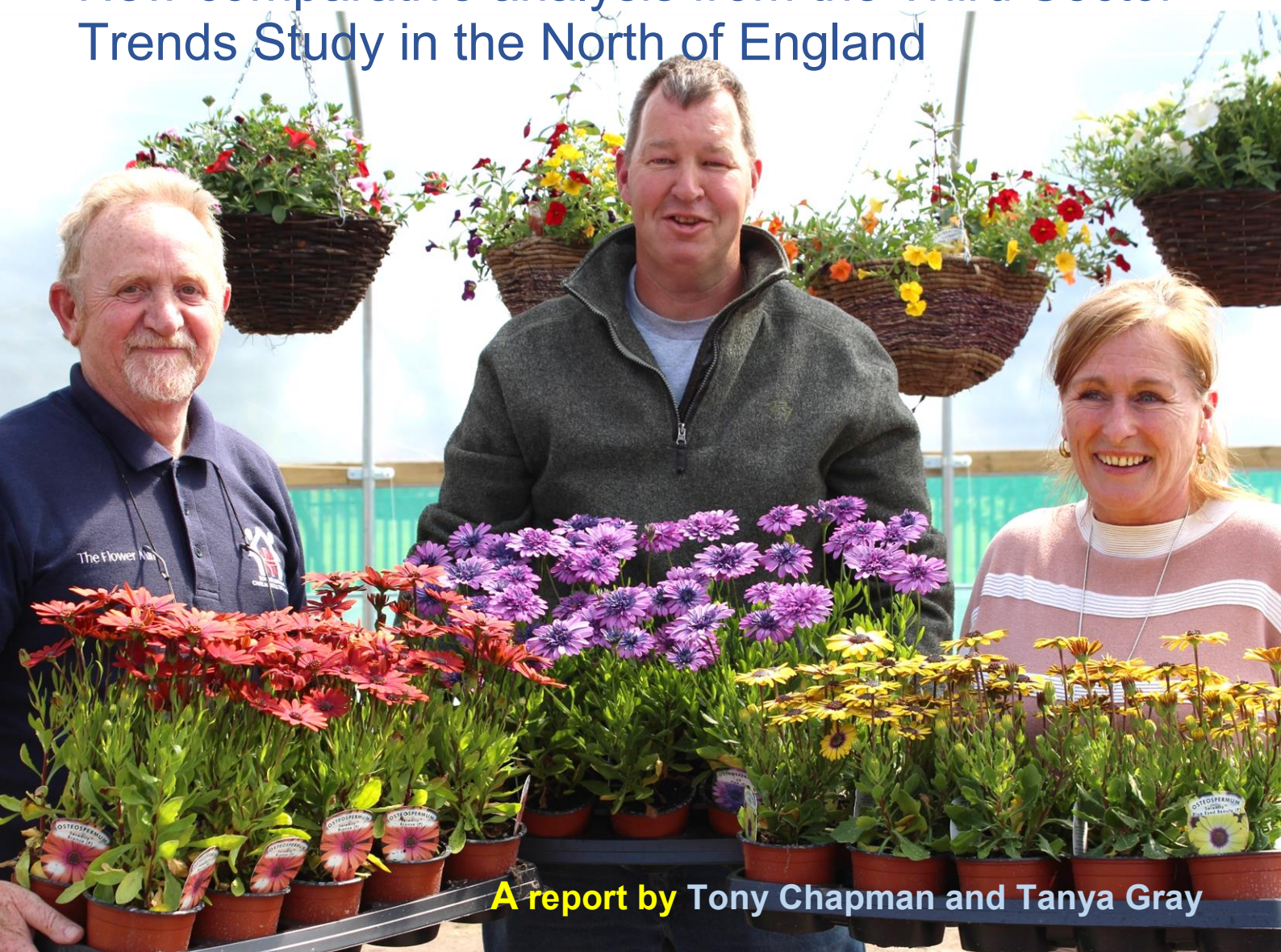


# How do community businesses differ from other voluntary and community organisations?

New comparative analysis from the Third Sector Trends Study in the North of England



**A report by** Tony Chapman and Tanya Gray

**Policy & Practice** 

St Chad's College, Durham University

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Photo credits: thanks to Power to Change for the front and rear cover photos.

### The Third Sector Trends Study

The Third Sector Trends study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy. The Community Foundation is now collaborating with partners including St Chad's College at the University of Durham, Joseph Rowntree Foundation and IPPR North & Garfield Weston to expand and continue the research.



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# Contents

Acknowledgements	4
Foreword	5
Executive summary	7
<b>1 Introduction</b>	<b>13</b>
<b>2 The Third Sector Trends Study</b>	<b>15</b>
<b>3 Defining community business</b>	<b>18</b>
3.1 Categorising TSOs using Third Sector Trends data	19
3.2 Composition of the Thirds Sector Trends dataset	10
<b>4 Characteristics of organisations</b>	<b>22</b>
4.1 Organisational size	22
4.2 Age of organisation and levels of earned income	22
4.3 Area of operation	23
4.4 General indicators of TSOs' financial wellbeing	24
4.5 Summary of key points	25
<b>5 Organisational values, practices and vision</b>	<b>27</b>
5.1 Values, planning and practice ethos	27
5.2 Principal practice orientation of TSOs	29
5.3 Community orientation, commitment and accountability	30
5.4 Assessment of future service needs and priorities	32
5.5 Summary of key points	36
<b>6 Organisational resources</b>	<b>37</b>
6.1 Relative importance of income resources	37
6.2 Organisational assets and reserves	43
6.3 People resources	45
6.4 Summary of key findings	47
<b>7 Organisational interactions</b>	<b>48</b>
7.1 Relationships with other third sector organisations	48
7.2 Interactions with the public sector	48
7.3 Interactions with the private sector	55
7.4 Future levels of collaborative working	56
7.5 Summary of key points	58
<b>8 Building organisational capability and capacity</b>	<b>59</b>
8.1 Investing in organisational capability	59
8.2 Training and development priorities	60
8.3 Sources of organisational support	62
8.4 Summary of key points	65
<b>9 Summary and conclusions</b>	<b>66</b>
9.1 Key findings	66
9.2 Next steps in the research	67
<b>Appendix</b> Publications from Third Sector Trends	<b>69</b>

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We would like to thank Suzanne Perry and Ailbhe McNabola from the Power to Change Research Institute for their helpful comments on drafts of this report.

## Foreword

The Power to Change Research Institute is delighted to welcome this comparative analysis of similarities and differences between community businesses and other voluntary and community organisations in the north of England.

We strongly believe that community businesses represent an alternative way of providing goods and services while also affecting real positive change in communities across England.

This report helps make the case for community business by evidencing their ethos of determination, collaboration, flexibility, innovation and forward planning whilst also taking into account the sheer diversity of the sector. A better understanding of their operating models, needs and barriers to growth will help us to better support community businesses.

**Ailbhe McNabola at Power to Change**



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## Executive summary of findings

This report compares the activities of local community businesses with those of other types of third sector organisation (TSOs). To do so, it draws upon findings from the Third Sector Trends study which was undertaken in 2016. A total of 3,594 responses were gained from the survey which represents a response rate of 12.7% across the north for the whole sector. The study collects information from organisations or groups of all sizes and types in the third sector, making it possible to recategorise data to match the definition of community business adopted by Power to Change.

- **Locally rooted:** they are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
- **Trading for the benefit of the local community:** they are businesses. Their income comes from activities such as renting out space in their buildings, trading as cafes, selling produce they grow or generating energy.
- **Accountable to the local community:** they are accountable to local people. This can mean very different things depending on the community business. For example, a community share offer can create members who have a voice in the business's direction, or a membership-based organisation may have local people who are active in decision making.
- **Broad community impact:** they benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather.

Three categories of Third Sector Organisation are compared in this report:

- TSOs which operate as or in a similar way to community businesses;
- General TSOs which earn a proportion of their income from trading activity; and,
- General TSOs which do not earn income.

A total of 612 TSOs are identified which operate as or in a similar way to community businesses, representing 17% of the Third Sector Trends sample.

### ***Characteristics of community businesses***

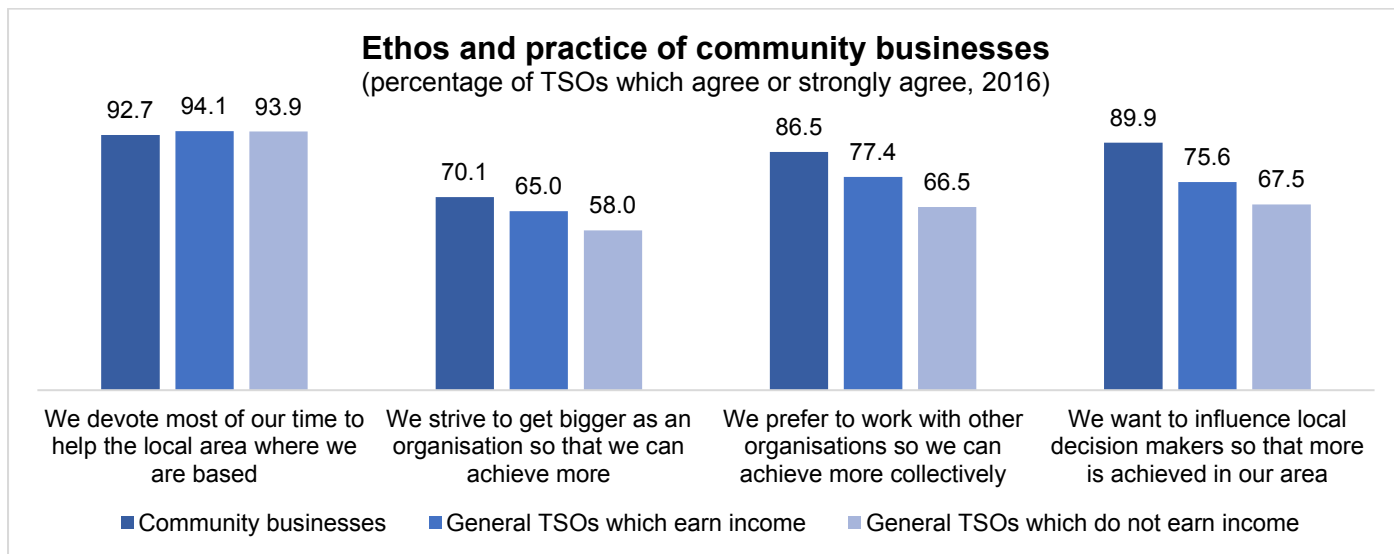
When community businesses are compared with other TSOs, the following differences can be identified:

- Community businesses tend to be larger: 60% have income over £100,000 compared with 27% of general TSOs that earn income and 11% of general TSOs that earn no income.
- Community businesses tend to be newer organisations than general TSOs: only 11% were established before 1970 compared with around 29% of other TSOs. Over 47% of community businesses were established after 2000 compared with 35% of general TSOs which earn income.
- Community businesses are more likely to operate in urban areas than other TSOs and they are more concentrated in areas of relative deprivation: 49% of community businesses work in such areas compared with less than a third of other TSOs.

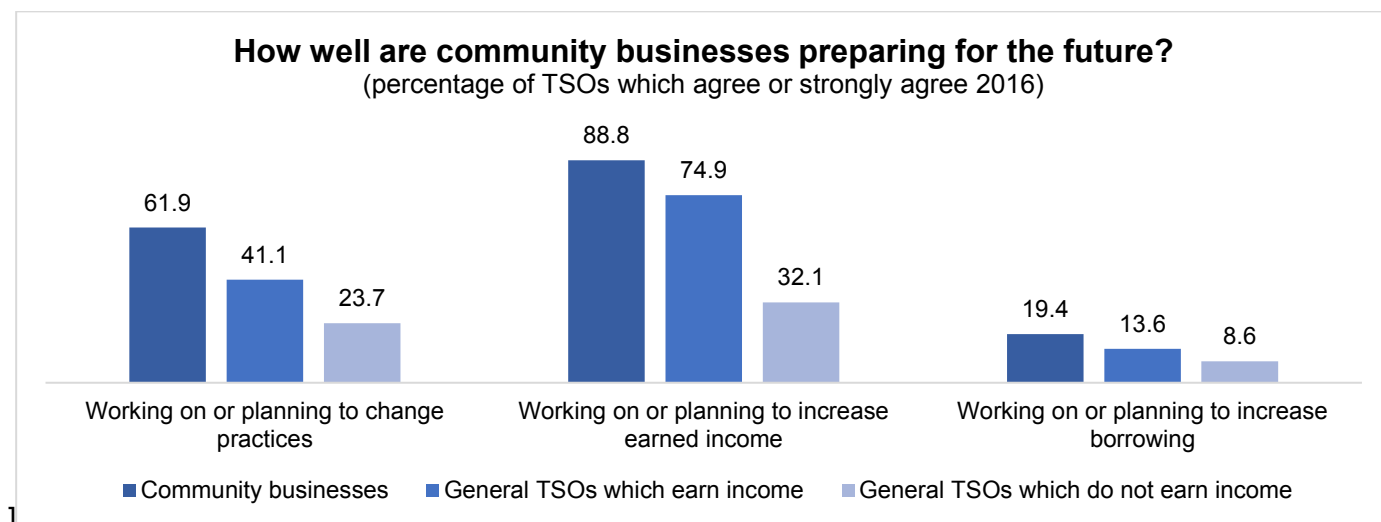
- Financially, it is a mixed picture for community businesses: they are likely to have experienced significantly rising or falling income than other TSOs in the last two years while general TSOs more generally have income stability.

### Ethos and practice of community businesses

In some respects, community businesses share a similar ethos to general TSOs. Over 90% of TSOs share similar social values. But in their planning and practice ethos, community businesses differ to some extent from other TSOs. They are more likely to want to grow as organisations to achieve more, they are more likely to want to work with other organisations and they are also keener to influence local decision makers.



It is also apparent that community businesses have a dynamic approach to business, they are more likely to be changing their practices and finding new ways of increasing earned income. While community businesses are almost twice as likely to be considering borrowing money than general TSOs, only a fifth of them are doing this or planning to do so.



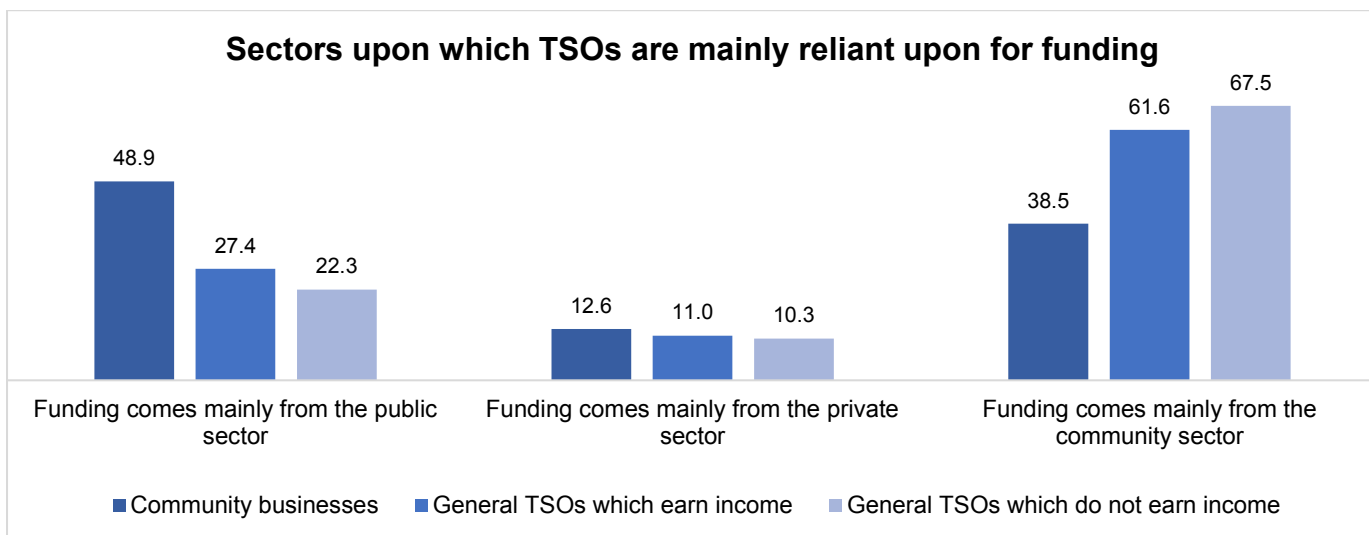


## Organisational resources

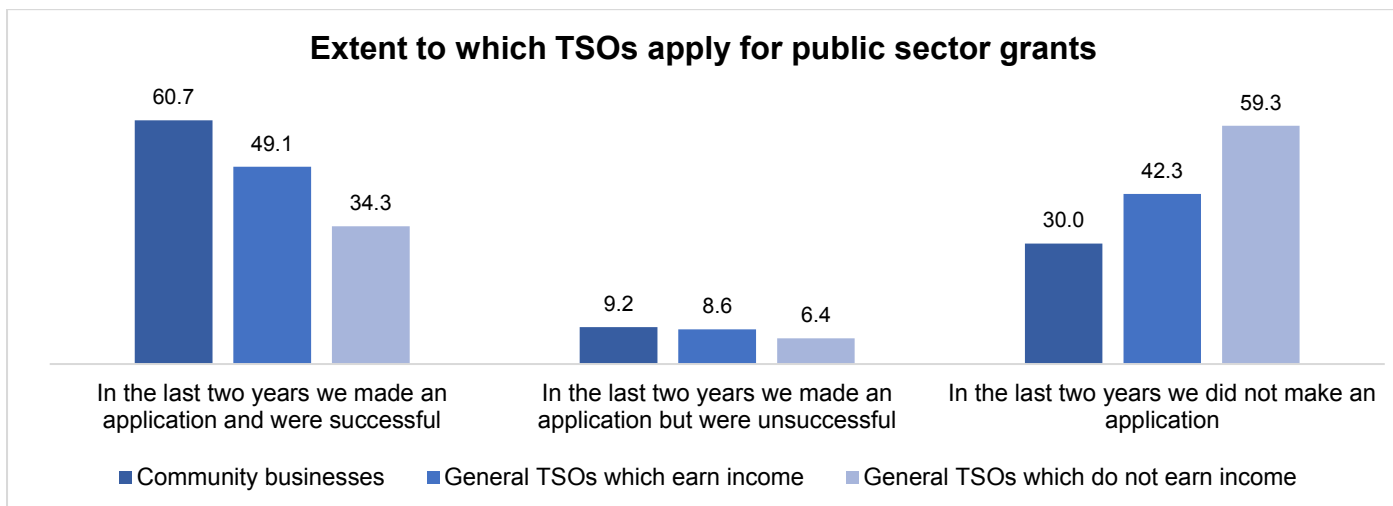
Community businesses earn a proportion of their income from trading. While they are more likely than other TSOs to work under contract to deliver public services – many community businesses do not engage in this kind of work.

- Only 23% of community businesses are currently delivering public sector contracts (rising to 36% of organisations with income above £100,000)
- But they are much more likely to be delivering public sector contracts than general TSOs that earn income (12%) and only 4% of general TSOs which earn no income.

