

At Tipping Point:

the third sector leading from recession to recovery



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I THE POWER OF THE THIRD SECTOR

A turnover bigger than the car industry. A workforce larger than the entire banking and finance sector. A third sector with a total income of £116 billion and assets of £210 billion. A sector that employs 1,347,000,000 workers. This is a sector that now earns more than it is given, and a growing part of the public services industry.¹

Yet the stereotype of a sector that is small scale and largely amateur is widespread. When Governments and policy makers think of the sector they think of a largely remedial force, sticking plasters for society's ills rather than as an economic and social force for change, now larger and more professional than many parts of business.

This is a powerful, if largely unrecognised, economic force. My argument here is that we must harness that force:

- to heal the wounds that the current recession will inflict on society
- to lead the economic recovery, and
- to help prevent a repeat.

We also know people have lost trust in business and Government. But not in the third sector. Working with, and using the economic power of our sector, business and Government can help rebuild trust.

If we are to do this, we will need to overcome a number of barriers. Policy makers will need to change their thinking. The third sector itself will need to 'gear up', professionalise and reorganise.

On all those fronts, the past decade has seen movement in the right direction, but it has been limited. Yet we may now be at the tipping point. That point at which a 'trend' acquires critical mass and takes off. As the recession demonstrates the weakness of business and the State demonstrates its limitations, the 21st century may be the time for third sector leadership. And it is needed.

¹ Figure from NCVO Almanac, 2009

II HEALING THE WOUNDS

In September 2008, when ACEVO and the Charities Aid Foundation first held a number of recession workshops to warn of the impending dangers. I am not sure then we realised the seriousness of a recession that threatens to be deeper and more damaging than those of living memory. It is not my task here to rehearse the litany of falling donations, collapsing corporate sponsorship, declining investments, or to warn of the massive public spending cuts ahead. Nor to spell out the rising demands on third sector services. As unemployment grows towards and exceeds three million this will be a challenge for society and our sector. Will Hutton of the Work Foundation is predicting that by 2012 one in eight Britons will be unemployed².

There has been a failure of our political leadership, as yet, to effectively plan the task of tackling large-scale and long-term unemployment. We now know the effects of long-term unemployment on people and on communities: rising mental health problems, relationship breakdowns, rising crime and ill health, homelessness, rising addiction and potentially, civil unrest.

The previous two recessions have seen serious civil disturbances. The combination of an alienated youth, particularly amongst the Black/Asian population, coupled with the disenchantment with what is seen as an increasingly anti-libertarian State, is a toxic recipe for disaster. As unemployment rises it has a disproportionate affect on those communities at the margins. Britons of Pakistani and Bangladeshi origin had a 30% higher chance of unemployment in the boom times. 600,000 school leavers and graduates emerge on the job market this year (many graduates saddled with debt). We know that high youth unemployment is a serious problem for both young people and their families but also society more generally.

The third sector is now well-placed to deal with these problems if Government recognises our economic power. Unlike previous recessions our sector is now significantly stronger. In the last decade the sector has doubled in size and income. We are also more trusted than any other sector. The Edelman group produce an annual trust barometer for the Davos meeting. Based on research amongst leading opinion-formers around the world, the most recent barometer found that trust in major institutions and business had dropped dramatically. Trust in NGOs had risen. The message from this research was that partnership with non-Governmental organisations was essential to restore confidence. This underpins the argument I am making about the exciting role our sector could play in national recovery.

There is a growing recognition by the State that it is the third sector that must lead community cohesion and deliver citizen focussed services. They know we are trusted, they know we have the economic strength and

² Observer Article, 8 February 2009

competence. The sector will be at the front-line of support for the victims of recession. The sector will need to show leadership in standing up for communities and citizens put at risk. Those hardest to reach in our communities become increasingly vulnerable. Race tensions will rise when unemployed white workers think that British jobs are going to non British workers. And the reality of significantly higher levels of unemployment amongst black and minority ethnic communities will pose its own challenges.

Social divisions become wider in a recession. Government ambitions, for example, the elimination of child poverty, become harder to achieve. The disabled, ex-offenders, those with drug and or alcohol addiction, the mentally ill and migrants are pushed further from mainstream support. So the emphasis falls to the organisations of civil society to campaign and advocate on behalf of those at risk. And in the 21st century we now have strong third sector organisations able both to campaign and to deliver essential support services. The reality of the growth of our sector over the last decade, and the support and co-operation that Government has given us, is that we are now well placed to provide such support.

So that is the immediate challenge - but also the opportunity for the sector - the only one that can deliver the interventions that are needed, mobilise civic engagement, and build social capital to bridge the divides that the recession will put a strain on.

III LEADING THE RECOVERY

But our role is not just to act as sticking plaster to society's current ills. We can also lead the economic recovery.

What are the sector's strengths in helping generate economic recovery?

- A recession can be a stimulus to innovation and to a more responsive state: a sector strength;
- The sector can provide flexible jobs geared towards women and part-time workers; within ethical workplaces;
- We can act quickly and decisively;
- We are trusted;
- The sector is strong in key areas of economic activity where sustainable growth should be sought;
- The sector has the breadth of organisations and strength of leadership to work on a "bigger scale" in those areas of potential growth industries.

