association reverting to charitable funding to pay for their Community Development Worker. This funding had run out almost a year prior to this study taking place, and the Community Development Worker had continued to work full-time without pay, supported by 17 regular volunteers, most of whom also worked full-time providing services for young and older people on the housing estate. As TSO-B was a registered charity and had used large grants before, the administration of the EU funding did not pose challenges. Instead the organisation needed help from the Programme Manager to find ways in which they could influence public service

providers to do more for the people on the estate. The Programme Manager, together with the lead volunteers, developed a project which combined the development of the capacity of residents to map the needs of the area and to negotiate with public agencies. This was complemented by the Programme Manager making connections with public service providers, arranging informal meetings as well as formal presentations at which residents were able to make their case:
"The money that they gave us was a pittance. It probably wouldn't have made a difference if we'd have got it from another organisation. But because of the way they have administered the money and because of the way they've offered us support and because of all of that it made a real difference. We're even on their website. So that type of stuff. It's about more than the money. It's all those other things. We now have a relationship with them and they are quite prepared to do stuff with us."
(Community Development Worker, TSO-B)

"The point is that we need to be working with these agencies and we need to give them not only the confidence to do that, but the wherewithall, the networks and everything else they need to work with us." (Community Development Worker, TSO-B)

"What we're doing is asking for those people [from public sector organisations] *to come in and do the work. We weren't asking for money."* (Volunteer, TSO-B)

TSO-C
TSO-C was part of a national federation providing educational and recreational activities for young people. TSO-C had been working for over 30 years on a deprived housing estate, relying entirely on volunteers. These volunteers administered their on-site and out-of- bounds activities themselves and required continuous accredited training to run their activities. The URBAN II programme offered the opportunity to employ a part-time administrator to ease the pressure on volunteer leaders who were dealing with a continuous increase in users; it could also be used to fund the accreditation of volunteer leaders in a growing range of outdoor pursuits. However, when TSO-C submitted its application the Programme Manager arranged a number of meetings at which the needs, aspirations and opportunities open to TSO-C were discussed. This led to an ambitious proposal which combined the development of organisational capacity with the development of a social enterprise:
"To be honest, if the Programme Manager had not had the openness to want to help us develop our project, I'd have been paying for the administrator, and that would have been it, I would have had a grant of £10,000 a year to pay the administrator's wages for five years and that would have been it. But his vision and his seeking questions of 'well actually what do you want the administrator to do?' made us think, and the project just suddenly went from being this very narrow administrator post to being 'Wow, oh my God!'." (Group Leader, TSO-C)

However, the development of the URBAN II project posed a number of significant challenges, in particular for the Programme Manager. The regulations that were applied towards the administration of EU funding by the local authority she worked for made it difficult to provide TSO-C with the intended amounts of EU funding:
"The [TSO-C] was a very controversial project because we made the [TSO-C] commit to providing a very large sum of money, in their terms. I think if memory serves me right, around £50,000 of match funding from their own resources. But if

you looked at their bank statements at the time they didn't have £50,000. Theoretically, at the time that we approved that project, we probably shouldn't have done so because the organisation just simply didn't have the money in the bank. … It was an act of faith in some respects in the beginning." (Programme Manager)

The resolution of these tensions required close collaboration between the volunteers of TSO-C, the Programme Manager, and the Regional Government Office to bring about changes in the way the finance staff of the local authority approached the administration of EU funding:
"The conflict, as I said before, between the City Council and the URBAN II Partnership Group has come from the finance team and their ideas of what is and what is not acceptable in terms of eligibility and risk. They tended to take a much more conservative view of what was eligible and what was risky. … And there were some very major items of expenditure which the finance team just simply refuse to pay for. And this was the source of immense conflict. (Programme Manager)