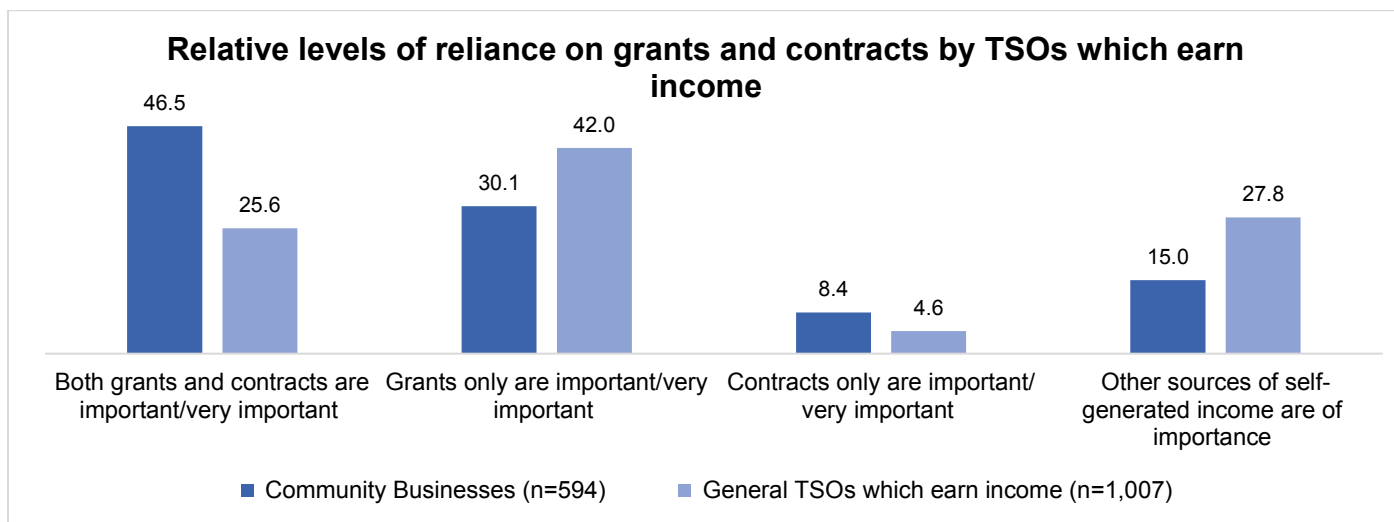
Most community businesses rely on a range of earned income sources, in kind support and grant funding. But overall, they tend to be more reliant upon public sector sources than general TSOs. Twice as many community businesses receive most of their income from public sector sources when compared with other TSOs.



Grants remain a vital source of income for most community businesses. For example, a majority of community businesses applied for public sector grants in the last two years (70%), compared with 60% of general TSOs which earn income and 40% of general TSOs which earn no income.



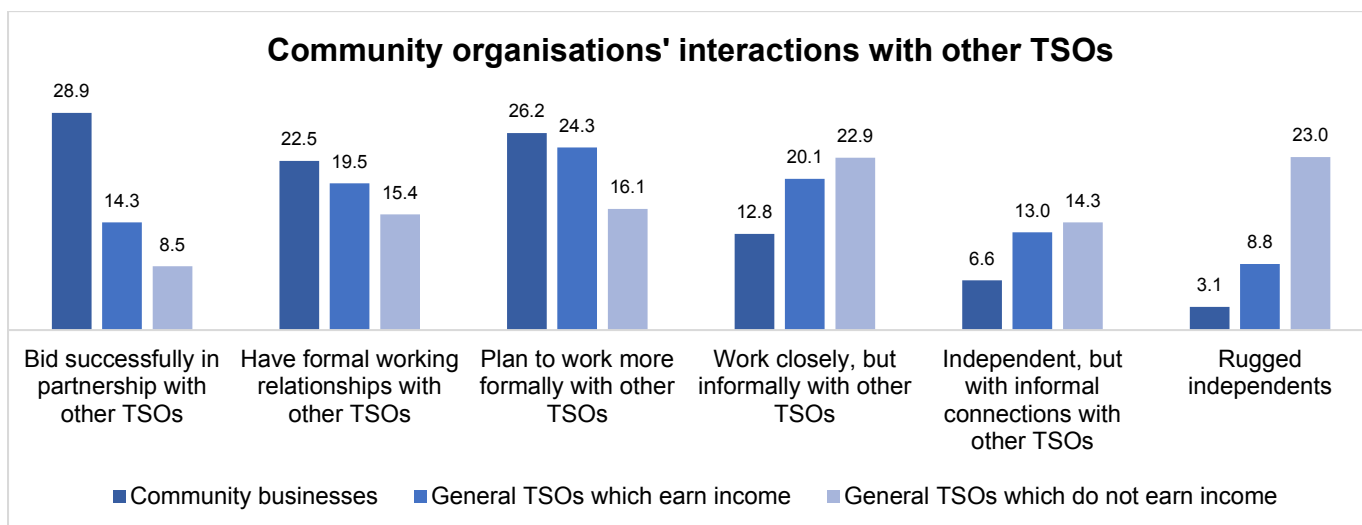
Assessing the relative levels of dependence on different sources of funding provides a useful insight into the way that community businesses work in comparison with other TSOs. Indeed, a key finding from this research is that almost half of community business have dual reliance on grants and contracts (47%). Many community businesses rely mainly on grants (30%) while very few are mainly reliant on contracts (8%). Only 15% of community businesses are mainly reliant on other sources of self-generated income from trading.



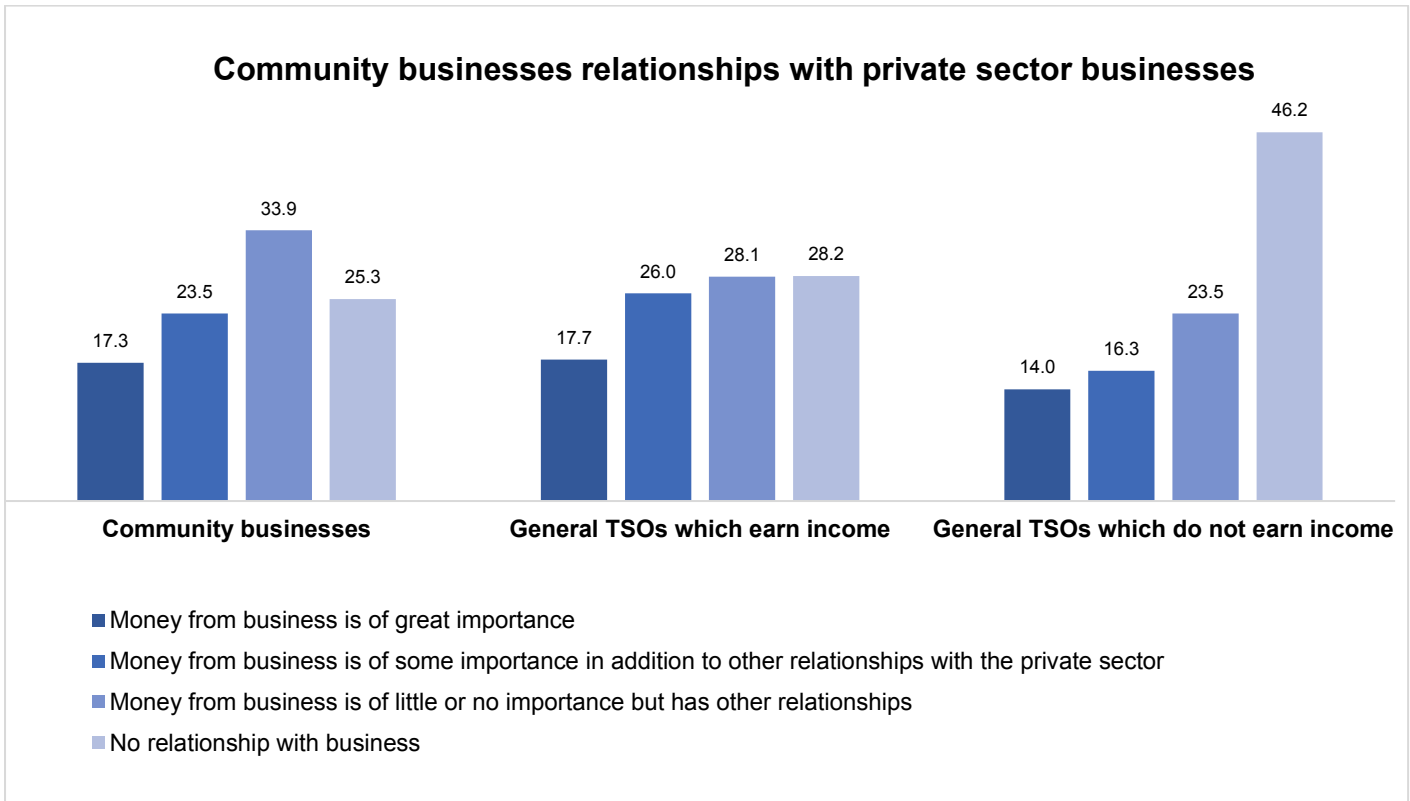
Reliance on grants should not, though, be confused with ‘dependence’ on grants – as if this were a bad thing for community businesses to do. It is more likely that reliance on grants is a necessary part of the sustainability of such organisations and especially for those (a majority) which work in relatively poor areas where the marketplace is insufficiently strong to survive on trading alone.

### interactions with other organisations

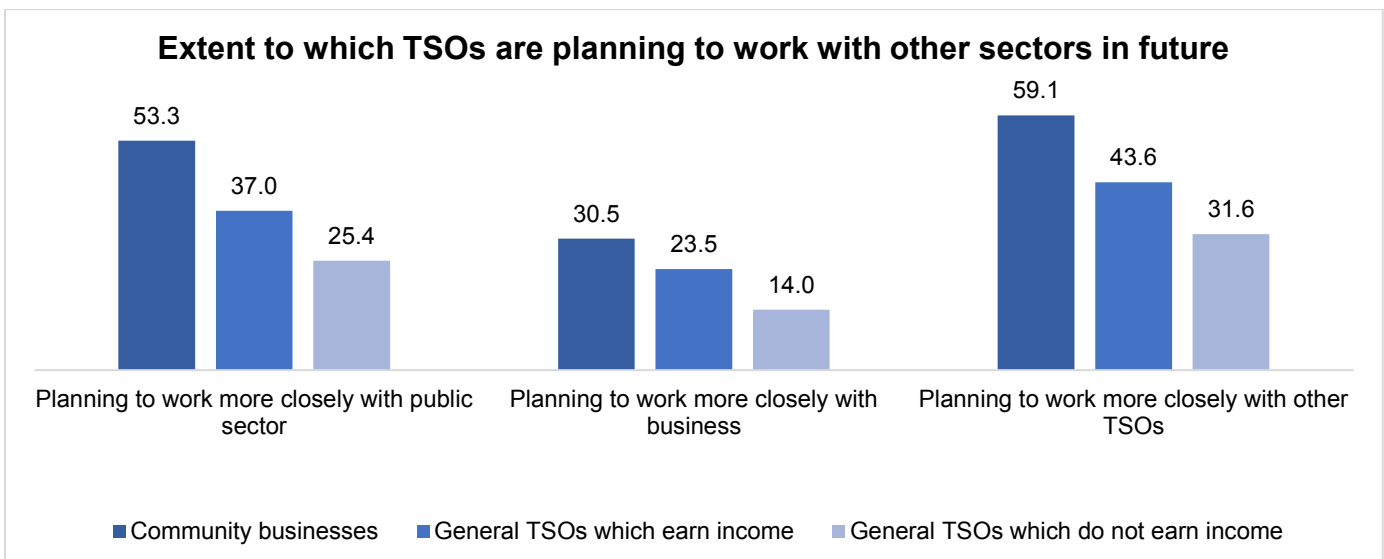
Community businesses are more likely to work in collaborative ways than general TSOs. Very few community businesses operate entirely independently from other organisations (3%). Indeed, twice as many community businesses have been successful in partnership bidding for grants or contracts (29%) than general TSOs which earn income (14%).



It is clear that community businesses have been successful in forging relationships with other TSOs and public sector bodies, but few community businesses have developed particularly strong relationships with private sector businesses – although they are slightly more likely to have done so than general TSOs.



However, community businesses seem to be more interested in the prospect of working more closely with private sector businesses in the future: 31% are planning to do this compared with 24% of general TSOs which earn income and only 14% of general TSOs which earn no income. It is clear that community businesses are generally more interested in collaborative working with all sectors than general TSOs.



## Organisational capability and development

In terms of their future development, community businesses are more likely to be investing in their capability: 52% of these organisations have a training budget (52%). There appears, though, to be some reticence in community businesses to invest in their development. Very few use their reserves to invest in their capacity or capability (20%) – although they are marginally more likely to do so than other general TSOs.

Furthermore, training and development priorities are skewed towards the issue of raising income. While this is explicable because TSOs continually have to focus on their financial wellbeing, it appears that this comes at the expense of other aspects of medium or long-term development in people, strategic, or financial management and business planning. While community businesses are more likely to prioritise these medium to long term development priorities than other TSOs, fewer than a third of community businesses do so.

## Next steps in the research

This report, with endorsement from Power to Change, examines collaborative and financial interactions amongst community businesses. Several questions have arisen from the quantitative analysis which will now be explored through Power to Change funded qualitative research with community businesses in Bradford, Middlesbrough and Hartlepool.

Several questions have arisen from the quantitative analysis which will now be explored through qualitative research with community businesses in Bradford, Middlesbrough and Hartlepool.

- With whom do community businesses have the strongest and most productive relationships (irrespective of the sector within which they work), why is this the case and how are such relationships maintained over time?
- To what extent do community businesses initiate, build and sustain productive relationships with other community businesses in their area – what factors make such relationships succeed or fail?
- What factors produce the 'need' for such interaction to develop and what situations or incentives help produce raised awareness of the possibilities for such interaction to be initiated?
- Is there any evidence to show that interactions amongst community businesses are more beneficial to localities than autonomous working? If such evidence exists, how can policy makers and funding organisations help to facilitate more interaction of this nature?
- If evidence of synergy amongst community businesses can be identified, then what kinds of support, if any, might other community businesses need to encourage them to build similarly productive relationships in their locality to strengthen local economy and society? How and by whom might such support be best delivered?
- How do community businesses serve the interest of their community as individual entities or in collaborative work with other organisations? If community business is, as is often claimed, rooted in and accountable to its community – then what benefits does such accountability produce and what factors helped to make that happen?

These questions need to be explored with an open mind, taking views from community businesses, the organisations with which they work in the third sector, public sector and private sector, and with key stakeholders in local areas who have influence over social policy and resource allocation.

The research, it is hoped, will produce new insights on community businesses interactions with other organisations and how this contributes to wellbeing at the local level. It is also anticipated that the findings from the qualitative research can then be tested through the fifth phase of the Third Sector Trends survey which will begin in Spring 2019.

## 1. Introduction

The aim of this report is to get a better understanding of how to define and understand the way that local community businesses work in the North of England. This work is necessary because no attempt has yet been made to compare the activities of local community businesses with other Third Sector Organisations (TSOs) using large-scale survey data. This report goes some way towards achieving this objective using the long-running Third Sector Trends study based in the North of England.

This work needed to be done to assess whether local community businesses operate in *similar* or *different* ways from other TSOs. As local community businesses are, themselves, TSOs – it must surely be expected that all organisations in the sector will have some factors in common. The question is, what are these factors, and to what degree do they differ?

Figure 1.1 shows, how elements of the work of different types of TSOs might usefully be distinguished at a conceptual level. The diagram indicates that at some level, community businesses, general TSOs which earn income and those which do not may be distinctive as entities to some extent – but within limits.

There are some aspects of organisations which might be expected to be very similar. It would not be surprising, for example, to find that all TSOs sign up to some general principles or values associated with being part of the ‘third sector’ – even if only inasmuch as they differ significantly from private sector businesses or public sector organisations.

It is also likely that community businesses and general TSOs working locally which earn a proportion of their income will be similar to the extent that generating income through ‘trading’ is an important element of their work which distinguishes such organisations from those which do not trade. Where organisational practices differ substantially from each other is not yet fully known, so the purpose of this paper is to find out.

Figure 1.1 **Intersections between different types of Third Sector Organisations**



It is not the intention of this paper to undertake a plotting exercise where TSOs are forced into a conceptual model. But rather, the exploration of similarities and differences is being undertaken to show where some organisational types may be closer to or further from others than is generally expected.

This is a useful project because it may help to demonstrate how far some TSOs may have to travel in value, policy and practice terms to operate in new ways. There are several dimensions of organisational activity which are explored in this paper to see where, in comparative terms, TSOs sit.

- **Organisational age, size, area of operation and financial wellbeing:** in Chapter 4 of this report, the basic characteristics of TSOs are compared so that when in-depth analysis is undertaken in subsequent chapters, well-informed interpretation can be undertaken.
- **Organisational values, practices and vision:** in Chapter 5, organisational ethos is considered to assess the extent to which different types of TSOs plan and practice. Tentative comparisons are also made on the way that TSOs commit themselves to working with and being accountable to the local community.
- **Organisational resources:** in Chapter 6, three elements of organisational resource are compared including analysis of the relative importance of different funding sources, the extent to which TSOs hold property, investment and cash assets, and the people resources of organisations.
- **Organisational interactions:** in Chapter 7, analysis of the extent to which organisations within the third sector interact productively, together with analysis of interactions with local public sector bodies and private sector businesses.
- **Organisational capacity and capability:** in Chapter 8, the extent to which TSOs invest in organisational development is compared, following this, their development priorities are considered as well as the sources of support they seek to achieve their development goals.

Before this analysis can be presented, it is necessary first briefly to describe the source of evidence which will be used in this report drawn from the Third Sector Trends study (see Chapter 2). Following this, definitions of different types of TSOs will be discussed together with an explanation of how data were categorised to distinguish between community businesses, general TSOs which earn income and general TSOs which do not earn income (see Chapter 3).

## 2. The Third Sector Trends Study

This report presents key findings from the Third Sector Trends study in 2016 from across Northern England. The Third Sector Trends study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham.

The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy. The Community Foundation has been collaborating with partners including St Chad's College at the University of Durham, Joseph Rowntree Foundation and IPPR North to expand and continue the research.

The Third Sector Trends survey was designed to explore the structure and dynamics of the Third Sector and to examine how individual TSOs fare over time in the context of change.

Survey work in the Third Sector Trends Study has been complemented by several related research projects including a long-term qualitative research project with 50 TSOs across North East England and Cumbria.<sup>1</sup> A range of other projects have widened the scope of the exploration of Third Sector activity by researching the interactions between the public and private sectors and the Third Sector.<sup>2</sup>

The survey was undertaken between 1<sup>st</sup> July and 30<sup>th</sup> December 2016 using an online questionnaire hosted by Bristol Online Survey. The questionnaire was based on previous rounds of the study in Yorkshire and the Humber and North East England. An identical questionnaire was used in all three regions in 2016 (apart from listings of local authority areas and bespoke introductions for each area).

A total of 3,594 responses were gained from the survey including: 1,462 from North West England, 1,083 from Yorkshire and the Humber and 1,012 in North East England. This represents a response rate of 12.7% across the north for the whole sector.

The findings presented in this report are based on a robust research methodology which has evolved over the last eight years to produce comparable time-series data. The sample structure has been checked against comparable national studies to ensure that findings are as reliable as possible – and especially so when making estimates about sector employment and volunteering.<sup>3</sup>

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<sup>1</sup> This element of the study has been incorporated in two ESRC Impact Acceleration Award Grants, which looked at the relationships local authorities and health authorities in North East England have with local Third Sector organisations: see Chapman, T. *et al.* (2017) *How to work effectively with the third sector*, Durham: Institute for Local Governance.

<sup>2</sup> Studies have been undertaken for the Institute for Local Governance, Sunderland City Council, Northumberland County Council, Stockton Borough Council, Garfield Weston Foundation, Joseph Rowntree Foundation, Lloyds Bank Foundation, The Economic and Social Research Council, Charity Bank and Involve Yorkshire and Humber. A full listing of publications from the Third Sector Trends study and related research is provided at the end of this report.