Many are now arguing that any recovery plan must be based on developing future growth industries. Evidence suggests that the biggest employers of the next decade will be in health, education, care (both child and elder care) environmental services, the arts and sport. Yet plans so far have been orientated to a sector with smaller employment and a shrinking economic base.

The sector, in partnership, offers the opportunity to lead significant job creation programmes, both for short term employment and in jobs in the new growth industries, as well as exciting opportunities to develop full-time volunteering and apprenticeship schemes. For example, the sector is in pole position to develop jobs that are rooted in the community and geared towards generating environmental sustainability (work in parks, on flood prevention, energy and security advice, in working with ex-offenders or bringing unused buildings and public spaces back into use.³

In previous recessions people looked to the State to provide through massive public works and through job creation. In the USA in the 30's the "New Deal" saw the creation of the Works Progress Administration. For eight years it was the biggest employer in the States, finding work for between two-three million people a month. It left an indelible mark with new roads and bridges, parks and slum clearance and new films, new music and art. As a result Jackson Pollock and Mark Rothko, Burt Lancaster and Orson Welles all worked in Federal Projects. In the 21st century we know the

³ See also "Fixing the Future": The Young Foundation, February 2009

limitations of State power. If we are to move through recession into recovery, partnership working between the State, the third sector and business will be essential. The large scale state-ism of the WPA is outdated. But, its big thinking is needed now. A UK 21st century British Works Administration could be third sector led, in partnership with business and Government?

This may well require new machinery of Government: a crisis jobs unit in Government and cross sector war rooms in every local authority area, as Geoff Mulgan has suggested.⁴ The Houghton Review, published yesterday, recommends a new National Worklessness Forum which will report to the National Economic Council. We welcome this proposal and call for third sector representation on the Forum.

⁴ See also “Fixing the Future”: The Young Foundation, February 2009

IV PREVENTING A REPEAT

So, we can tackle the social consequences of this recession. And we can lead the economic recovery from it. But what about next time? Can we rebuild trust in business and in Government?

If we are more than just a sticking plaster for society's ills today, it is not just because we can help to lead the recovery - it is also because we can help prevent illness in the future. The third sector could be the stimulus to far-reaching economic and social reform, to more socially responsible business and a fairer and more democratic society.

The third sector has a proud history of campaigning for change and advocating for a better society. People like Felicia Skene, a 19th century champion of what were known as 'Fallen women'. I have bicycled past her 'blue plaque' on St Michael's Street in Oxford. She was a prison reformer and campaigned against the way society treated such women. Felicia was appointed as the first woman prison visitor in England. But she exemplified a proud third sector tradition. She was not just content to campaign. She would wait outside Oxford Jail at 6.00 in the morning to meet prostitutes and offer them breakfast (sometimes with gin) and other practical support as she could. She helped establish a house and training scheme for them.

This year is the 75th anniversary of Diabetes UK. Back then a crowded meeting of 24 patients and doctors crammed into H G Well's flat over Baker Street tube. They decided they needed a patient orientated organisation to campaign for better understanding of diabetes and to promote research.

Now we have a strong third sector body: Some 775,000 members and 300 staff with a turnover of £31 million. And the NHS now realises that patient and user led bodies are often best placed to run services, provide advice and support and promote research.

And there are many, many more examples of the growth of the economic and social power of third sector organisations. But often policy makers think we are still those people sitting in the flat above Baker Street tube!

To those who argue we should not be engaged with Government or in public service delivery Felicia Skene and Diabetes UK are a standing reproach.

But the sector's role was never simply to provide services. It has always been rooted in a desire to reform, to get a "better deal" for users or those excluded by society. For communities and citizens, we proudly campaign to end child abuse, "make poverty history" and for justice and equality.

Better business

So the sector's role now must be to argue for a reformed and more socially responsible business sector. The banks' failure has highlighted the

corruption of business governance with companies controlled by a tightly knit group of individuals of similar backgrounds and outlooks: non-executives who sit on each other's Boards and remuneration committees. The vast majority of whom are white, male and of a certain age.

The 2003 Higgs Review on governance argued for the importance of diversity in Britain's Boardrooms. Practically nothing has happened since then to change the current makeup of such Boards. We have seen the results of poor governance. The sector should be both arguing for a more socially responsible business approach and for reformed governance. And sector leaders should be taking places in Britain's Boardrooms. I believe sector leaders must now play a part as non-executives on the Boards of all the FTSE top 500 companies. But commercial governance reform will not come without legislation. The voluntary approach has failed. Government must legislate to ensure a proportion of the seats on boards are held by a more diverse community: charity chief executives, more women and community leaders.