TSO-C significantly increased the numbers of people using their services, and created a substantial revenue stream from providing accredited training to other organisations in the federation, by contracting with the education and youth services to provide outdoor pursuits for young people:
"We have done a lot with the URBAN II money. It has enabled us to get that initial training, initial bit of equipment and the great thing is, it becomes self-sustaining. It just carries on forever because the money that we are saving and the money that we are generating enables the project to continue." (Group Leader, TSO-C)

TSO-D
TSO-D started in 1991 as a church led project to support teenage mothers on a large deprived housing estate. Funding for a youth worker to manage the project was provided initially by the City Council, but over time local authority funding was supplemented with a range of regeneration sources. The Youth Worker drew on a large number of volunteers to do outreach work and provide services for young parents. Former users played a key role in the provision of services as well as the governance of the organisation. TSO-D was led by a management committee which consisted primarily of regular volunteers who were previous users of its services.

Working with young parents was a key priority for the URBAN II programme, and a substantial amount of funding had been set aside for TSO-D to develop their services further. However, the local church which had been supporting TSO-D did not want to take on the responsibility for the funding, and TSO-D itself was not independently constituted, and lacked the experience required to manage regeneration funding. Committee Members themselves were concerned about the implications of taking full responsibility for their organisation and in addition, accepting a large EU grant at the same time. These concerns were also shared by the Programme Manager, who together with the Management Committee, developed a capacity building programme which would develop the abilities of Committee Members to establish and run an independent charitable organisation.

This capacity building process was funded by the Programme Manager, and lasted 18 months. Specialist consultants provided bespoke training and reported to the Committee Members, adjusting the capacity building process to the particular needs

of Committee Members. Once Committee Members felt confident, they incorporated their organisation and together with the Youth Worker and the Programme Manager they established systems and formalised their processes. Once both Committee Members and Programme Manager felt the organisation was 'ready', the URBAN II grant was approved and allocated to TSO-D. This development process had been difficult at times, in particular the development of systems and procedures, but overall the outcomes were considered to have been of benefit to the organisation and its workers:
"I know certainly that to provide policies and stuff like that has been quite a big process. But no-one's felt it as a hindrance. I think as workers we feel better that we're doing it properly because we want to do a good job." (Tutor, BRI3)

"It has made us realise the amount of work that we do. You know because you go along and you do the work but you never sit down and actually look at what it is you are doing. It actually makes you reflect a bit more and if you have to write reports and things it makes you reflect on actually what it is you have done. I think. 'Goodness, did I do all that?' So I think that's not a bad thing". (Volunteer, BRI3)

The URBAN II grant paid for five part-time members of staff, and the local authority also provided new premises at a peppercorn rent on a long term lease. This enabled TSO-D to significantly increase its services. In building on their existing structures and expertise, the EU funded services created synergies and multiplier effects which benefited their organisations, their volunteers and their users. For example, additional staff and better facilities allowed for provision of better crèche services which allowed more young parents to take part in vocational training arranged by TSO-D. This in turn provided them with the skills to gain work experience by volunteering in the crèches and getting involved with a growing amount of outreach work undertaken by paid staff. As former volunteers were employed as outreach workers, they were able to reach deep into the local community and train isolated parents into volunteers who would then support and further grow the outreach work. This then provided opportunities for a growing number of disadvantaged residents to gain valuable work experience, opportunities for personal development, and access to more formal training:
"We only had two crèche workers. So young parents made the decision that they would go into the crèche. Then I partnershipped up with community learning and then they put on courses, NCFE courses so that young parents could become qualified crèche workers. So over the past four years we have qualified 22 young parents as crèche workers. So they're able now to work for us and they are able to earn £20 a week, which is their maximum allowance." (Manager, BRI3)