<sup>3</sup> Full details on the methodology employed in Third Sector Trends studies can be found in the projects working papers, these are listed in Appendix A.

## **What is the Third Sector?**

The terms 'Third Sector' and 'Third Sector Organisation' are widely recognised internationally by academics and policy makers and are therefore adopted in this study.

However, it should be noted that the present UK government uses different terminology. Following the 2010 election, the Office for the Third Sector was renamed the Office for Civil Society. Similarly, individual TSOs are sometimes referred to in government documentation as 'Voluntary, Community and Social Enterprise Sector' organisations (VCSEs), or as Civil Society Organisations (CSOs).<sup>4</sup>

The term 'Third Sector' is not always well known, accepted or understood by people who work or volunteer within civil society (or what is more commonly known as the voluntary and community sector). So, it is useful to define which organisations are included.

The National Audit Office (NAO) defines the Third Sector as follows:

*“The third sector is the term used to describe the range of organisations which are neither state nor the private sector. Third sector organisations (TSOs) include small local community organisations, and large, established, national and international voluntary or charitable organisations. Some rely solely on the efforts of volunteers; others employ paid professional staff and have management structures and processes similar to those of businesses, large or small; many are registered charities whilst others operate as co-operatives, “social enterprises” or companies limited by guarantee... All share some common characteristics in the social, environmental or cultural objectives they pursue; their independence from government; and the reinvestment of surpluses for those same objectives.”<sup>5</sup>*

As the above quotation indicates, there are several categories of TSO. The following categories are usefully distinguished by the National Audit Office.

### ■ **Voluntary and community sector**

Includes registered charities, as well as non-charitable non-profit organisations, associations, self-help groups and community groups. Most involve some aspect of voluntary activity, though many are also professional organisations with paid staff. 'Community organisations' tend to be focused on localities or groups within the community; many are dependent entirely or almost entirely on voluntary activity.

### ■ **General charities**

Charities registered with the Charity Commission except those considered part of the government apparatus, such as universities, and those financial institutions considered part of the corporate sector.

### ■ **Social enterprise and community businesses**

A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners.

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<sup>4</sup> For a full explanation of the use of both sets of terminology, see Alcock, P. (2010) *Big society or civil society? A new policy environment for the third sector*, Birmingham: Third Sector Research Centre.

<sup>5</sup> Bourne, J. (2005) *Working with the Third Sector*, London, National Audit Office.



■ ***Mutuals and co-operatives***

Membership-based organisations run on a democratic basis for the benefit of their members. Members may be their employees or their consumers or be drawn from the wider community. Some employee co-operatives may be essentially private businesses but many mutuals and co-operatives consider themselves part of the social enterprise sector.

This study includes all the above organisations within its definition of the Third Sector. As is the case in the NAO definition, financial institutions, hospital trusts, for-profit cooperatives, private schools and universities are also excluded from this study of the Third Sector.

The NAO did not include community businesses in its discussion of sector composition, so the next chapter will therefore consider how such organisations are defined and can be identified empirically.

### 3. Defining community business

The purpose of this paper is to examine whether community businesses operate in similar or different ways from other third sector organisations. This is a challenging objective because the Third Sector Trends study does not ask Third Sector Organisations (TSOs) specifically if they are, or consider themselves to be, community businesses.

This section of the report, therefore, grapples with the empirical problems associated with *categorising* 'Community Business' and then *identifying* TSOs which operate in such a way that they align with such definitions.

The starting point of this analysis is to adopt Power to Change's<sup>6</sup> definition of community business, which includes the following criteria:

- **Locally rooted:** they are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
- **Trading for the benefit of the local community:** they are businesses. Their income comes from activities such as renting out space in their buildings, trading as cafes, selling produce they grow or generating energy.
- **Accountable to the local community:** they are accountable to local people. This can mean very different things depending on the community business. For example, a community share offer can create members who have a voice in the business's direction, or a membership-based organisation may have local people who are active in decision making.
- **Broad community impact:** they benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather.

This definition stipulates, in broad terms, how and where community businesses operate, what they do and to whom they are accountable. Power to Change recognises that 'There is a huge variation in the type, stage, age and scope of community businesses but they all share some key, central characteristics'.<sup>7</sup>

Research funded by the Power to Change Research Institute recognises that identifying community businesses which match these criteria is challenging empirically. Useful analysis has been undertaken on finding community businesses from national datasets held by, for example, Companies House and the Charity Commission. Questions remain, however, about the efficacy of listings<sup>8</sup> when a diverse range of organisations operate within specific legal forms.

Similarly, as Diamond<sup>9</sup> has shown, community businesses work across a wide range of sectors including, for example, employment support, training

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<sup>6</sup> Perry, S. McNabola, A. and Harries, R. (2018) *Community business in England: learning from the Power to Change Research Institute 2016-17*, London, Power to Change Research Institute Report No. 17., p. 4.

<sup>7</sup> Perry *et al.* (2018) *Ibid*, p. 4,

<sup>8</sup> Roper, S. and Bonner, K. (2017) *Identifying Community Businesses in National Datasets*, London: Power to Change.

<sup>9</sup> Diamond, A. Varley, T., Mollett, O., Higton, J., Spong, S., Corley, A. and Mulla, I. (2017) *The Community Business Market in 2017*, Bristol: Power to Change Research Institute Report No. 11, p. 49.

and education/business support, housing, health and social care, transport, sports and leisure, arts, libraries, pubs, shops, catering and food production, energy, craft and manufacturing, finance and environment/nature conservation.

### 3.1 **Categorising TSOs using Third Sector Trends data**

Because Third Sector Trends data is drawn from a broadly-based survey questionnaire which is completed by organisations or groups of any type in the third sector, there is scope to recategorise data in such a way that they broadly match the Power to Change definition of community business.

A new variable was created with three categories of Third Sector Organisation to distinguish between: (1) 'TSOs which operate as or in a similar way to community businesses'; (2) 'general TSOs which earn income'; and, (3) 'general TSOs which do not earn income'. The variable was created using data from three separate questions in the Third Sector Trends survey.

- **Where does the TSO operate?** All TSOs which operated at a neighbourhood or village level were selected together with those which worked within a single tiered unitary local authority area (or a two-tiered local authority district or former district<sup>10</sup>). TSOs which work only at a wider geographical level were removed from the dataset.
- **What is the legal form of the TSO?** TSOs which reported their legal form as a Community Interest Company, Company Limited by Guarantee and Cooperative and Community Benefit Societies<sup>11</sup> were recoded as community businesses together with those organisations which self-identified as a 'social enterprise'. TSOs which were Registered Charities (but not also Companies Limited by Guarantee), Community Interest Organisations or unregistered informal organisations or groups were recoded as general TSOs.
- **What was the approximate proportion of income which TSOs earned in the last year?** (e.g. from selling products and services and/or contracts to deliver services). To be defined as community businesses, TSOs must earn a proportion of their income from trading activity although this newly created variable does not stipulate the percentage of income earned.

The recoded categories of TSOs were defined as follows:

- **TSOs which operate as or in a similar way to community businesses** (n=612): TSOs which work within the boundaries of a single local authority (or county council district), are CLGs CICs, Cooperative and Community Benefit Societies or 'social enterprises' and which earn a proportion of their income from trading. To deepen the analysis, community businesses are divided into two income categories – those with less than less than £100,000 income in the previous year and those with more.
- **General TSOs which earn income** (n=1,044): TSOs which work within the boundaries of a single local authority or council district, are

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<sup>10</sup> Durham County Council and Northumberland County Council changed from two tiers to single tier authorities in 2009. In Third Sector Trends surveys, respondents are asked to state which 'former district' of the county they are located in. These locations can subsequently be checked against post-code data – although only about 80% of respondents agree to give their postcode.

<sup>11</sup> The term Industrial and Provident Society (IPS) became redundant following the *Co-operative and Community Benefit Societies Act 2014* in Great Britain (but not Northern Ireland). IPSs are now known as 'co-operative' or 'community benefit societies'. In the Third Sector Trends study, such societies are included providing that they invest profits wholly towards social purposes rather than private personal benefit.

Registered Charities, CIOs or unregistered/informal organisations or groups and which earn a proportion of their income from trading.

- **General TSOs which earn no income** (n=900): TSOs which work within the boundaries of a single local authority or council district, are Registered Charities, CIOs or unregistered / informal organisations or groups and which earn no income from trading.

It is important to recognise that those TSOs which have been categorised as TSOs which operate as or in a similar way to community businesses (hereafter abbreviated as 'Community Businesses') may not identify themselves as such, nor indeed may they yet be aware of the term community business.

Bailey *et al.* have adopted a different term in a Power to Change Research Institute publication: 'Community Based Social Enterprise' (CBSE).<sup>12</sup> It is tempting to adopt this title in the current paper because the term 'social enterprise' has been adopted by many TSOs to reflect their disposition to work in business-like ways whilst still serving a social purpose. Combining this with locality therefore makes a good deal of sense.

However, the term social enterprise is also contested and has its detractors. Contention surrounding the term has even, arguably, been produced to some extent by its advocates when arguing that social enterprises are sufficiently different from other TSOs to warrant the title of a separate social enterprise sector or, as some define it, the 'fourth sector'.<sup>13</sup>

Over claiming the differences between social enterprises and conventional charities can be counterproductive and particularly so when arguing that social enterprises can become sustainable through trading alone. Third Sector Trends evidence shows that the majority of organisations which use the title 'social enterprise' remain dependent to a degree on grant funding or other sources of given income. Furthermore, it also shows that many TSOs which do not use the term social enterprise operate in similarly 'business-like' ways – sometimes to a greater extent than those organisations which do self-identify as social enterprises.<sup>14</sup>

### 3.2 **Composition of the Third Sector Trends study dataset**

The categorisation of community business adopted in this paper has resulted in the identification of 612 TSOs. This represents 17% of the whole Third Sector Trends sample (n=3,557). When looking at the weighted estimates of the structure of the sample, community businesses would constitute about 5,000 organisations in the North of England. It should be noted that this estimate is well above that provided in Diamond's work for England and Wales where it is estimated that there are only about 6,600 community businesses.

Consequently, the Third Sector Trends community business variable was further re-categorised into smaller (less than £100,000 income) and larger organisations (above £100,000 income) for comparative purposes. The larger TSOs in the CB category (n=363) represent about 10% of the Third Sector

<sup>12</sup> Bailey, N., Kleinhams, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European countries*, London: Power to Change Research Institute.

<sup>13</sup> See for example: <https://www.fourthsector.net/for-benefit-corporations>.

<sup>14</sup> In future rounds of the Third Sector Trends study, the term 'community business' will be added to the question on legal form and preferred operating name of TSOs to examine how many self-identify as community businesses and to see if they work in similar or different ways from other organisations which engage in trading activity. While social enterprises often work exclusively in localities, many of these organisations work at a wider level which can mean that their social and economic impact is spread more widely. This can also mean that some social enterprises may channel their social and financial investment more widely.

Trends sample: weighted estimates for the whole sector suggest a total population of around 3,000 organisations in the North of England.

Given that a larger overall proportion of community businesses has been identified in the Third Sector Trends dataset than might have been expected from Diamond's estimates, it is important to dissect the three categories of TSOs in more depth so that well-informed analysis and interpretation can proceed cautiously. The next section of the report undertakes this preliminary analysis.

## 4 Characteristics of organisations

This section of the report looks at the key characteristics of TSOs which operate as or in a similar way to community businesses together with general TSOs which earn or do not earn a proportion of their income so that interpretation can proceed in the analytical chapters which follow.

The discussion concentrates on several dimensions of organisational structure including: organisational size, date established and level of earned income.

### 4.1 Organisational size

Table 1 shows the size of organisations by category of community business/general TSOs. It is clear that community businesses tend to be larger: 60% had income above £100,000 in the previous financial year compared with only 27% of general TSOs working locally which earn income and just 11% of general TSOs which do not earn income.

These differences will necessarily have a bearing upon the way subsequent analysis is interpreted. Because community businesses tend to be larger organisations, it may be expected that they have more formal structures, employ more staff and engage in larger scale activities when compared with general TSOs which, as shown in Table 4.1, tend to be much smaller – and especially so if they earn no income.

The purpose of the exercise is not, however, to compare 'like with like', but to disaggregate different types of organisations which do not have similar features.

**Table 4.1 Size of third sector organisations**

	Micro TSOs (income £0-£10,000)	Smaller TSOs (income £10,001-£100,000)	Larger TSOs (income £100,001 or more)	N=
Community businesses, working locally and earning income	10.2	29.8	60.0	605
General TSOs working local and earning income	31.3	41.7	27.0	1,037
General TSOs working locally which do not earn income	56.1	32.5	11.4	887
All TSOs working locally	35.0	35.6	29.4	2,529

### 4.2 Age of organisations and levels of earned income

Table 4.2 shows how long TSOs have been established.

- Community businesses tend to have been established more recently than general TSOs: only 11% were established before 1970 compared with 28-29% of general TSOs.

- Nearly 50% of community businesses have been established since 2000 compared with just 35% of general TSOs which earn income and 42% of general TSOs which do not earn income.

**Smaller community businesses** (with income below £100,000) are much more likely than larger community businesses (with income above £100,000) to have been established recently. Indeed, 62% of smaller community businesses were established since 2000, compared with only 35% of larger community businesses. That stated, **larger community businesses** are still much less likely to have been established before 1970 (12%) than general TSOs (28%).

There is a risk associated with dividing the sample of community businesses by size because the number of cases available for analysis will fall (321 smaller and 355 larger community businesses). Findings should therefore be regarded as ‘indicative’ rather than ‘conclusive’. Drawing a distinction between larger and smaller community businesses is, nevertheless, of value when interpreting the evidence so that those larger more formal organisations which have a greater level of operational capacity can be isolated from smaller less formal organisations.

	Community businesses, working locally and earning income	CB income below £100,000	CB income above £100,000	General TSOs working locally and earning income	General TSOs working locally which do not earn income	All TSOs working locally
Established before 1970	11.1	9.5	12.1	29.2	28.4	24.5
Established 1970 to 1989	21.6	17.3	24.2	20.2	15.9	19.1
Established 1990-1999	21.3	10.8	28.5	15.3	14.1	16.4
Established 2000-2009	26.5	30.7	23.7	22.1	21.6	23.0
Established since 2010	19.4	31.6	11.5	13.1	20.1	17.1
N=	592	231	355	1,004	832	2,428

#### 4.4 Area of operation

Table 4.3 shows the types of areas within which TSOs work. It is clear that most TSOs operate in urban/inner city areas or in a mixture of rural areas.<sup>15</sup> Nevertheless, a sizeable proportion of the sample work mainly in rural areas (23%).

- Larger community businesses are more likely to work in urban or inner city areas than TSOs in general 55% or in a mix of urban and rural areas (34%). Only 11% are based in rural areas.
- Smaller community businesses by contrast are twice as likely to be working in rural areas (20%). General TSOs which earn no income are, though, most likely to be working in rural areas (25%).

<sup>15</sup> The Third Sector Trends survey invited respondents to state which of these categories of area of practice they occupied. These data do not therefore necessarily refer to the location of TSOs in urban, rural or inner city areas. It is possible also to locate TSOs from the survey by post-code to categorise them spatially – but this variable does not specify their area of practice.

Table 4.3 TSOs operating in rural, urban and inner city areas

	Mainly in rural areas	Mainly in urban areas	Inner city areas	A mixture of urban and rural areas	
Community businesses	14.7	39.9	13.1	32.3	604
<i>CB income below £100,000</i>	20.3	36.3	14.3	29.1	237
<i>CB income above £100,000</i>	11.1	42.2	12.5	34.2	360
General TSOs which earn income	25.4	32.3	11.4	30.9	1,012
General TSOs which do not earn income	25.0	32.3	9.2	33.5	860
All TSOs working locally	22.7	34.2	11.0	32.1	2,476

The level of affluence of the areas where TSOs are located also had a bearing upon interpretation of findings. As Table 4.4 shows, community businesses are much more likely to be situated in poorer areas (49%) compared with general TSOs which earn income (34%) and general TSOs which do not earn income (31%). Furthermore, only 15% of community businesses are based in the most affluent areas compared with 23% of general TSOs which earn income and 28% of general TSOs which earn no income.

When community businesses with larger or smaller income levels are compared, some interesting differences emerge. Over 55% of larger community businesses are based in the poorest areas compared with just under 40% of smaller community businesses.

Table 4.4 Relative levels of affluence in areas where TSOs are based<sup>16</sup>

	TSOs based in the least affluent areas (IMD 1-2)	TSOs in areas of intermediate affluence (IMD 3-6)	TSOs based in the most affluent areas (IMD 7-10)	N=
Community businesses	49.2	36.1	14.7	592
<i>CB income below £100,000</i>	38.9	44.8	16.3	239
<i>CB income above £100,000</i>	55.8	30.3	13.9	346
General TSOs which earn income	33.5	43.7	22.8	1,000
General TSOs which do not earn income	30.9	41.6	27.5	851
All TSOs working locally	36.4	41.1	22.5	2,443

### 4.3 General indicators of TSOs' financial wellbeing

The general financial situation of community businesses over the last two years is shown in Table 4.5. These data indicate that community businesses are more likely to have increased income significantly in the last two years (19%) when compared with general TSOs which earn income (13%) and general TSOs which earn no income (11%). However, community businesses were also more likely to have income falling significantly (23%) when compared with general TSOs (14-18%).

<sup>16</sup> The location of TSOs is defined by its principal IMD score – that is, to incorporate all aspects of relative deprivation / affluence rather than just economic deprivation.



Income stability is much more likely amongst general TSOs which earn none of their income (75%), but this is largely to do with the fact that they are smaller groups. That stated, 48% of community businesses had relatively stable levels of income over the last two years. Smaller and larger community businesses are more or less equally likely to have significantly rising income in the last two years (18-20%). However, larger community businesses are somewhat more likely to have experienced significant income decline (25%) when compared with smaller community businesses (20%).

**Table 4.5 Financial situation of TSOs in the last two years**

	Income has risen significantly in last 2 years	Income has remained about the same in last 2 years	Income has fallen significantly in last 2 years	N=
Community businesses	19.0	58.3	22.8	606
<i>CB income below £100,000</i>	20.2	60.1	19.7	238
<i>CB income above £100,000</i>	18.2	56.9	24.9	362
General TSOs which earn income	13.3	68.9	17.9	1,041
General TSOs which do not earn income	10.5	75.1	14.4	885
All TSOs working locally	13.7	68.5	17.8	2,532

\*Refers to all sources of income, not just earned income

The concentration of community businesses in less affluent areas is an important consideration when interpreting findings. As shown in previous Third Sector Trends research papers,<sup>17</sup> TSOs operating in poorer areas are more likely to be funded from the public purse than those working in the richest areas.

During a long period of government austerity, TSOs in poor areas have been more likely to struggle financially than those operating in richer areas. The evidence is not clear cut, however. It has also been demonstrated that TSOs operating in the poorest areas are also the most likely to have experienced rising income due to the concentration of funding on areas with the most pressing social needs.<sup>18</sup>

#### **4.4 Summary of key points**

The above analysis indicates that community businesses tend to be larger than other general TSOs: 60% have income over £100,000 compared with 27% of general TSOs that earn income and only 11% of general TSOs that earn no income. Community businesses have generally been established more recently than general TSOs. Only 11% were established before 1970 compared with around 29% of other TSOs.

Community businesses are more likely to operate in urban areas than other TSOs. Only 15% of community businesses work mainly in rural areas compared with about a quarter of other organisations. Community

<sup>17</sup> Chapman T. (2015) *The situation of Third Sector organisations working in rich and poor areas: key findings from North East England and Cumbria*, Newcastle, Northern Rock Foundation.