The recession has exposed the hollowness of much corporate social responsibility. Corporate sponsorship and support has significantly fallen away. A 'good times' PR exercise. The rich philanthropists have retreated to their islands. Regulation has failed. The Government should seek the early introduction of a corporate social responsibility bill which proposes the reform of governance in the commercial sector and the imposition of a CSR obligation on all publicly listed companies. Whilst the 2006 Companies Act requires company directors to "consider" the environmental and social aspect of their business operations, this is weak. In the USA the Community Reinvestment Act requires banks to meet the credit needs of low and moderate income neighbourhoods. This too must be introduced here.

I believe the shock that the current recession has caused politicians and policy makers will lead to an increasing reluctance to accept that business always knows best and that all our management theory is developed by businessmen. If business recognises the role the third sector can play that may go a long way to restoring people's trust in them.

Better Government

The State must continue to reform its institutions to devolve power from the centre towards communities and to enable a smaller State which emphasises strategic leadership rather than micro management of services. A State that recognises a shared leadership with civil society and community organisations. As Liam Byrne MP has argued "we want a country of powerful people."

The Government should be giving greater encouragement to different models of ownership in the commercial sector: co-ownership and mutuals as well as continuing to encourage social enterprise and community interest companies. Partnership working will increasingly dominate as a form of delivery and this must be encouraged through investment and commissioning.

The 21st century has marked a move away from the statist theories of pure socialism and the extremes of free market capitalism. I hesitate to suggest a 'third way', but the third sector will clearly play a stronger role based on its growing economic power and its strong and trusted voice.

The 21st century will see a much more even distribution of power between the great initiatives of the State and the role of socially responsible business and third sector, the citizen and the community. Working with the third sector, Government can help restore trust in democratic institutions. The State's role must be in securing a society more at ease with itself. Is it too much to hope that a recession that looks to be as deep and as dangerous as that of the 30s will prompt rethinking about the roles of business, Government and the sector?

V

GEARING UP

If we want better Government and better business what barriers are there to the sector gearing up? If we are at the tipping point for third sector leadership across society, the economy and the state, the sector itself must “gear up”. The growth of the sector in the last decade has led to significant improvements in the professionalism and effectiveness of third sector organisations. The drive to a more professional third sector will continue. But sometimes the sector has not grasped the changes that have occurred or the potential of the power we now have. Debates over small versus large charities, grants not contracts or distance from Government are now simply debates of yesteryear, never particularly relevant then and positively damaging now.

The institutions of civil society will always rely on the commitment and passion, the enthusiasm and ideas of the many millions of volunteers and supporters who promote and take part in charitable endeavour. However, charities and third sector organisations have to be run along professional lines and with a commercial mindset that insists on effectiveness and efficiency in delivery and in campaigning. Nothing less is good enough for the users of our services. Those at the margins of our society need all the professionalism we can muster to campaign on their behalf.

So what does this mean for a changed sector? There are two significant areas for development: we must now look for a diminution in the number of charities through significant mergers and alliances. Partnerships between commercial organisations and public sector institutions need to be encouraged and enabled. Social enterprise (as a verb as well as a noun) must grow and flourish in our sector’s institutions; no longer should social enterprise be seen as an exclusive religion only for true believers, but as a backbone of third sector endeavours.

The sector urgently needs access to significant capital streams, and so the establishment of a Social Investment Bank (and, ultimately, a European and even a World Social Bank) must be seen as a major priority for Government and the banks forced to comply with the release of unclaimed assets. This will build on the work of bodies like Futurebuilders.

The sector must look to build its own capacity to deliver. Inevitably this means the sector should tackle governance reform in a serious manner. If we are critical of the banks’ governance can we as a sector be content about our own arrangements? Are they transparent? Accountable? It is no longer acceptable that the predominant governance form in charity is the unpaid trustee. This may be good for the majority but “one size does not fit all”. The Charity Commission need to adopt a more flexible and more permissive attitude to charities who wish to reform governance, whether through trustee payment, or through the introduction of a mixed executive - non-executive Board.

If our economic and financial crisis is global why are there so few global links for our third sector? We need to develop better European and international co-operation between the UK third sector and our colleagues around the world. I am very proud that ACEVO has been 'godfather' to the establishment of a number of other national chief executives associations. Next week I'm at the launch of the Slovenian ACEVO and in September in Japan. And we are proud to have worked with our French and Swedish partners to establish EUCLID - the European Third Sector Leaders Network. Fighting the effects of climate change, for a more just society and a socially responsible business sector is not just a UK concern!

And the chief executives of the third sector must take their place in leading reform and change. Today's third sector chief executives are the innovators, the public policy thinkers, and the drivers of reform. They should take centre stage. No longer should a third sector leader be at the margins of political and policy debate, of commercial governance or public sector activity. So building on our economic strength, our indispensability in social cohesion and the promotion of wellbeing, the charity chief executives must step forward and play a more prominent role in how the country moves out of recession.

And in this recession, as the Government understands the need for strong and decisive action to control unemployment and create jobs, it is a trusted third sector that should be in the lead, creating the sustainable jobs of the future. The sector that campaigns for a reformed and socially responsible business sector and a more just society. The management guru, Peter Drucker, said the 21st century was the century of the not-for-profit. It should be. We are at tipping point - we now need to step up.