5. Discussion

The findings from the study reported here point to the benefits that both TSOs *and* public sector agencies can obtain when desired services are, to some extent, jointly produced. These benefits include highly localised and targeted service delivery to marginalised people in deprived communities, and the active engagement of some of these communities in service development and design. In addition, TSOs have been found to benefit from organisational change which leaves them better placed to

strengthen their capacity and continue to provide services which reach marginalised and isolated people. Furthermore, the services provided with EU funding can become sustainable beyond the funding period because TSOs were building on their existing organisational strengths, developing relationships with their local community, and avoiding an over-reliance on paid staff. However, none of these benefits were identified in a context where the LDP or public agencies had taken a commissioning approach. In these cases TSOs were expected to deliver services that had been specified by public officials. In these cases public agencies used TSOs to extend the 'traditional production' of services, by specifying service provision in detail and controlling the service delivery process through highly regulated contracts.

This paper points to the important role of the Programme Manager as the key actor who can trigger far-reaching organisational change in TSOs. This is an important, but largely neglected, aspect of study about the causes of organsiational change in TSOs. While there are studies which point to the importance of having implementation processes that are sympathetic to and supportive of TSOs (Taylor, 1995; Lowndes and Skelcher, 1998; Taylor, 2001; Atkinson, 2003; Whitehead, 2007), much of this literature is focused on partnership structures and processes, rather than on the people who are managing the implementation of regeneration programmes on a day to day basis. There tends to be a lack of detail on how regeneration practitioners and TSOs can jointly create the outcomes both sides desire, thus reducing suggestions for improvements to often general calls for better partnership structures and processes.

By applying the conceptual lens of co-production, the Programme Manager emerges as an agent with very substantial influence over the organisational benefits or challenges that are encountered by TSOs which are using regeneration funding. The Programme Manager has been found to act as a buffer between the demands for compliance from public officials, and the ability of TSOs to respond to them. In addition, the Programme Manager has been found to be able to provide an important facilitation role between the different work cultures in third sector and the public sector organizations, and provide technical, financial and staffing support which responds to the particular needs of individual TSOs. While all of these potential functions of have been identified in the literature in relation to the control of resources intended for TSOs, this is primarily in relation to the delivery of capacity building programmes (Twigg, 2001; Cairns et al., 2005), and not in relation to multi-agency regeneration programmes aimed at the social and economic inclusion of deprived communities.

This study shows that the distinction between the roles of 'controller' and 'user' of EU funding can become blurred. The Programme Manager has been found to work 'inside' TSOs to help them manage the challenges arising from organisational growth and the new services they provide with EU funding. TSOs were found to actively participate in this process, readily including the Programme Manager and his expertise in their organisations in order to provide new services and to develop their organisational capacity. Thus the Programme Manager used EU funding as a mechanism to build the organisational capacity of TSOs. TSOs were supported to design projects that matched their aspirations to the opportunities offered by the funding, while the constraints and administrative burdens arising from EU funding conditions were minimized. Although this capacity building process posed challenges for the Programme Manager, LDP and TSOs, it proceeded largely conflict free. This

is a finding which, to some extent, contradicts earlier research on public sector funded capacity building programmes (Harris and Schlappa, 2007) in which a range of tensions between the controller of resources and provider of capacity development support, and TSOs as the intended beneficiaries are identified.

The findings from this study suggest that Programme Managers and LDPs have more flexibility in providing EU funding to TSOs than earlier research might suggest. Hence LDPs and Programme Managers appear to have real choices in using EU funding to support the organisational development of TSOs, enable them to engage with local residents and to collaboratively produce services within deprived communities. In the context of the goals of social and economic inclusion policies, the assessment of the performance of LDPs, Programme Managers and TSOs should perhaps go beyond the evaluation of outputs, and include the analysis of the processes through which outputs and outcomes were achieved. It would appear that EU resources can be used effectively to develop the organisational capacity of TSOs *and* to provide targeted services which respond to the needs as well as strengths of deprived communities. Hence, the ability of Programme Managers to achieve this 'Double Bottom Line' (Pharoah, 1998) could become the benchmark of performance measurement in European as well as government funded social and economic inclusion programmes.

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