<sup>18</sup> *Ibid.*

businesses also tend to be more concentrated in areas of relative deprivation: 56% of larger community businesses work in such areas compared with less than a third of other TSOs.

Financially, it is a mixed picture for community businesses: they are more likely to have experienced significantly rising or falling income than other TSOs in the last two years, while amongst general TSOs, income stability is more common.

## 5 Organisational values, practices and vision

As the aim of this paper is to compare TSOs which operate as or closely resemble the characteristics of community businesses with other general TSOs, it is useful to consider the ethos of organisations. In this section the following issues are explored:

- Organisational values, planning and practice ethos.
- Principal practice orientation of TSOs.
- Community orientation, commitment and accountability.
- Appraisal of future service needs and practice priorities.

### 5.1 Values, planning and practice ethos

Table 5.1 looks at the value, planning and practice ethos of community businesses in comparison with general TSOs. The findings show that there are *substantial* differences in the culture of community businesses in comparative terms in some aspects of organisational culture, but not in others.

- **Organisational practice ethos:** community businesses are twice as likely to state that they practice in a similar way to people in the public sector and private sector than general TSOs. The differences are particularly clear when comparing community businesses with general TSOs which earn none of their income. That stated, 62% of community businesses report that in practice terms their culture is associated with the third sector.
- **Organisational values:** while they are more likely than general TSOs to do so, relatively few community businesses state that their values are closer to the public sector (10%) or the private sector (2%). Indeed, the differences between community businesses and general TSOs which do not earn income are slight – with 87% of the former sharing third sector values compared with 92% of the latter.
- **Organisational planning:** it is clear that very few general TSOs which earn no income plan their work in a similar way to people in the public (9%) or private sectors (6%). Community businesses, by contrast are considerably more likely to do so (14% and 25% respectively). That stated, a clear majority of community businesses state that their planning ethos is more closely associated with people in the third sector.

Table 5.1 Value, planning and practice ethos of TSOs			
	People in the public sector	People in the private sector	People in the community
<b>In the way we practice we are closer to...</b>			
Community businesses	18.6	19.4	62.0
General TSOs which earn income	9.8	8.6	81.6
General TSOs which do not earn income	9.7	4.2	86.1
All TSOs working locally	11.9	9.7	78.4
<b>Our values are closer to...</b>			
Community businesses	10.4	2.2	87.4
General TSOs which earn income	5.7	1.6	92.7
General TSOs which do not earn income	6.3	1.9	91.8
All TSOs working locally	7.1	1.8	91.1
<b>In the way we plan we are closer to...</b>			
Community businesses	14.1	25.0	60.9
General TSOs which earn income	8.2	10.8	81.0
General TSOs which do not earn income	8.5	5.5	86.1
All TSOs working locally	9.7	12.4	77.8

The data presented in Table 5.2 take the analysis forward by comparing the ethos of larger and smaller community businesses. Clear differences in organisational ethos are evident.

- Larger community businesses are much less likely to state that their **practice preferences** are close to people in the third sector (51% compared with 79% of smaller community businesses). Amongst larger community businesses, their ethos is divided equally between those of people in the public and private sector.
- In terms of **value preferences**, by contrast, differences are considerably less marked. Only 12% of larger community businesses associate with the public sector compared with 8% of smaller community businesses. A tiny proportion of community businesses associate with private sector values (fewer than 3% in the case of larger community businesses).
- **Planning preferences** differ considerably by size of community businesses. Over three quarters of smaller community businesses state that their ethos is located within the third sector compared with just 50% of larger organisations. Amongst larger community businesses, a third associate with a private sector planning ethos, while 16% do so with the public sector.

These findings demonstrate that the size of community businesses clearly affects approach to practice and especially planning ethos – although value systems differ little.

Table 5.2 Values, planning, practice ethos of larger and smaller community businesses

	People in the public sector	People in the private sector	People in the community
<b>In the way we practice we are closer to...</b>			
CB income below £100,000	10.5	13.0	76.6
CB income above £100,000	24.2	24.2	51.7
<b>Our values are closer to...</b>			
CB income below £100,000	7.5	1.3	91.2
CB income above £100,000	12.3	2.8	84.9
<b>In the way we plan we are closer to...</b>			
CB income below £100,000	10.9	13.0	76.2
CB income above £100,000	16.3	33.7	50.0

## 5.2 Principal practice orientation of TSOs

The principal approaches to practice by TSOs are compared in Table 5.3. The responses are divided into two broad categories: (1) larger, more formal TSOs which employ staff, and (2) smaller less formal TSOs which have no paid staff.

- Amongst the larger TSOs which employ staff, it is clear that community businesses are as likely be engaged in **front-line service delivery** (50%) as general TSOs which earn income (51%); although it is clear that the proportion of community businesses which are involved in such work is somewhat higher (40%) compared with general TSOs which earn income (32%). Fewer general TSOs which earn no income are engaged in front-line delivery (33%).
- Engagement with **direct support services** such as the provision of information, advice and guidance (IAG) is at a similar level for community businesses and general TSOs which earn income (35-38%); although, again, taking the sample of community businesses as a whole, it is evident that they are more likely to do such work (29% compared with 24% of general TSOs).

Amongst smaller less formal TSOs which do not employ staff

- Community Businesses and general TSOs which earn no income serve similar areas of interest. Half of community businesses and general TSOs which earn no income attend to areas of **direct support for the mutual benefit of communities** of interest or place.
- The other half attend to more general **issues surrounding community/personal wellbeing**. That stated, the volume of community business activity, in relative terms, is somewhat lower. Only 20% of community businesses in the research sample are smaller less formal organisations which do not employ staff, compared with 37% of general TSOs which earn income and 45% of general TSOs which earn no income.

The above discussion takes the analysis forward because it has shown that larger, more formal community businesses which employ staff are not necessarily more likely than general TSOs which earn income to work in

areas where there is a strong business focus on primary service delivery. But It also demonstrates that the *prevalence* in this kind of work for the community business sub-sector is much greater than for general TSOs – whether or not they earn income.

**Table 5.3 Mode of service delivery by TSOs**

(percentages for the whole sample are shown in parentheses)		Community businesses	General TSOs which earn income	General TSOs which do not earn income	All TSOs working locally
<b>Larger TSOs which employ full-time or part-time staff</b>	Provide front-line services to beneficiaries (e.g. <i>providing accommodation, care services, training</i> )	49.7 (40.7)	50.6 (31.9)	33.0 (18.1)	45.5 (29.6)
	Provide direct support services to beneficiaries (e.g. <i>providing advocacy, advice and guidance</i> )	35.3 (28.9)	37.6 (23.7)	49.4 (27.1)	40.1 (26.1)
	Provide indirect infrastructure support services to beneficiaries (e.g. <i>local CVS, charitable foundations, research and campaigning, etc.</i> )	15.0 (12.3)	11.9 (7.5)	17.7 (9.7)	14.4 (9.4)
<b>Smaller TSOs which are led and run by volunteers</b>	Provide direct support to for the mutual benefit of communities of interest or place (e.g. <i>self-help groups, food banks, community groups</i> )	50.6 (9.1)	41.4(15.3)	53.5 (24.2)	47.9 (16.7)
	Provide opportunities to improve the wellbeing/self actualisation of communities of interest or place (e.g. <i>arts &amp; sports groups, local clubs and societies, etc.</i> )	49.4 (8.9)	58.6(21.7)	46.5(21.0)	52.1 (18.2)
N=		481 (100%)	778 (100%)	620 (100%)	1,879 (100%)

### 5.3 Community orientation, commitment and accountability

Power to Change argue that a community orientation is a pivotal aspect of the work of community business. However, it is also recognised that community involvement, engagement and accountability can happen in many different ways depending on organisational purpose and practice and upon the local circumstances within which community businesses work.

In some cases, as Bailey *et al.*<sup>19</sup> have argued, community accountability is built into the core operational activities of community businesses through their approach to governance and community/beneficiary involvement in defining and appraising practice. In other community businesses, community engagement may be undertaken with a lighter touch, involving, for example opportunities to give feedback on services and events, or sometimes, by simply recording the extent of community engagement in services and activities.

<sup>19</sup> Bailey, N., Kleinhams, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European countries*, London: Power to Change Research Institute.

Organisational articulation of and commitment to the principle of community accountability varies substantially as shown by Buckley *et al.*<sup>20</sup> In some community businesses, community accountability sits at the core of their value systems, while for others, a more pragmatic view is taken. For example, some community businesses, may consider that an ability to *demonstrate* the level of accountability may position them well when seeking grant support – by lending credibility to claims about community embeddedness. In other cases, community engagement may be the principal route to access volunteers.

Drawing upon Third Sector Trends data it is possible to garner some clues about the extent to which community businesses seek to have a positive impact on the community compared with other types of TSOs.<sup>21</sup> The analysis begins with comparisons between community businesses and general TSOs – following this, larger and smaller community businesses will be compared.

The evidence presented in Table 5.4 suggests that there are broad similarities amongst TSOs in some areas of practice but wider disparities in others.

- ***We devote most of our time to help the local area where we are based:*** it is clear that differences between community businesses and general TSOs are minimal. Around 67% of all TSOs strongly agree that this is their principal focus and only 6% disagree.
- ***We strive to get bigger as an organisation to achieve more:*** some disparities are evident in this respect: 42% of general TSOs which earn no income have little interest in growing compared with 30% of community businesses – but these differences are not large. It is important to note that relatively few community businesses (24%) strongly agree that they want their organisation to get bigger – this may be because they are content to limit their contribution to the locality at the current level or, possibly, a measured assessment of the potential for growth in the areas where they work.
- ***We prefer to work with other organisations to achieve more collectively:*** community businesses are much more likely to agree or strongly agree that they want to work with other TSOs to achieve more (86%) than general TSOs which earn no income (58%), although differences between community businesses and general TSOs which earn income are slightly less pronounced.
- ***We want to influence local decision makers so that more is achieved in our area:*** having an impact on local policy makers is more important to community businesses: 52% strongly agree with this statement compared with just 33% of general TSOs which earn income. Only 10% of community businesses do not want to have influence of this kind compared with 24% of general TSOs which earn income and 33% of those which do not earn income.
- ***We want to do things in our own way to help beneficiaries because it works:*** it is clear that TSOs generally feel confident that their approach to practice is effective irrespective of their business orientation. About 80% of TSOs agree or strongly agree that this is the case.

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<sup>20</sup> Buckley, E., Aitken, M., Baker, L., Davis, H. and Usher, R. (2017) *Community accountability in community businesses*, London: Power to Change Research Institute.

<sup>21</sup> At the present time it is not possible to explore the extent to which TSOs are 'accountable' to their communities in a specific way – ways of exploring this are being considered for the next round of the survey in 2019.

Table 5.4 Organisation policy and practice preferences when working locally

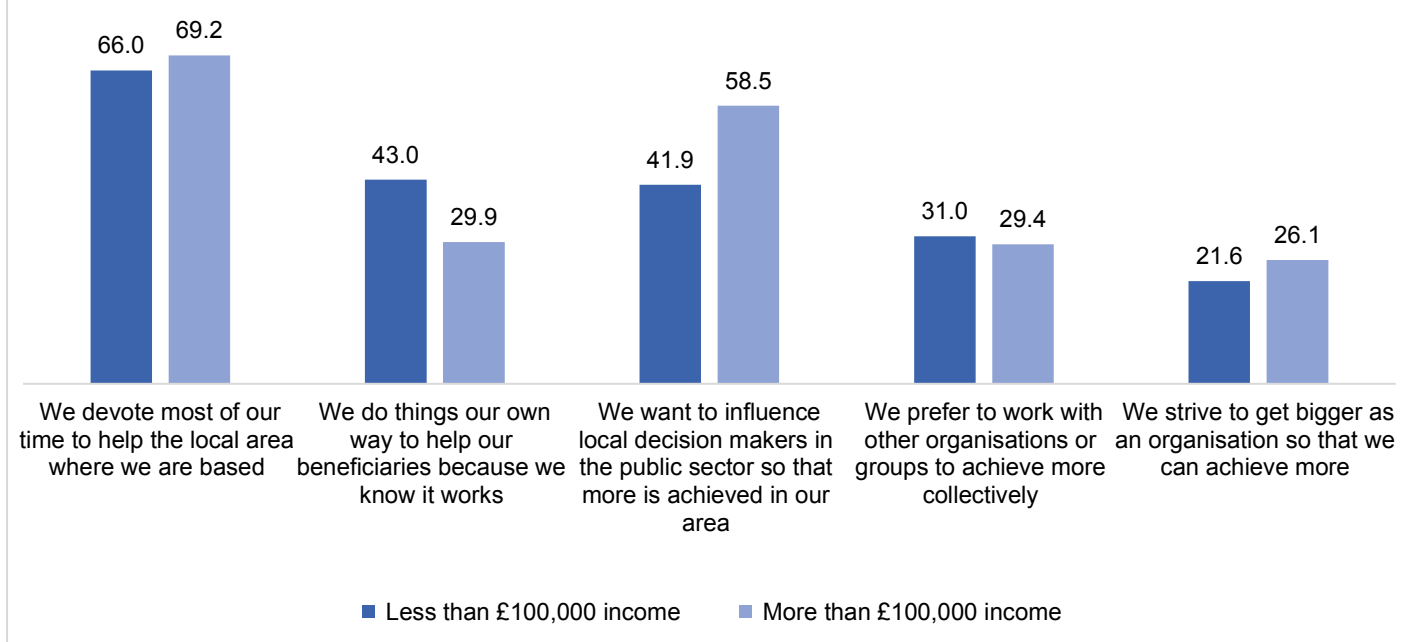
	Strongly agree	Agree	Disagree/ strongly disagree	N=
<b>We devote most of our time to help the local area where we are based</b>				
Community businesses	67.7	25.0	7.2	607
General TSOs which earn income	67.1	27.0	5.9	1,027
General TSOs which do not earn income	65.8	28.1	6.1	868
All TSOs working locally	66.8	26.9	6.3	2,502
<b>We strive to get bigger as an organisation so that we can achieve more</b>				
Community businesses	24.2	45.9	29.9	586
General TSOs which earn income	22.2	42.8	34.9	990
General TSOs which do not earn income	19.3	38.7	42.0	819
All TSOs working locally	21.7	42.2	36.1	2,395
<b>We prefer to work with other organisations or groups to achieve more collectively</b>				
Community businesses	30.2	56.3	13.5	592
General TSOs which earn income	19.9	57.5	22.6	991
General TSOs which do not earn income	18.6	47.9	33.5	808
All TSOs working locally	22.0	54.0	24.0	2,391
<b>We want to influence local decision makers in the public sector so that more is achieved in our area</b>				
Community businesses	51.9	38.0	10.1	592
General TSOs which earn income	33.5	42.1	24.4	988
General TSOs which do not earn income	28.9	38.6	32.6	814
All TSOs working locally	36.5	39.9	23.6	2,394
<b>We do things our own way to help our beneficiaries because we know it works</b>				
Community businesses	35.0	45.4	19.6	586
General TSOs which earn income	33.6	47.1	19.3	997
General TSOs which do not earn income	34.7	43.7	21.5	826
All TSOs working locally	34.3	45.5	20.1	2,409

To what extent do differences emerge between larger and smaller community businesses? Figure 5.1 indicates that differences are not pronounced except in one area: a desire to influence local decision makers in the public sector so that community businesses can achieve more for their area. Nearly 60% of larger community businesses agree or strongly agree that they want to have an impact in this way compared with only 42% of smaller community businesses.

It is also worth noting that smaller community businesses are somewhat more likely to claim that they do things their own way because they know it works (42%) compared with 30% of larger community businesses. Perhaps this is indicative of larger community businesses needing to compromise on aspects of practice due to the nature of work they do and the greater likelihood that they work with other TSOs (as indicated above).



Figure 5.1 Larger and smaller Community business policy and practice preferences when working locally (percentage agree or strongly agree)



### 5.4 Assessment of future service needs and future priorities

It is not uncommon in research on the third sector to find that TSOs make strong claims about the need for their services. In ‘snap shot’ studies of the sector, the value of such evidence is limited as there is no scope to compare change over time.

At this stage in the research, analysis is also limited to the 2016 study across the North of England. From Table 5.5 it can be noted that community businesses are more likely to expect that demand for their services will increase significantly (31% compared with 23% of general TSOs which earn income and just 18% of general TSOs earning none of their income).

While very few TSOs believe that demand for services will decrease, a sizeable proportion expect no change – especially amongst general TSOs. The higher proportion of community businesses expecting increasing demand may, in part, reflect their tendency to be concentrated in the poorest areas (as shown above in Table 4.3).

Table 5.5 Expectations about the level of need for their services in the next two years

	Increase significantly	Increase	Remain similar	Decrease	Decrease significantly	N=
Community businesses	31.3	46.5	21.0	1.0	0.2	581
General TSOs which earn income	22.5	41.5	35.0	1.1	0.0	952
General TSOs which do not earn income	18.4	38.9	41.4	0.9	0.4	781
All TSOs working locally	23.3	41.9	33.6	1.0	0.2	2,314

To be successful as organisations, it is necessary to engage in planning ahead and prioritising future needs. But to what extent do community

businesses do this, and on what areas of change are they most likely to be acting or planning to act upon? Further analysis on preparing for the future is presented in Section 8, but Table 5.6 presents data on four indicative areas: (1) changing practices, (2) increasing earned income, (3) increasing borrowing and (4) merging with another organisation.

- **Planning to change practices:** community businesses are by far the most likely to be acting now to change their practices (40%) compared with general TSOs which earn income (23%) or do not earn income (10%). Larger community businesses are more active (46%) than smaller ones (31%).

Relatively few community businesses are not acting or planning to change (38%) compared with general TSOs which earn income (60%) and do not earn income (76%). Nevertheless, the fact that 40% of community businesses are inactive in this domain is perhaps surprising – although the majority which are inactive are smaller organisations.

- **Planning to increase income:** 89% of community businesses want to increase income compared with just 75% of general TSOs which earn income and 32% of those which do not earn income.

Amongst community businesses, 66% of larger community businesses are taking action now compared with 44% of smaller organisations. 37% of larger community businesses are planning to increase income compared with 24% of smaller community businesses.

- **Planning to increase borrowing:** relatively few TSOs of any type are interested in borrowing money (87%). Even amongst larger community businesses, only 8% are acting on this issue or are planning to do so (14%). This suggests that the market-place for borrowing is currently quite small – but active or latent interest has nevertheless been identified amongst 22% of larger community businesses.

- **Planning to merge with another organisation:** as will be shown in later stages of this analysis, community businesses (as is the case with most TSOs) tend to value their independence. It is not, therefore, surprising that few organisations contemplate merging (15%). Indeed only 5% of TSOs are acting to enact potential mergers. Larger community businesses are the most likely to be doing so, but are in a very small minority (7%).

While this finding is not surprising, it is worth reporting so that interpretation of data on aspects of inter-organisational cooperation and complementary action are considered realistically. TSOs tend to be proud of, and purposeful in, what they generally believe to be a distinctive approach practice in their locality – so the scope for integrated approaches to working can be limited.

<b>Table 5.6 Extent to which TSOs are planning for change in the future</b>				
	Doing this now	Planning to do this	Not planning to do this	N=
<b>Planning to change practices</b>				
Community businesses	39.7	22.2	38.1	612
<i>CB income below £100,000</i>	30.6	19.4	50.0	242
<i>CB income over £100,000</i>	46.0	24.2	29.8	363
General TSOs which earn income	23.3	17.8	58.9	1,044
General TSOs which do not earn income	9.7	14.0	76.3	900
All TSOs working locally	22.4	17.5	60.1	2,556
<b>Planning to increase earned income</b>				
Community businesses	59.6	29.2	11.1	612
<i>CB income below £100,000</i>	50.8	36.8	12.4	242
<i>CB income over £100,000</i>	66.1	24.0	9.9	363
General TSOs which earn income	43.6	31.3	25.1	1,044
General TSOs which do not earn income	12.2	19.9	67.9	900
All TSOs working locally	36.4	26.8	36.8	2,556
<b>Planning to increase borrowing</b>				
Community businesses	6.5	12.9	80.6	612
<i>CB income below £100,000</i>	4.5	12.4	83.1	242
<i>CB income over £100,000</i>	8.0	13.5	78.5	363
General TSOs which earn income	3.1	10.5	86.4	1,044
General TSOs which do not earn income	1.4	7.2	91.3	900
All TSOs working locally	3.3	9.9	86.7	2,556
<b>Planning to merge with another TSO</b>				
Community businesses	7.4	13.2	79.4	612
<i>CB income below £100,000</i>	7.9	13.2	78.9	242
<i>CB income over £100,000</i>	7.2	13.5	79.3	363
General TSOs which earn income	5.0	9.6	85.4	1,044
General TSOs which do not earn income	3.0	7.6	89.4	900
All TSOs working locally	4.9	9.7	85.4	2,556

## 5.5 Summary of key points

The ethos of community businesses is, in some ways, quite similar to other TSOs. In terms of their 'sector values' nearly 90% relate most closely to other organisations in the third sector. But in their planning and practice, community businesses differ from other TSOs to some extent. More of them share the same principles as people in the public sector and, to a lesser extent, the private sector. Amongst the larger community businesses, there is a 50-50 split between organisations which state that they practice in the same way as other TSOs or public sector or private sector bodies.

Community businesses and other TSOs have similar orientation to the areas where they work: around 90% of organisations state that they are strongly committed to improving their local area. There are some important differences too: community businesses are much keener to influence local policy makers (52%) than general TSOs which earn income (33%) or other TSOs which do not earn income (29%).

There also seems to be some difference in the level of *ambition* of community businesses. They are more likely to want to grow so that they can achieve more (70%) although they are not far ahead of general TSOs which earn income (65%). But community businesses are more likely to be doing something about this: 70% are taking action now or planning future action to achieve more – compared with only 40% of general TSOs which earn income and just 24% of other general TSOs.

There are limits, however, to the extent of change community businesses will commit to. A tiny proportion of these organisations will contemplate borrowing money, for example, to build their capacity and very few will consider merging with other organisations.

## 6 Organisational resources

Third Sector Organisations compete with each other for resources of people, money and ideas to do their work successfully and to meet demand for their services in the locality. The ambition of TSOs to achieve their objectives generally outstrips the available resources, so there is a tendency for organisational leaders to feel under pressure and often feel disappointed by the level of resource they have available to them.<sup>22</sup>

It is not the purpose of this paper to assess the social consequences of the mismatch between the supply and demand of resources. Instead, the aim is to assess the extent to which the experiences and expectations of different types of organisations differ.

In this section, three aspects of organisational resource are briefly considered:

- The relative importance of different income resources for TSOs.
- An assessment of the stocks of assets held by TSOs.
- The employee and volunteer resources of TSOs.

### 6.1 *Relative importance of income resources*

Community Businesses generally depend on a variety of income sources, including *earned, given and borrowed money* in addition to valuable in-kind support (such as peppercorn rents, pro-bono advice from professionals, time given by volunteers etc. which would otherwise result in higher financial costs of running an organisation).

While many TSOs identify themselves as being ‘business-like’ in their practices, it has been shown that very few can survive solely on the basis of earned income. This is not regarded as a problem. Indeed, Third Sector Trends papers consistently argue that business-like activity often needs to be supported by grants because the market places within which TSOs operate are self-evidently not strong enough to support organisations. If that were the case, then the likelihood would be that conventional private sector businesses would be present and competing with TSOs.<sup>23</sup>

It is useful to show the extent to which community businesses rely on different sources of income when compared with general TSOs. Figure 6.1 shows the ‘relative’ importance of a range of income or in-kind resources to TSOs. It is clear from this chart that community businesses and general TSOs which earn income are more or less equally reliant on grant funding, but community businesses are more than twice as reliant upon contracts. Similarly, community businesses tend to be more reliant on other sources of trading income than general TSOs which earn income.

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<sup>22</sup> Chapman, T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P. (2013) *Walking a Tightrope balancing critical success factors in hard times*, Newcastle: Northern Rock Foundation; Chapman, T. (2017) ‘Journeys and destinations: how third sector organisations navigate their future in turbulent times’, *Voluntary Sector Review*, 8:1, 3-24.

<sup>23</sup> Chapman, T. (2017) *Third Sector Trends in North East England 2016*, Newcastle: Community Foundation Tyne & Wear and Northumberland, p. 75-6. <https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2017/09/Third-Sector-Trends-in-North-East-England-2017-1.pdf>

Community Businesses are much less likely to rely, in relative terms, on investment income, in-kind support, income from gifts or subscriptions than general TSOs, and especially those which earn none of their income.

It is notable that the relative importance of income from loans is negligible, irrespective of organisational type. As Third Sector Trends research has shown, most TSOs refuse to consider the option of borrowing money. Indeed, there is often reluctance to consider borrowing money even for purposes which make sound economic sense in business-planning terms if it is felt that a grant might be accessed instead.<sup>24</sup> This is not to say that there is *no* market for conventional loans, mortgages or social investment – but rather that it is something that only a minority of organisations will contemplate.

When larger and smaller community businesses are compared, as shown in Figure 6.2, further variation can be observed. Smaller community businesses tend, in relative terms, to rely more heavily on grants and self-generated earned income from trading, but they are much less reliant on contracts than larger community businesses. Similarly, smaller community businesses tend to be much more reliant on in-kind support, gift income and subscription income than larger community businesses in relative terms.

The key point from this analysis, however, is that larger community businesses are much more reliant, in relative terms, on contracts and trading (77%) than smaller community businesses (56%).

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<sup>24</sup> Chapman, T. (2017) 'The propensity of third sector organisations to borrow money in the UK', *Policy Studies*, vol. 38, no. 2, pp. 185-204.

Figure 6.1 'Relative' levels of importance of income sources for TSOs working locally

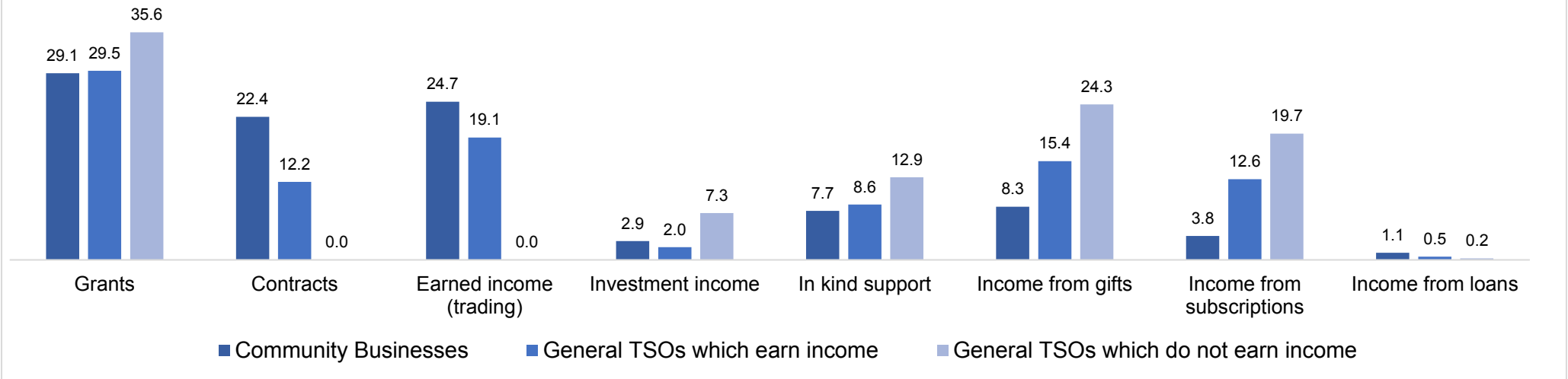
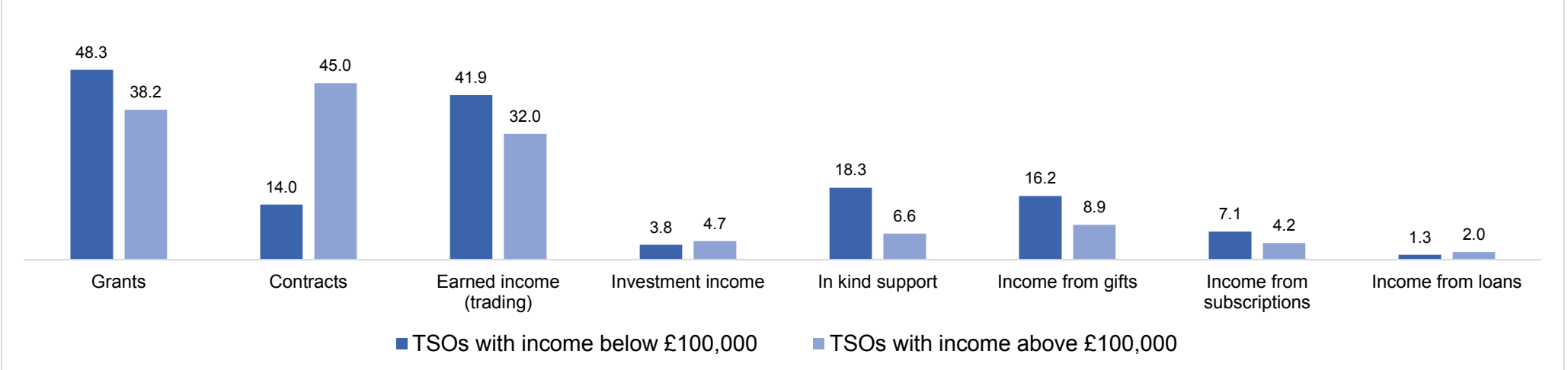


Figure 6.2 Relative levels of importance of income sources for larger and smaller community businesses



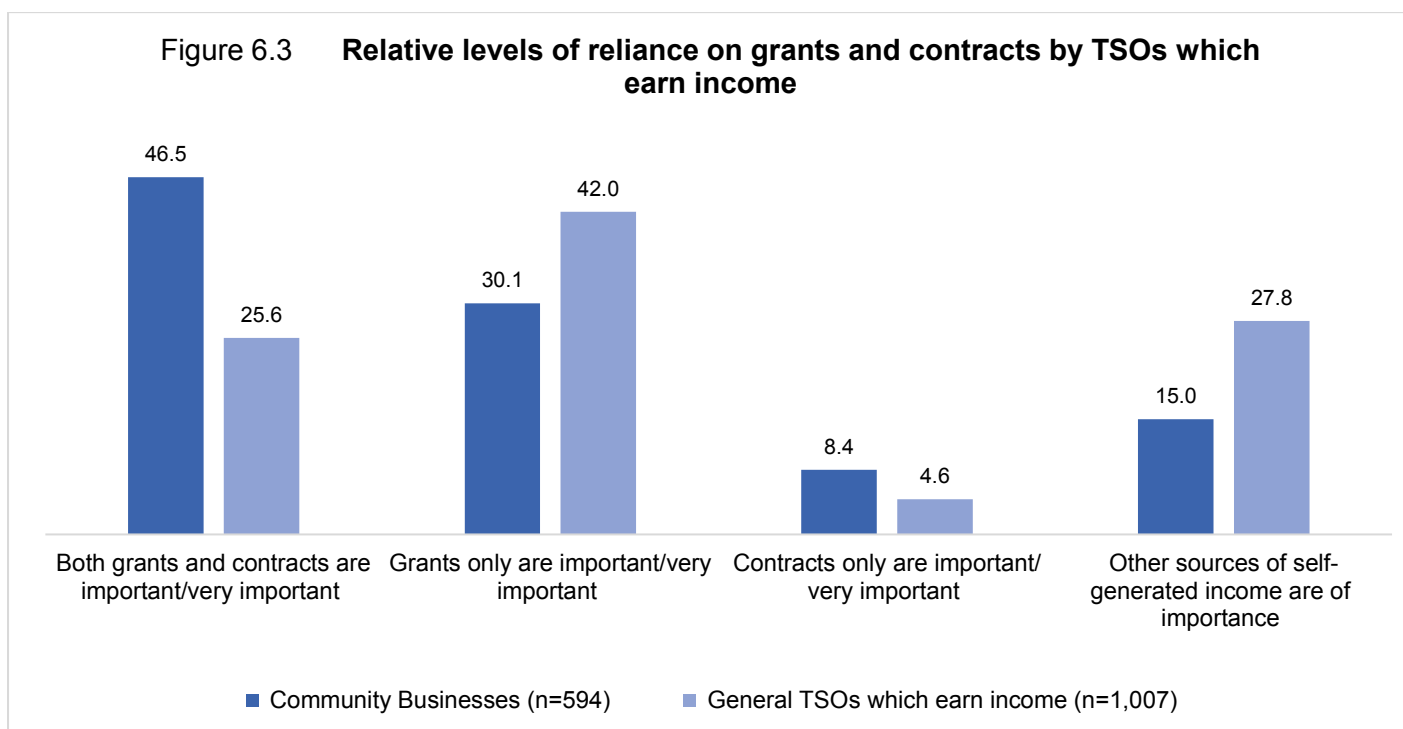
As noted in Section 2 of this report, some advocates of ‘socially enterprising’ activity make strong claims about the prospects for organisations achieving financial sustainability through income generation.

It is useful to examine the interactions between different sources of funding in order to assess the extent to which community businesses can be expected to sustain themselves largely on earned income. Figure 6.3 looks at the extent of co-dependence of community businesses on grants, contracts and self-generated earned income. The evidence shows that:

- 46% of community businesses rely more or less equally on grants and contracts compared with just 26% of general TSOs which earn income.
- 30% of community businesses state that only grants are important or very important to them compared with 42% of general TSOs which earn income.
- Only 8% of community businesses and 5% of general TSOs which earn income rely on contracts but not grants.
- 15% of community businesses depend solely upon other sources of earned income rather than relying significantly on grants or contracts, compared with 28% of general TSOs which earn income.

These findings provide insight into community businesses funding patterns. A total of 77% of community businesses rely to a large extent on grants compared with just 38% which rely in a similar way on contracts.

Relatively few community businesses (23%) rely *predominantly* on contracts or other sources of self-generated trading which suggests that the market place within which they work is generally insufficiently strong to sustain many such organisations without additional grant funding.





It has been noted by Perry *et al.*<sup>25</sup> that some researchers claim that as organisations mature, the less reliant they may become upon grants to sustain themselves. Using Third Sector Trends data it is possible to find out if the age of a community business affects reliance on earned income. Table 6.4 examines this question by comparing the profiles of community businesses and other general TSOs which earn income in three age cohorts.

- **Grants** are of greater importance for more newly established TSOs than older organisations. 45% of TSOs established before 1970 state that grants are important/very important compared with 74% of those established after 2000.

Grants are of greater importance to recently established community businesses (77%) when compared with their older counterparts (59%). This is also the case for general TSOs which earn income and especially so amongst general TSOs which earn no income.

- **Contracts** are of greatest importance to mature TSOs which were established between 1970-1999 (41%). Recently established TSOs also rely to a considerable degree on contracts (29%). The oldest TSOs tend to be less reliant on contracts (16%).

Contracts are most important to those community businesses which were established between 1970-1999 (63%) but they are also important to nearly half of the newest organisations and 42% of the oldest. In all three age categories, community businesses are much more likely to hold contracts than general TSOs which earn income.

- **Other self-generated income** is of importance or great importance to about a third to two-fifths of TSOs, irrespective of their age. Mature TSOs established between 1970-1999 are the most likely to do so (41%) but differences from older and newer organisations are quite marginal.

Community businesses established before 1970 are the least likely to state that self-generated income is important/very important to them – but even so, 41% value this income source. Mature and the most recently established community businesses are equally likely to value self-generated income (64-66%).

About a half of general TSOs which earn income rely on self-generated money. The older TSOs are the most likely to do so (55%), but the newest organisations are not far behind in this respect (48%).

This analysis demonstrates that community businesses are more actively involved in contracts and other sources of self-generated income when compared with general TSOs which earn income. But it is also evident that community businesses are also more reliant on grant income than other TSOs.

Older community businesses tend to be *less* reliant on grants, but nevertheless still remain dependent on this source of income (59%), suggesting that community businesses do not work in a marketplace where autonomy is easy to achieve over time.

The value of this analysis is weakened to some extent by the fact that all community businesses in the sample have been included. It would have

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<sup>25</sup> Perry, *et al.* (2018), *ibid.* p. 33; see also Bailey *et al.* (2018), *ibid.*

been useful to compare larger and smaller community businesses in depth, but there was insufficient data to do this with confidence.

However, background analysis indicates that larger community businesses are similarly reliant on grant funding, irrespective of their age: 68% of the oldest organisations (n=47), 52% of mature organisations (n=177) and 78% of the newest organisations (n=282) stated that grants were very important or important to them. These findings tentatively indicate that even amongst larger community businesses, reliance on grants does not diminish a great deal as they mature.

Table 6.4 Percentage of TSOs which rely on income sources by date established				
	Community Businesses (n=592)	General TSO which earn income (n=1,004)	General TSOs which do not earn income (n=832)	All TSOs (n=2428)
<b>Grants are important / very important</b>				
Established before 1970	59.1	52.6	30.9	44.7
Established between 1970-1999	79.9	71.1	53.0	68.5
Established since 2000	76.8	75.7	68.6	73.5
All TSOs	76.2	67.3	53.2	64.7
<b>Contracts are important / very important</b>				
Before 1970	42.4	18.4		15.8
1970-1999	63.4	39.5	No data	40.6
Since 2000	49.6	29.4		28.6
All TSOs	54.7	29.8		29.7
<b>Self-generated income is important / very important</b>				
Before 1970	40.9	55.3		32.8
1970-1999	64.2	51.3	No data	41.3
Since 2000	66.5	47.7		37.2
All TSOs	62.7	51.2		37.6

Table 6.5 provides an indication of anticipated levels of income over the next two years. From these data, it is clear that community businesses are the most optimistic (42% expect income will increase or increase significantly compared with 37% of general TSOs which earn income and just 26% of general TSOs which earn no income). Relatively few TSOs, of any type, expect income to decrease (between 16-20%).

Table 6.5 Expectations about income and expenditure in the next two years

Income will...	Increase significantly	Increase	Remain similar	Decrease	Decrease significantly	N=
Community businesses	8.0	34.2	37.3	15.3	5.2	600
General TSOs which earn income	5.2	31.8	47.1	12.2	3.7	1,022
General TSOs which do not earn income	3.1	23.1	57.2	12.3	4.3	832
All TSOs working locally	5.2	29.4	48.1	13.0	4.3	2,454
Expenditure will...						
Community businesses	5.5	43.0	41.0	8.5	2.0	598
General TSOs which earn income	6.1	44.0	45.0	4.3	0.6	1,020
General TSOs which do not earn income	4.2	32.4	57.1	5.1	1.2	830
All TSOs working locally	5.3	39.8	48.1	5.6	1.1	2,448

In terms of expenditure, differences between community businesses and general TSOs which earn income are somewhat less clear cut. Over 42% of community businesses think that expenditure will increase or increase significantly compared with 37% of general TSOs which earn income. By contrast, community businesses are more likely to expect expenditure to fall (11% compared with 5% for general TSOs which earn income).

## 6.2 Organisational assets and reserves

Holding assets has been shown by the Power to Change Research Institute to be an important element in the success of community businesses.<sup>26</sup> It is useful, therefore, to examine the extent to which community businesses hold such assets when compared with other TSOs.

It is clear from Table 6.6 that community businesses tend to have a stronger asset base than other TSOs, but the differences are not pronounced when compared with general TSOs which earn income. General TSOs which do not earn income, by contrast, tend to have a much less well developed asset base.

- About a half of community businesses have property assets, but only 19% have such assets valued above £250,000. The asset base of general TSOs which earn income are similar. Only 29% of general TSOs which do not earn income have property assets. Larger community businesses are much more likely to have a stronger property asset base: 26% have assets valued above £250,000 compared with just 10% of smaller community businesses.
- Just over 55% of community businesses have investment assets, but only 7% have investment assets valued over £250,000. Slightly fewer general TSOs which earn income have investment assets, but the

<sup>26</sup> Gilbert, A. (2016) *A common interest: the role of asset transfer in developing the community business market*, London: Power to Change Research Institute. Hull, T., Davies, T. and Swersky, A. (2016) *The Community Business Market in 2016*, London: Power to Change Research Institute. Bailey, N., Kleinhans, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European Countries*, Power to Change Research Institute.

differences are marginal. General TSOs which do not earn income are less likely to have investment assets (39%). Larger community businesses have a stronger investment asset base – but only 12% have investments above £250,000.

- Community Businesses are the most likely to have substantial cash-in-hand reserves: 25% have over £50,000 cash in hand and 33% have between £10,000 and £50,000). General TSOs which earn income have lower levels of cash reserves – 63% have less than £10,000 cash-in-hand and only 11% have over £50,000).

Almost 80% of general TSOs which earn no income have less than £10,000 cash in hand and only 5% have over £50,000. Nearly 70% of smaller community businesses have less than £10,000 cash-in-hand compared with just 22% of larger community businesses. Indeed 40% of larger community businesses have over £250,000 cash-in-hand.

The higher levels of assets held by larger community businesses is likely to be a relevant factor when considering their capability and interest in investing in the development of their business interests.<sup>27</sup>

<b>Property assets</b>	None	Below £250,000	Above £250,001	N=
Community businesses	50.3	30.6	19.2	599
<i>CB income below £100,000</i>	57.4	32.9	9.7	237
<i>CB income above £100,000</i>	45.8	28.7	25.6	356
General TSOs which earn income	55.7	27.3	17.0	1,017
General TSOs which do not earn income	71.6	22.3	6.1	867
All TSOs working locally	59.9	26.3	13.7	2,483
<b>Investment assets</b>	None	Below £250,000	Above £250,001	N=
Community businesses	54.5	38.3	7.2	595
<i>CB income below £100,000</i>	67.8	31.4	0.8	236
<i>CB income above £100,000</i>	45.6	42.8	11.6	353
General TSOs which earn income	59.9	35.6	4.5	1,010
General TSOs which do not earn income	67.1	30.1	2.8	858
All TSOs working locally	61.1	34.3	4.5	2,463
<b>Cash-in-hand reserves</b>	Below £10,000	£10,00 – £50,000	Above £50,001	N=
Community businesses	42.4	32.9	24.7	595
<i>CB income below £100,000</i>	69.8	25.2	5.0	242
<i>CB income above £100,000</i>	22.4	37.3	40.3	357
General TSOs which earn income	63.2	26.0	10.8	1,011
General TSOs which do not earn income	79.0	16.4	4.6	865
All TSOs working locally	63.7	24.3	12.0	2,471

<sup>27</sup> This point is explored in more depth in Chapter 8.

### 6.3 People resources

The capability and capacity of community businesses to achieve their full potential hinges upon their people resources.<sup>28</sup> While the term 'community business' implies that they are likely to be staffed entirely by paid employees - this is not the case. As Diamond<sup>29</sup> has shown, most community businesses rely on a mix of paid staff and volunteers, although the proportions vary depending on the sector within which organisations operate. For example, in 'community hubs', Diamond estimates that there are about 6,600 paid employees and 41,300 volunteers – a ratio of 6:1 volunteers for each paid staff member.

Volunteers strongly outnumber paid staff in a number of areas, including, community shops and pubs, libraries, cafes, craft and manufacturing and environmental/nature/conservation. In the health and social care sector, by contrast, it is estimated that there are 5,700 paid staff and 4,500 volunteers: almost a one-to-one ratio. Similarly, in community transport, an equal number of volunteers and paid staff (9,600 in each category) are reported by Diamond.

The extent to which employment and volunteering numbers in community businesses differ from other TSOs can usefully be demonstrated by comparing levels of employment of paid staff and reliance on volunteers using Third Sector Trends evidence.

As shown in Table 6.7, larger community businesses are by far the biggest employers of full-time staff: 14% of such organisations have more than 20 full-time staff. As would be expected, most community businesses with income below £100,000 report that they have few or no staff. Differences between community businesses and other general TSOs are less pronounced when comparing employment of part-time staff.

Volunteer support (excluding trustees, directors or other board/committee members) is prevalent across all types of TSOs – although community businesses are more likely to enjoy volunteer support than general TSOs. This finding is, perhaps surprising, given that reliance on staff is higher. The number of volunteers organisations have may not, however, equate directly with the extent to which they are 'dependent on volunteers to undertake core activities.

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<sup>28</sup> See Davies, M., Miscampbell, G., Barnard, M. and Hughes, S. (2017) *What works: successful community pubs*, London: Power to Change Research Institute; and, Plunkett Foundation (2017) *Community shops: a better form of business*, London: Power to Change Research Institute.

<sup>29</sup> Diamond *et al.* (2017, p. 49), *ibid.*

Table 6.7 TSOs' Employee and volunteer resources					
	None	1 to 5	6 to 20	Over 20	N=
<b>Full-time employees</b>					
Community businesses	25.9	46.2	19.2	8.7	541
<i>CB income below £100,000</i>	61.5	38.4	0.0	0.0	195
<i>CB income above £100,000</i>	5.3	51.8	29.5	13.5	342
General TSOs which earn income	60.8	27.4	7.1	4.7	915
General TSOs which do not earn income	79.4	15.7	3.6	1.3	783
All TSOs working locally	58.9	27.9	8.8	4.5	2,239
<b>Part-time employees</b>					
Community businesses	13.8	47.4	30.1	8.7	572
<i>CB income below £100,000</i>	34.9	56.5	8.6	0.0	209
<i>CB income above £100,000</i>	1.4	41.6	43.0	14.0	356
General TSOs which earn income	44.6	37.6	13.8	4.0	984
General TSOs which do not earn income	67.5	26.8	4.8	0.9	806
All TSOs	45.0	36.3	14.7	4.1	2,362
<b>Volunteers (excluding trustees/directors/committee members)</b>					
Community businesses	5.7	25.3	33.7	35.3	578
<i>CB income below £100,000</i>	6.6	32.8	40.2	20.5	229
<i>CB income above £100,000</i>	5.3	20.5	28.9	45.3	342
General TSOs which earn income	9.7	20.3	41.7	28.3	990
General TSOs which do not earn income	19.2	25.6	32.8	22.4	854
All TSOs working locally	12.1	23.4	36.7	27.9	2,422

Community businesses tend to report a lower level of dependence on volunteers than other TSOs, as shown in Table 6.8. General TSOs which earn income tend to be more heavily reliant on volunteers (36%)<sup>30</sup> compared with only 24% of community businesses. – and indeed, only 17% of larger community businesses state that this is the case.

The reason for this is likely to be, as shown in Table 6.4, that that larger community businesses tend to employ more full-time and part-time staff than other TSOs – and it is probably the case that there is a heavier reliance upon employees to undertake core activities that volunteers may not be sufficiently skilled or motivated to do.

<sup>30</sup> The reason why fewer general TSOs which earn no income state that this is the case is that they are run entirely on a voluntary basis by a committee or trustees and more rarely work with other volunteers.

Table 6.8 Reliance on volunteers in TSOs

	Community businesses	Smaller community businesses (income below £100,000)	Larger community businesses (income over £100,001)	General TSOs which earn income	General TSOs which do not earn income	All TSOs working locally
TSOs which are heavily dependent upon volunteers	24.1	34.7	17.0	36.1	32.5	32.0
TSOs which are quite dependent upon volunteers	29.9	35.6	26.5	29.7	29.9	29.8
TSOs with little or no dependence upon volunteers (excluding trustees)	46.0	29.7	56.5	34.2	37.7	38.2

## 6.4 Summary of key findings

All community businesses, as defined in this study, earn a proportion of their income from trading. So it is not surprising that these organisations are much more likely to be working, for example, under contract to deliver public services than other TSOs. But most community businesses also rely on other sources of income to bolster their resources: grants are the most important source of such income.

Relying on grants should not, though, be confused with 'dependence' on grants – as if this were a bad thing for community businesses to do. It is more likely that reliance on grants is a necessary part of the sustainability of such organisations and especially for those (a majority) which work in relatively poor areas where the marketplace is insufficiently strong to survive on trading alone.

Community businesses hold assets in a similar way to other TSOs which earn income: although, due to their size, larger community businesses tend to have bigger cash-in-hand reserves. The general picture, however, is that community businesses are somewhat 'under resourced' in terms of their assets and are nervous about drawing upon reserves for developmental purposes.

The people resources of community businesses differ from other TSOs to some extent. They are more likely to employ staff (full-time staff in particular) but are also more likely to have larger numbers of volunteers. That stated, reliance on volunteers is lower (24%) than is the case for general TSOs which earn income (36%).

## 7 Organisational interactions

As noted in the introduction to this report, there is currently much emphasis in policy and practice circles on the importance of partnership working and the promotion of organisational networks and operational synergies at the local level.

This section explores the extent to which organisations have or are interested in developing informal or formal working arrangements with (1) other organisations in the third sector, (2) with the public sector and (3) the private sector.

### 7.1 Relationships with other third sector organisations

As Perry, McNabola and Harries<sup>31</sup> have recently noted “There is very limited evidence on community business ‘ecosystems’ (networks of mutually-supportive relationships between community businesses), or on community business relationships with the private sector.” This lack of attention to community business interactions is, perhaps, surprising given that there has been so much emphasis in recent years in policy and practices circles on the value of building networks of TSOs.

Current research, being undertaken for Power to Change by the present authors is attempting to bridge this gap in knowledge by exploring the extent and depth of community business interactions – where they purposefully gain financial benefit from working more closely with each other. This research will build an understanding of the types of interactions that ‘do’ take place or ‘could’ take place, if community businesses think differently about how they work.

Examples of such interactions may include opportunity signposting and appraisal, customer referral, inter-trading, sharing facilities or kit, partnership bidding for grants or contracts, skills-exchanges, media and public relations initiatives, informally sharing the burden of roles in representation on boards and committees, and so on. These interactions may produce indirect or direct financial benefit. Furthermore, we would intend to explore how the configuration of these factors fit together and bring tangible benefit to community businesses.

The incidence of partnership working in the delivery of contracts is better understood because it is commonplace when public sector service delivery contracts are let, to encourage or demand that TSOs work in partnerships or consortia. It is useful, therefore, to use Third Sector Trends data to examine the extent to which TSOs work independently or collectively on a continuum from ‘rugged independents’ (who do not work with other organisations and groups and have no intention of doing so) to those which ‘bid successfully in partnership’ (see Table 7.1).

- Very few community businesses regard themselves as ‘rugged independents’ (3%) when compared with general TSOs which earn

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<sup>31</sup> Perry, S., McNabola, A. and Harries, R. (2018) *Community business in England: learning from the Power to Change Research Institute 2016-17*, London: Power to Change, p. 37.



income (9%) and especially those general TSOs which do not earn income (23%). Indeed, 60% of general TSOs which earn no income work very independently or at best work 'closely but informally' with other organisations compared with just 23% of community businesses.

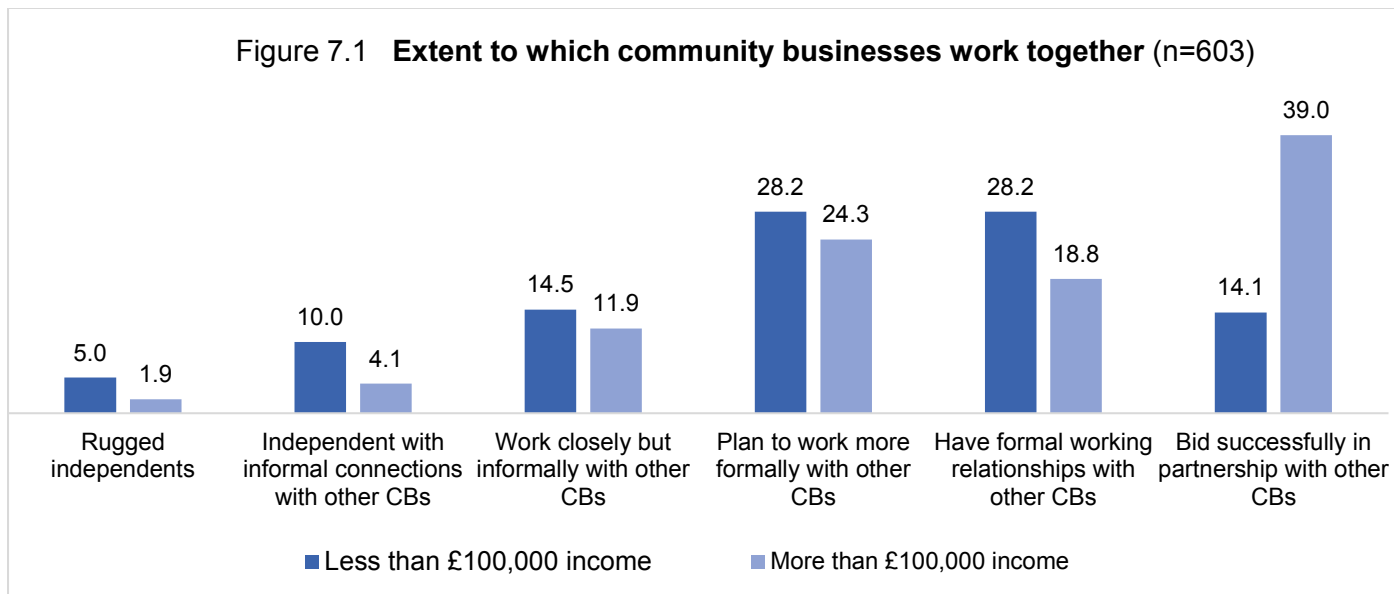
- Community Businesses are **twice as likely** to bid successfully in partnership with other TSOs for grants or contracts (29%) when compared with general TSOs which earn income (14%). general TSOs which earn no income are even less likely to do so (9%).

Table 7.1 Propensity of TSOs to work independently or in partnership

		Community businesses	General TSOs which earn income	General TSOs which do not earn income	All TSOs working locally
<b>Independent organisations</b>	Rugged independents	3.1	8.8	23.0	12.4
	Independent, but with informal connections with other TSOs	6.6	13.0	14.3	11.9
<b>Informal interactions</b>	Work closely, but informally with other TSOs	12.8	20.1	22.8	19.3
	Plan to work more formally with other TSOs	26.2	24.3	16.1	21.8
<b>Formal interactions</b>	Have formal working relationships with other TSOs	22.5	19.5	15.4	18.7
	Bid successfully in partnership with other TSOs	28.9	14.3	8.5	15.7
N=		610	1,043	897	2,550

Assessing the extent to which community businesses work together is possible using Third Sector Trends data by isolating a sample of larger and smaller community businesses. The analysis shows that the likelihood of community businesses working closely with other community businesses is shaped to some extent by their size.

As shown in Figure 7.1, smaller community businesses are more than twice as likely to work completely independently or with informal connections with other community businesses: although they still remain few in number (15%). By contrast, larger community businesses are much more likely to bid successfully in partnership with other community businesses (39%) compared with just 14% of smaller community businesses.



## 7.2 Interactions with the public sector

This section looks at interactions with the public sector in three ways. Firstly, by looking at the extent and quality of interactions. Secondly, whether TSOs work for the public sector by delivering public sector service contracts. Thirdly, by looking at the extent to which TSOs depend on the public sector for funding, and in particular, their propensity to apply to the local public sector for grant funding.

As Table 7.2 shows, not all TSOs have a relationship with the public sector on each of the dimensions shown. For example, at the most general level of ‘feeling valued’ by the public sector, 10% of TSOs do not feel that this applies to them. On other issues, such as the tendency of public sector bodies to act on the opinions of TSOs, 28% of TSOs feel that this is not relevant to them. On *all dimensions*, community businesses are the most likely to feel that questions about their involvement with the public sector are relevant.

Interactions with the public sector tend to be positive for those TSOs which have a relationship with such bodies: 90% of TSOs agree or strongly agree that the public sector values the work they do; similarly, 87% of TSOs feel that their independence is respected and 69% feel that they are informed about issues which affect them. In each of these areas of interaction the attitudes of community businesses are broadly similar to other general TSOs.

TSOs are less positive about their involvement in developing and implementing policy or that public sector bodies act on their opinions/responses to consultation: only about half of TSOs agree that this is the case. Again, the attitudes of community businesses are very similar to other TSOs.

While opinions amongst TSOs which have a relationship with public sector bodies tend to be quite similar, it is important not to lose sight of the point that community businesses are *much more likely* to interact with the public sector than other general TSOs.

Table 7.2 Quality of TSOs interactions with the public sector

	Strongly agree	Agree	Disagree	Strongly disagree	N=	% not applicable to us
<b>They value the work of our organisation</b>						
Community businesses	44.5	46.0	5.9	3.5	593	<b>2.5</b>
General TSOs which earn income	36.4	52.7	7.6	3.2	955	<b>8.5</b>
General TSOs which do not earn income	38.7	50.9	7.1	3.3	733	<b>20.1</b>
All TSOs working locally	39.3	50.4	7.0	3.3	2,281	<b>10.7</b>
<b>They respect our organisation's independence</b>						
Community businesses	31.1	56.4	9.1	3.4	582	<b>4.0</b>
General TSOs which earn income	26.1	60.5	9.8	3.6	916	<b>11.9</b>
General TSOs which do not earn income	30.2	57.9	8.8	3.1	713	<b>23.1</b>
All TSOs working locally	28.7	58.6	9.3	3.4	2,211	<b>13.4</b>
<b>They inform our organisation on issues which affect us or are of interest to us</b>						
Community businesses	17.5	53.9	20.9	7.7	584	<b>3.6</b>
General TSOs which earn income	15.3	51.4	24.9	8.4	922	<b>11.4</b>
General TSOs which do not earn income	18.2	50.9	23.6	7.3	674	<b>29.4</b>
All TSOs working locally	16.8	51.9	23.4	7.8	2,180	<b>14.9</b>
<b>They involve our organisation appropriately in developing and implementing policy on issues which affect us</b>						
Community businesses	10.5	41.1	35.3	13.1	564	<b>6.9</b>
General TSOs which earn income	9.4	38.6	38.0	13.9	847	<b>21.1</b>
General TSOs which do not earn income	11.7	38.1	37.1	13.0	606	<b>43.7</b>
All TSOs working locally	10.4	39.2	37.0	13.4	2,017	<b>23.9</b>
<b>They act upon our organisation's opinions and/ or responses to consultation</b>						
Community businesses	7.4	46.0	34.6	12.0	543	<b>10.7</b>
General TSOs which earn income	6.7	41.3	39.3	12.7	825	<b>24.1</b>
General TSOs which do not earn income	10.3	42.8	34.8	12.2	584	<b>49.0</b>
All TSOs working locally	7.9	43.1	36.6	12.3	1,952	<b>27.8</b>

To a large extent, interactions with the local public sector are driven by TSOs' interest in or capacity to engage in public service delivery through contracts. Table 7.3 explores the extent to which community businesses are interested in or actively engaged in bidding for or undertaking public service delivery contracts.

- It is clear that general TSOs which earn no income are the least likely to be unaware of such opportunities (26%) or be disinterested in harnessing them (56%). Amongst community businesses, by contrast only 11% are unaware of such opportunities. That stated, a substantial percentage of community businesses state that they are not interested in the delivery of public services under contract (24%). Larger community businesses are the least likely to be unaware of or disinterested in such work (23%).
- Many TSOs perceive potential blockages to their engagement in the delivery of public sector contracts. About 7% of community businesses state that they would need more information before

considering this prospect (about the same percentage as general TSOs that earn income). Indeed 8% of larger community businesses agree that this is the case.

- About 11% of community businesses claim that they would need more support before doing such work – although only 9% of larger community businesses say this is the case. Similarly, about 16% of community businesses identify other barriers to such work – a view shared equally by larger and smaller community businesses.<sup>32</sup>
- Amongst TSOs which are delivering public sector service contracts, larger community businesses are by far the most likely to be doing so (36%). Indeed only 12% of general TSOs which earn income are delivering such contracts. Smaller community businesses are unlikely to engage in such work, presumably because they do not have the capacity and/or capability to do so. The indications are that their interest is limited, with only 4% of smaller community businesses bidding (as yet unsuccessfully) for contracts compared with 10% of larger community businesses.

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<sup>32</sup> Interestingly, the Third Sector Trends study in North East England shows that over time, the percentage of TSOs claiming that there are 'barriers', that they need 'more information' or 'support' has remained similar – in spite of many interventions to engage them in such work by capacity building interventions. From that analysis it was concluded that a sizeable percentage of TSOs may not engage in such work even if they were well informed, if barriers were lifted or they had received support. See Chapman, T. and Robinson, F. (2015) *Key findings from the Northern Rock Foundation Third Sector Trends Study in North East England*, Newcastle: Northern Rock Foundation.

	Community businesses	CB income below £100,000	CB income above £100,000	General TSOs which earn income	General TSOs which do not earn income	All TSOs working locally
We are not aware of these opportunities	11.2	19.9	5.3	20.7	25.5	20.1
We are aware of these opportunities, but they are not relevant to our organisation's objectives	23.8	34.0	17.2	40.9	55.9	42.0
We are aware of these opportunities but need more information	7.4	6.6	7.5	5.7	3.5	5.3
We are interested in this option but would need extra support to do this	11.3	14.5	9.2	9.1	5.2	8.3
We are interested in this option but feel there are barriers in the tendering process	15.8	16.2	15.3	8.4	4.4	8.8
We are already bidding to deliver public sector services	7.2	3.7	9.7	3.4	1.6	3.7
We are already delivering public sector services for which we have tendered	23.2	5.0	35.8	11.8	3.9 <sup>33</sup>	11.8
N=	608	241	360	1,028	869	2,505

Given the evidence presented in Table 7.3 it is useful to assess the extent to which TSOs expect to be funded from public sector sources in the next two years. Table 7.4 presents data on attitudes about future levels of funding which require careful interpretation.

Community businesses are more or less equally likely to expect that funding will increase or increase significantly (between 14-16% of TSOs), but are much more likely to expect a decrease in funding (58% compared with 47% of general TSOs which earn income and 40% of general TSOs which do not earn income).

From the analysis presented in Table 7.3, it was clear that community businesses are considerably more likely to receive funding from contracts and will be aware of the currently tight funding environment within which the local public sector operates – so it is not surprising that many community businesses expect income to decrease.

<sup>33</sup> It is unclear why TSOs report that they are engaged in contracts if they currently earn no income. It is possible that they participate as a minor partner in a consortium of TSOs which were awarded a contract but gain no direct financial benefit from the work.

Table 7.4 Expectations about funding from the public sector in the next two years

Funding from statutory sources	Increase significantly	Increase	Remain similar	Decrease	Decrease significantly	N=
Community businesses	2.6	11.7	27.7	38.5	19.4	494
General TSOs which earn income	1.7	14.7	36.8	33.3	13.5	709
General TSOs which do not earn income	3.4	13.3	42.6	28.5	12.2	467
All TSOs working locally	2.5	13.4	35.7	33.5	14.9	1,670

Broadly similar expectations about rising income are harder to interpret. It may be the case that general TSOs are thinking about other, probably smaller levels of funding, from allocations of resources reserved for small local grants rather than contracts. Such questions cannot be fully resolved using quantitative data from the Third Sector Trends study – so understanding will depend on more fine-grained qualitative work with community businesses to be undertaken in Middlesbrough, Bradford and Hartlepool.

However, it is possible to determine in broad terms, upon which sector TSOs depend for the majority of their income. As Table 7.5 shows, community businesses are almost twice as likely to be funded mainly by the public sector when compared with general TSOs which earn income. They are also the most reliant on private sector funding (13%) but the differences from other general TSOs is very marginal. Amongst community businesses, it is clear that larger organisations are twice as likely as their smaller counterparts to be funded mainly by the public sector (64%).

Figure 7.5 Extent to which TSOs rely on public, private or community sector funding

	Funding comes mainly from the public sector	Funding comes mainly from the private sector	Funding comes mainly from the community sector	N=
Community businesses	48.9	12.6	38.5	585
<i>CB income below £100,000</i>	27.5	15.0	57.5	233
<i>CB income above £100,000</i>	63.6	11.0	25.4	346
General TSOs which earn income	27.4	11.0	61.6	1,001
General TSOs which do not earn income	22.3	10.3	67.5	800
All TSOs working locally	30.9	11.1	57.9	2,386

Table 7.6 takes the analysis one stage forward by showing the percentage of TSOs which applied to a local public sector organisation in the last two years for a grant. The evidence demonstrates clearly that community businesses were the most likely to apply successfully for grants (61%) and especially so if they were larger community businesses (68%).

The success rate of community businesses is broadly similar to, though slightly better than, other TSOs. Only 30% of community businesses did not apply for grant funding from local public sector bodies (24% of larger community businesses)

Table 7.6 Percentage of TSOs applying for grants from local public sector bodies in last two years

	In the last two years we made an application and were successful	In the last two years we made an application but were unsuccessful	In the last two years we did not make an application	Percentage success rate in winning at least one grant	N=
Community businesses	60.7	9.2	30.0	<b>87%</b>	596
<i>CB income below £100,000</i>	50.0	9.8	40.2	<b>84%</b>	234
<i>CB income above £100,000</i>	67.5	8.7	23.8	<b>89%</b>	357
General TSOs which earn income	49.1	8.6	42.3	<b>85%</b>	984
General TSOs which do not earn income	34.3	6.4	59.3	<b>84%</b>	842
All TSOs working locally	46.8	8.0	45.2	<b>85%</b>	2,422

### 7.3 Interactions with the private sector

As noted above, a relatively under-researched area at present, is the contribution private-sector business makes to the third sector (excluding funds directed through business resourced charitable foundations and via corporate social responsibility programmes).<sup>34</sup> As was shown in Table 7.5, only a few TSOs state that money from business is of great importance to them (16%). It makes little difference if TSOs are community businesses or general TSOs in this respect. Amongst community businesses, larger organisations are a little more likely to state that money from business is of great importance to them (19%) than smaller community businesses (16%).

A similar set of findings can be noted for those TSOs which state that money from business is of some importance in addition to other positive relationships with the private sector (such as in-kind support including: the receipt of employee volunteer time, specialist advice, free use of facilities and kit, etc.). Percentage differences are too slight (in the range of 23-26%) to determine clear differences between organisational types – except in the case of general TSOs which earn none of their income (16%).

The only major variation in TSOs' assessment of their reliance on the private sector is identified amongst those organisations which have no relationship with private sector businesses: nearly half of general TSOs with no earned income (46%) claim to have no relationships with business compared with just 25% of community businesses and 28% of general TSOs which earn some of their income.

<sup>34</sup> See, for a recent study drawn from Third Sector Trends evidence: Chapman, T. and Hunter, J. (2018) *The value of business to the third sector in the north*, Manchester: IPPR North.

Table 7.5 TSOs reliance on the private sector for income and support

	Money from business is of great importance	Money from business is of some importance in addition to other relationships with the private sector	Money from business is of little or no importance but has other relationships	No relationship with business	N=
Community businesses	17.3	23.5	33.9	25.3	601
<i>CB income below £100,000</i>	19.4	24.5	28.3	27.8	237
<i>CB income over £100,000</i>	15.9	22.6	37.7	23.7	358
General TSOs which earn income	17.7	26.0	28.1	28.2	1,022
General TSOs which do not earn income	14.0	16.3	23.5	46.2	859
All TSOs	16.3	22.0	27.9	33.7	2,482

## 7.4 Future levels of collaborative working

Expectations about future levels of collaborative working are positive, as shown in Table 7.6. Nearly 60% of community businesses expect that partnership working will increase or increase considerably, compared with 50% of general TSOs which earn income and 46% of general TSOs which earn no income.

Very few TSOs of any kind expect that partnership working will decrease (about 3%) although many think it will remain about the same (45%): community businesses are the least likely to expect that this will be the case, however (36%).

Table 7.6 Expectations about partnership working in the next two years

	Increase significantly	Increase	Remain similar	Decrease	Decrease significantly	N=
Community businesses	7.5	52.3	36.4	2.6	1.1	535
General TSOs which earn income	4.6	45.6	47.1	2.0	0.6	781
General TSOs which do not earn income	5.0	40.9	51.3	2.2	0.6	540
All TSOs working locally	5.5	46.2	45.3	2.3	0.8	1,856

Expectations about increasing levels of partnership working vary to some extent, depending upon whether this work is to be with other TSOs, with public sector organisations or private sector businesses. As Table 7.7 shows:

- **Planning to work more closely with the public sector:** most TSOs do not want to work more closely (63%) and indeed 75% of general TSOs which earn no income state that this is the case. Larger community businesses are the most likely to be taking action to work with public sector bodies (42%) or are planning to (18%). By contrast 57% of smaller community businesses have no plans to do so.
- **Planning to work more closely with business:** amongst all TSOs, only 7% are working closely with businesses, though 15% are planning to do so. Larger community businesses are the most likely to be working with business (12%) or are planning to do so (23%) while



general TSOs which earn no income are the least interested (86% do not intend to work more closely with business).

- **Planning to work more closely with other TSOs:** there is much more interest in working with other TSOs across the sector (although 57% of organisations do not wish to do so). Larger community businesses are the most likely to be acting to work with other TSOs (41%) while smaller community businesses are less likely to be doing so (29%). Interestingly, nearly half of smaller community businesses do not wish to work more closely with other organisations (47%).

**Table 7.7 Extent to which TSOs are planning to work with other organisations in future**

	Doing this now	Planning to do this	Not planning to do this	N=
<b>Planning to work more closely with public sector</b>				
Community businesses	34.3	19.0	46.7	612
<i>CB income below £100,000</i>	23.1	20.2	56.6	242
<i>CB income above £100,000</i>	42.4	17.6	39.9	363
General TSOs which earn income	19.9	17.1	62.9	1,044
General TSOs which do not earn income	13.1	12.3	74.6	900
All TSOs working locally	21.0	15.9	63.1	2,556
<b>Planning to work more closely with business</b>				
Community businesses	10.9	19.6	69.4	612
<i>CB income below £100,000</i>	10.3	15.7	74.0	242
<i>CB income above £100,000</i>	11.6	22.6	65.8	363
General TSOs which earn income	6.5	17.0	76.4	1,044
General TSOs which do not earn income	4.0	10.0	86.0	900
All TSOs working locally	6.7	15.2	78.1	2,556
<b>Planning to work more closely with other TSOs</b>				
Community businesses	36.1	23.0	40.8	612
<i>CB income below £100,000</i>	29.3	23.6	47.1	242
<i>CB income above £100,000</i>	40.8	22.6	36.6	363
General TSOs which earn income	25.2	18.4	56.4	1,044
General TSOs which do not earn income	17.9	13.7	68.4	900
All TSOs working locally	25.2	17.8	56.9	2,556

## **7.5 Summary of key points**

Very few community businesses consider themselves as 'rugged independents' (3%) compared with nearly a quarter of general TSOs which earn none of their income. Instead, community businesses are much more likely to have formal relationships with other TSOs (including other community businesses). Indeed, 70% of larger community businesses have established formal relationships with other TSOs compared with just 35% of general TSOs which earn income.

Relationships with the public sector are quite strong across all TSOs and the quality of interactions are generally positive. The depth of interactions differ, however: about 45% of larger community businesses engage in, or are applying for contracts to deliver public sector services compared with just 15% of general TSOs which earn income.

Community businesses state that the public sector is their principal source of income, but this income is not just from contracts: 61% of community businesses successfully applied for local public sector grants in the last two years (compared with 49% of general TSOs which earn income and 34% of other general TSOs).

The extent to which relationships with the private sector have been developed does not vary significantly by different types of TSOs. But there is some evidence to suggest that community businesses are more likely to be taking action now or are planning to develop such relationships in future.

## 8 Building organisational capability and capacity

Analysis presented in previous sections show that expectations about the future tend to be positive and ambitious, but how well are community businesses preparing to take advantage of such opportunities? This Chapter will look at the following issues:

- To what extent are TSOs investing in future organisational capability?
- What are TSOs principal training and development priorities?
- Where do organisations gain support for their development needs?

### 8.1 Investing in organisational capability

Well governed organisations generally know that it is necessary to invest in training and development of employees and volunteers.<sup>35</sup> A useful indicator of organisational commitment to this area, is whether or not they have a training and development budget. Third Sector Trends survey data shows that:

- Amongst all TSOs working locally, only one third have a training budget.
- Community Businesses are, by far the most likely to hold a training budget (52%) while general TSOs which earn none of their income are the least likely to do so (20%).
- A majority of larger community businesses have a training budget (69%), while smaller community businesses are much less likely to do so (26%).

A second useful indicator of commitment to invest in capability and future development is the extent to which TSOs invest in new developments using their reserves. As Table 8.1 demonstrates, many TSOs have no reserves upon which to draw, ranging from 29% of general TSOs which do not earn income to 15% of community businesses.

Amongst those which do have reserves (percentages are shown in parentheses), it is clear that about 45% of all TSOs have not drawn on reserves for any purposes. Community businesses are the least likely not to have drawn on reserves (30%).

In terms of investment in new activities, such as buying property, developing a new service or employing a new development worker, community businesses are the most likely to have done so (20%) compared with general TSOs with no earned income (11%).

Many TSOs have been obliged to draw on reserves to pay for essential costs, such as wages, rent or utility bills, etc. Community businesses are the most likely to have done so – perhaps indicating a measure of financial vulnerability for 27% of such organisations. About 11% of all TSOs used reserves for a mixture of purposes.

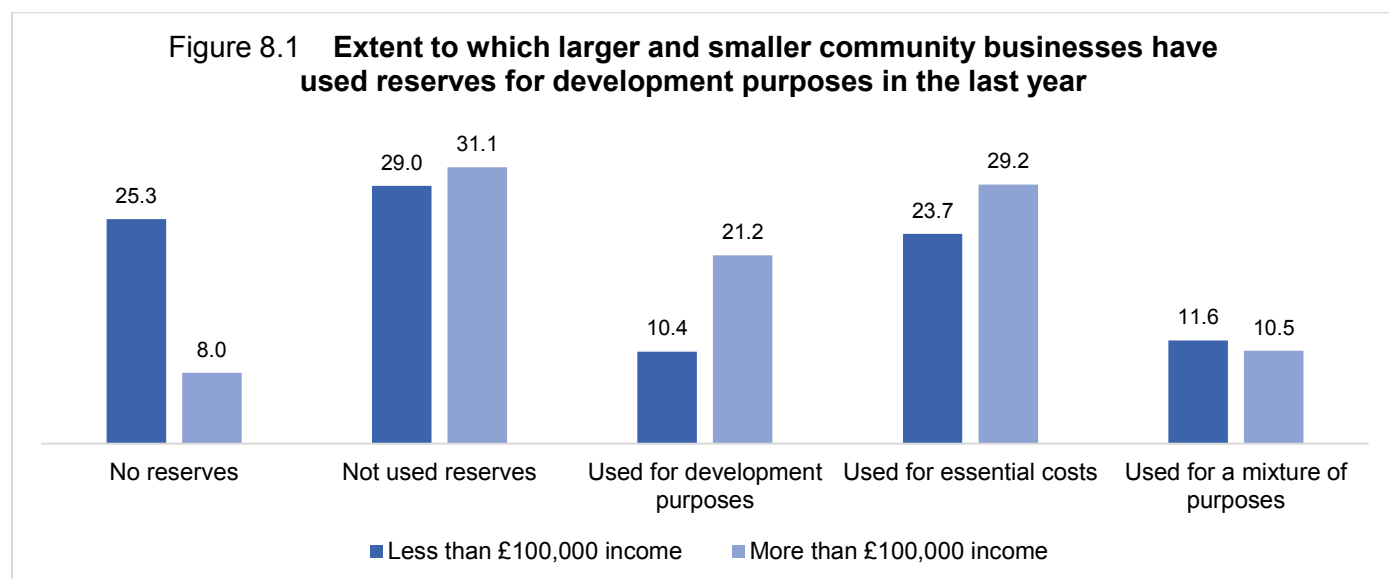
<sup>35</sup> See Robinson, et al (2011) *Building better Boards*, Newcastle, Northern Rock Foundation.

**Table 8.1 Extent to which TSOs use reserves for development purposes**

(Percentage of TSOs with reserves in parentheses)	Community businesses	General TSOs which earn income	General TSOs which do not earn income	All TSOs working locally
No reserves	14.9	19.4	29.5	21.8
Have not drawn on reserves	30.3 (35.6)	36.0 (44.7)	38.5 (54.6)	35.5 (45.5)
Used reserves to invest in new <i>activities (such as buying property, developing a new service, employing a development worker)</i>	16.8 (19.8)	13.0 (16.1)	7.7 (10.9)	12.1 (15.5)
Used reserves for essential costs <i>(such as salaries, rent, etc.)</i>	26.8 (31.5)	20.4 (25.3)	12.5 (17.7)	19.2 (24.6)
Used reserves for a mixture of purposes	11.1 (13.1)	11.2 (13.9)	11.8 (16.7)	11.3 (14.5)
N=	611	1,025	882	2,518

When the situation of larger and smaller community businesses is considered, as shown in Figure 8.1, it is clear that small community businesses are far more likely to have no reserves (25%) when compared with larger organisations (8%). It is also clear that larger community businesses are much more likely to invest in development (21%) than smaller community businesses (10%). That stated, almost 30% of larger community businesses used reserves for essential costs, suggesting that they may face a measure of financial vulnerability.

**Figure 8.1 Extent to which larger and smaller community businesses have used reserves for development purposes in the last year**



## 8.2 Training and development priorities

It is generally accepted in the business support community that investing in capability, through investment in staff development and training, needs to be focused on areas of medium to longer-term importance by TSOs. However, Third Sector Trends research has consistently shown that most organisations largely avoid such issues and concentrate instead on immediate priorities – and most particularly - raising income.

As Figure 8.2 demonstrates, the strongest emphasis, in training and development terms, is placed on fundraising, bidding for grants, marketing and publicity and tendering and commissioning. By contrast, business, people, financial and strategic management are regarded as second-order priorities. That stated, it is clear from these data that community businesses tend to put more emphasis on these medium to long-term priorities than other TSOs.

Amongst community businesses, as shown in Figure 8.3, it is clear that larger organisations follow the same general pattern of priorities, with demands for training and development in grant bidding, fundraising, tendering and marketing and publicity being regarded as key priorities. However, the emphasis on such factors is less pronounced than is the case amongst smaller community businesses.

The fact that community businesses put more emphasis on training and development which positions them well to bring in income instead of general organisational capability is, of course, explicable. Pressure to sustain the organisation financially is a top priority. It is, though, perhaps surprising that emphasis on 'given income' (grants and fundraising) are higher priorities for community businesses than 'earned income' (self-generated trading/tendering for contracts).

Figure 8.2 Percentage of TSOs which put a 'high priority' on training and development

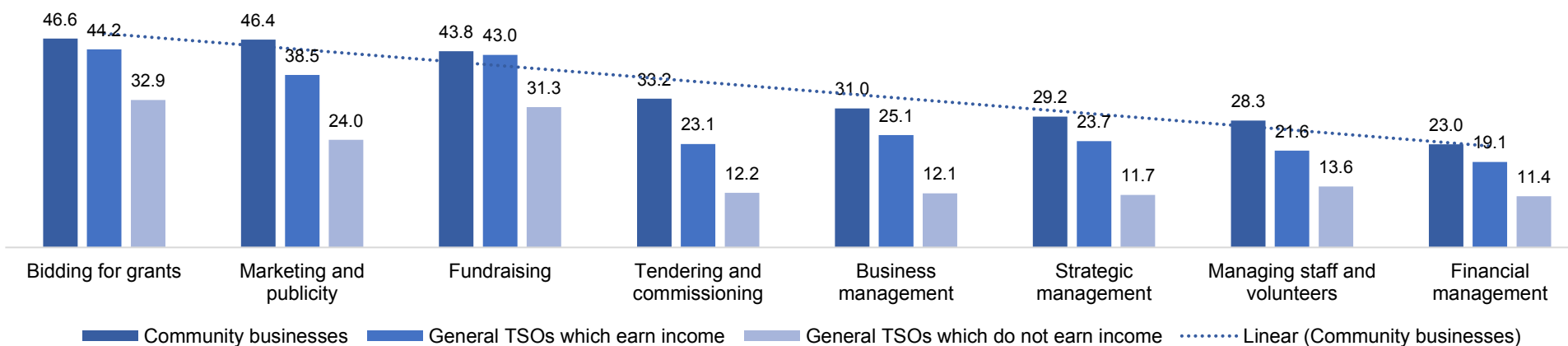
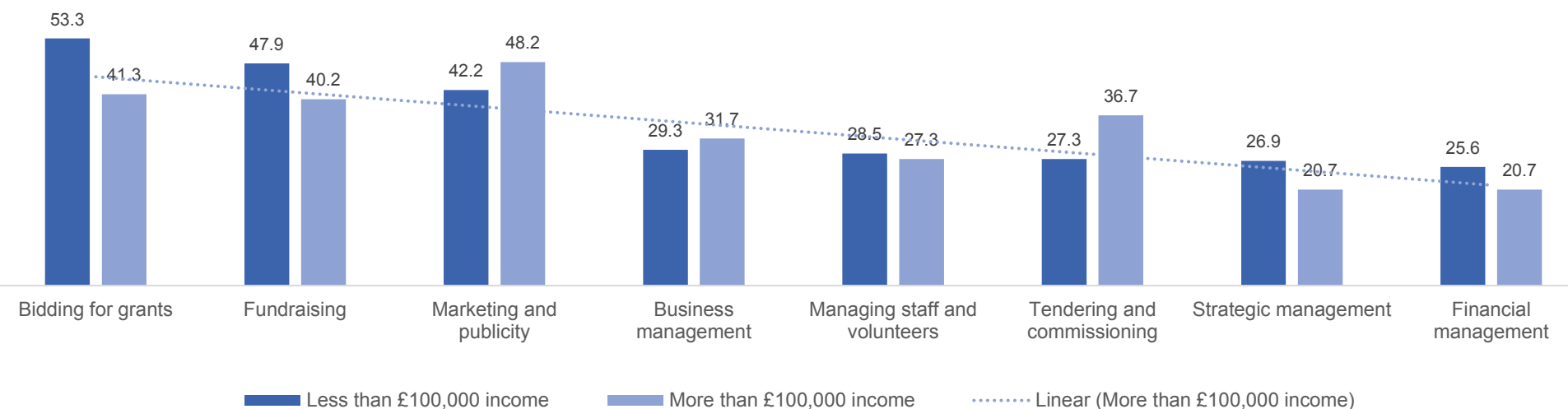


Figure 8.3 Percentage of larger and smaller community businesses putting a 'high priority' on training



### 8.3 Sources of organisational support

This section examines where community businesses go for support when they feel that they need it. To begin the analysis it is useful firstly to recognise that many TSOs do not feel that some areas of support are applicable to them. This is entirely explicable in some circumstances: employment issues are clearly irrelevant to those TSOs which have no employees. But in other areas, this is far less clear cut.

For example, Table 8.4 shows that 21% of TSOs state that governance/ leadership issues are not applicable to them. Unfortunately, it is necessary to set aside this important issue because it is not possible to determine from Third Sector Trends survey data whether non-applicability is due to the absence of need or the presence of complete command over the issue.

When TSOs identify areas of need, it is possible to show where they 'normally' go for support. Examining differences in sources of support is valuable as it can, potentially, demonstrate whether community businesses are more likely to focus on some sources of support and development when compared with general charities.

- **Employment issues:** community businesses are most likely to draw on private sector/professional support when addressing these issues (37%), followed by 26% of community businesses which go to their local Council for Voluntary Service (CVS) or equivalent local infrastructure support body. About 17% of community businesses work things out for themselves rather than seeking external help. General TSOs which earn income tend to put less emphasis on private sector/professional help (22%) and are more likely to go to a local CVS (34%) or deal with it themselves (23%).
- **Volunteering issues:** community businesses are more likely to seek support from a local CVS (54%) compared with general TSOs which earn income (43%) and are less likely to try to work out these issues on their own (30% compared with 29% of general TSOs which earn income).
- **Governance/leadership issues:** local CVSs are the most likely source of support amongst community businesses and general TSOs which earn income (32% and 25% respectively) although a similar percentage of organisations work things out on their own (25% and 29%).
- **Income generation issues:** community businesses are most likely to work out these issues on their own (41%) as is the case with general TSOs which earn income (43%). A local CVS is also a valuable source of support for many (28% of community businesses and 32% of general TSOs which earn income).
- **Financial management issues:** community businesses are most likely to tackle these issues in house (36%) as is the case with general TSOs which earn income (42%). Community businesses are more likely to rely on private sector/professional support (26%) than general TSOs which earn income (16%). The local CVS is also valued in the support it can offer to both community businesses (24%) and general TSOs which earn income (25%).

Table 8.4 Sources of support for TSOs

	A local CVS/ infra- structure body	National infra- structure body	Local public sector agency	Private sector or profess- ional body	Do it ourselves	(Not applicable to us)	N=
<b>Employment issues</b>							
Community businesses	26.1	13.6	5.7	37.4	17.2	(12.3)	595
General TSOs which earn income	33.9	11.4	9.2	22.7	22.7	(39.3)	1,020
General TSOs which do not earn income	33.3	13.9	9.3	18.7	24.8	(62.5)	859
All TSOs working locally	31.0	12.7	8.0	27.1	21.3	(40.9)	2,474
<b>Volunteering issues</b>							
Community businesses	53.9	10.5	3.5	1.3	30.8	(7.8)	601
General TSOs which earn income	42.8	9.6	6.8	1.6	39.2	(13.1)	1,028
General TSOs which do not earn income	38.9	10.5	7.8	1.0	41.7	(29.8)	875
All TSOs working locally	44.6	10.1	6.2	1.3	37.8	(17.7)	2,504
<b>Governance/leadership issues</b>							
Community businesses	31.6	29.7	4.8	9.2	24.7	(6.1)	594
General TSOs which earn income	34.7	23.0	7.7	4.9	29.6	(17.0)	1,026
General TSOs which do not earn income	31.5	20.8	9.3	4.0	34.5	(37.4)	856
All TSOs working locally	33.0	24.3	7.4	5.9	29.5	(21.4)	2,476
<b>Income generation issues</b>							
Community businesses	28.3	15.4	7.2	7.7	41.3	(5.8)	602
General TSOs which earn income	31.8	11.4	7.5	6.3	43.0	(13.1)	1,028
General TSOs which do not earn income	33.9	9.4	9.1	4.4	43.3	(36.0)	865
All TSOs working locally	31.5	12.0	7.8	6.2	42.5	(19.3)	2,495
<b>Financial management issues</b>							
Community businesses	23.6	11.6	3.4	25.7	35.7	(5.2)	598
General TSOs which earn income	25.3	11.9	5.2	15.6	42.0	(15.0)	1,021
General TSOs which do not earn income	25.9	10.7	6.5	11.1	45.9	(38.6)	858
All TSOs working locally	25.0	11.5	5.1	17.3	41.2	(20.8)	2,477



## **8.5 Summary of key points**

TSOs tend to invest relatively little in organisational development. Many organisational leaders may argue, perhaps incorrectly, that this is a luxury that they cannot easily afford or that they are too small in size to justify such an investment. Relatively few TSOs have a dedicated training or staff development budget: although community businesses are, by far, the most likely to do so (52%).

There appears to be some reticence in community businesses to invest in other aspects of their development. Very few use their reserves to invest in their capacity or capability (20%) – although they are marginally more likely to do so than other TSOs.

Training and development priorities are skewed somewhat towards income generation. While this is explicable, it may be at the expense of other aspects of medium or long-term development in people, strategic, financial management or business planning. Community businesses are more likely to prioritise these medium to long term development priorities but not to the same extent as factors associated with income generation.

## 9. Summary and next steps

### 9.1 Key findings

At the start of this research paper, a diagram was presented to suggest that different types of TSOs are likely to intersect in many ways in terms of their values, mission, policies and practices. This has proven to be the case – community businesses are a diverse group of TSOs, and so it is not surprising that the bigger picture looks more like ‘variations on a theme’ than an entirely distinctive set of organisations.

These variations from other TSOs can be captured in just a few points, community businesses tend to be:

- Larger, younger organisations which operate mainly in less advantaged urban areas. They tend to be more likely to employ staff and their dependence on volunteers is lower than other TSOs. Their values are clearly rooted within the third sector as is the case with most other TSOs.
- They are more ‘business oriented’ in their practice and planning ethos and are more likely to rely on income from trading than other TSOs. They rely less on gifts, subscriptions and in-kind support, but grants remain a very important element of funding in the majority of community businesses.
- They tend to be more ambitious about the future and are more willing to invest in their future capability through training and development. More community businesses want to grow to achieve more for their communities than other TSOs.
- But community businesses also show some signs of risk aversion – most do not want to commit their reserves to development and most will not consider, for example, borrowing money or merging with another organisation.
- Community businesses appear to be rooted in their communities. Furthermore, many are eager to increase their impact on those communities in future. Indeed community businesses are more likely than other TSOs to want influence local decision makers about what happens in their area.
- Very few community businesses operate as entirely independent entities – they appear to be comfortable about working in partnership. They are the most likely to want to work in formal relationships with other TSOs and are also more likely to be acting to do more of this in the future.
- Most TSOs seem to have good relationships with the public sector – but community business relationships are deeper and they are working harder to maintain them. Community businesses are the most likely to be trying to build stronger relationships with private sector business.

## 9.2 *Next steps in the research*

The above findings provide a useful backdrop for the development of future research on community business. But, as is so often the case in the analysis of Third Sector Trends data, the insights that have been gained has produced many new questions.

Many of these questions could not be answered using quantitative research techniques for three reasons.

- Firstly, due to the diverse nature of community business, it would not be possible to muster a big enough sample to undertake reliable comparative fine-tuned analysis.
- Secondly, there are limits to the patience and commitment of survey respondents – eliciting fine-grained detail from organisations generally results in low response rates to individual questions or results in abandonment of the survey so undermining the validity of the research.
- Thirdly, respondents would not be likely to have easy access to the textured insights that researchers would be looking for, and consequently, would be unwilling to make the effort to produce the detail required in a survey.

Qualitative research can access deeper understanding about the way that TSOs work. This is a valuable pursuit, providing that the work is supplemented with quantitative data so that particularities can be recognised in a more general context.

Following on from this research, we will select organisations for qualitative research which reflect the diversity of community businesses. This will help to get a better understanding of how different kinds of organisations construct their mission, garner their resources, practice and navigate their futures. This work has been funded by Power to Change.

Several questions have arisen from the quantitative analysis presented in this research paper which will now be explored through qualitative research with TSOs which work as, or in a similar way to community businesses in Bradford, Hartlepool and Middlesbrough.

- How much interaction exists between community businesses and other organisations (ranging from community business, other TSOs, public sector bodies and private sector businesses) and what purpose do such interactions serve for organisations, beneficiaries and for the local community as a whole?
- With whom do community businesses have the strongest and most productive relationships (irrespective of the sector within which they work), why is this the case and how are such relationships maintained over time?
- To what extent do community businesses initiate, build and sustain productive relationships with other community businesses in their area – what factors make such relationships succeed or fail?
- What factors produce the ‘need’ for such interaction to develop and what situations or incentives help produce raised awareness of the possibilities for such interaction to be initiated?

- Is there any evidence to show that interactions amongst community businesses are more beneficial to localities than autonomous working? If such evidence exists, how can policy makers and funding organisations help to facilitate more interaction of this nature?
- If evidence of synergy amongst community businesses can be identified, then what kinds of support, if any, might other community businesses need to encourage them to build similarly productive relationships in their locality to strengthen local economy and society? How and by whom might such support be best delivered?
- How do community businesses serve the interest of their community as individual entities or in collaborative work with other organisations? If community business is, as is often claimed, rooted in and accountable to its community – then what benefits does such accountability produce and what factors helped to make that happen?

These questions need to be explored with an open mind, taking views from community businesses, the organisations with which they work in the third sector, public sector and private sector, and with key stakeholders in local areas who have influence over social and economic policy.

The research, it is hoped, will produce new insights on community businesses interactions with other organisations and how this contributes to wellbeing at the local level. It is also anticipated that the findings from the qualitative research can then be tested through the fifth phase of the Third Sector Trends survey which will begin in Spring 2019.

# Appendix

## Research Papers from the Third Sector Trends Study

All Third Sector Trends reports are available at this web address:

<https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/>

### PHASE FOUR 2015-18

*How do community businesses differ from other community and voluntary organisations? new comparative analysis from the Third Sector Trends Study*, Durham: Policy&Practice, St Chad's College, Durham University, (Chapman, T. and Gray, T.).

*The value of volunteering in the North*, IPPR North, 2018, (Chapman, T. and Hunter, J.).

*The value of business to the third sector in the north*, Manchester: IPPR North, 2018, (Chapman, T. and Hunter, J.).

*How to work effectively with the third sector: a discussion paper for public sector organisations*, Durham: Institute for Local Governance, 2017, (Chapman, T., Mawson, J., Robinson, F. and Wistow, J.).

*Tackling Poverty in the North: evidence from Third Sector Trends*, Briefing Paper, Durham, Policy&Practice, 2017, (Chapman, T.).

'Journeys and destinations: how third sector organisations navigate their future in turbulent times', *Voluntary Sector Review*, 8:1, 3-24, 2017, (Chapman, T.).

*A digest of findings from the Third Sector Trends Study in North East England*, Durham: St Chad's College, Durham University, 2017, (Chapman, T.).

*Third Sector Trends in Bradford*, Durham, Policy&Practice, St Chad's College, Durham University, 2017 (Chapman, T.).

*Third Sector Trends in Kingston upon Hull and East Yorkshire*, St Chad's College, Durham University, 2017, (Chapman, T.).

'The propensity of third sector organisations to borrow money in the UK', *Policy Studies*, 38:2, 185-294, 2017, (Chapman, T.).

*A digest of findings from the Third Sector Trends Study in Yorkshire and the Humber*, Durham: St Chad's College, Durham University, 2017, (Chapman, T.).

*A digest of findings from the Third Sector Trends Study in North West England*, Durham: St Chad's College, Durham University, 2017, (Chapman, T.).

*Third Sector Trends in the North of England: a summary of key findings*, Manchester: IPPR North, 2017, Chapman, T. and Hunter, J.).

*Third Sector Trends in Tees Valley*, Durham: Policy&Practice, 2016, (Chapman, T.).

### PHASE THREE 2013-14

*Key findings from the Northern Rock Foundation Third Sector Trends Study in North East England*, Newcastle, Northern Rock Foundation, 2015, Chapman, T. and Robinson, F.).

*The situation of Third Sector organisations working in rich and poor areas: key findings from North East England and Cumbria*, Newcastle, Northern Rock Foundation, 2015 (Chapman, T.).

*An assessment of Third Sector organisations' willingness to borrow money: evidence from Yorkshire, North East England and Cumbria*, Newcastle, Northern Rock Foundation, 2015 (Chapman, T.).

*Third Sector Trends in North East England and Cumbria: headline trends 2008-2014*, Newcastle, Northern Rock Foundation, 2014, (Chapman, T. and Robinson, F.).

*Keeping it simple: how to work effectively with the Third Sector, a discussion paper and evidence review*: Durham: Institute for Local Governance, 2014, (Chapman, T. and Robinson, F.).

*Third Sector Trends in Kirklees*, Durham, Policy&Practice, 2014, (Chapman, T.).

*Third Sector Trends in Yorkshire and Humber*, Leeds: Involve Yorkshire and Humber, 2013, (Chapman, T.).

*An insight into charity funding in the North East*, London: Garfield Weston Foundation, 2014, (Pharoah, C., Chapman, T. and Choudhury, R.).

Consuming values in a social market: making choices about volunteering and non-volunteering', *Social and Public Policy Review*, Vol. 7: 1. 2013, (Chapman, T. and McGuinness, B.).

## PHASE TWO 2011-12

*The Reality Check: final report from the second phase of the Third Sector Trends Study*, Newcastle: Northern Rock Foundation, 2013, (Robinson, F. and Chapman, T.).

*On the Money: how does the way Third Sector organisations think about money affect the way they work?* Newcastle: Northern Rock Foundation, 2013, (Chapman, T. and Robinson, F.).

*The Crystal Ball: how do Third Sector Organisations see their future, and what are they doing about it?* Newcastle: Northern Rock Foundation, 2013, (Chapman, T. and Robinson, F.).

*Walking a Tightrope balancing critical success factors in hard times*, Newcastle: Northern Rock Foundation, 2013, (Chapman, T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P.).

*Taking the Temperature: how are Third Sector organisations doing?* Newcastle: Northern Rock Foundation, 2013, (Robinson, F., Bell, V., Chapman, T., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P.).

*Journeys and Destinations: the impact of change on Third Sector organisations*, Newcastle: Northern Rock Foundation, 2011, (Chapman, T., Robinson, F., Bell, V., Dunkerley, E., Zass-Ogilvie, I. and van der Graaf, P.).

## PHASE ONE 2008-10

*Taking Stock, Moving On: a summary report on the results of the Northern Rock Foundation Third Sector Trends Study*, Newcastle: Northern Rock Foundation, 2011, (Chapman, T. and Robinson, F.).

*Paid work and volunteering in the Third Sector in North East England*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2011, (Mohan, J., Rajme, F.G. and Kane, D.).

*Paid work and volunteering in the Third Sector in Cumbria*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2011, (Mohan, J., Rajme, F.G. and Kane, D.).

*Building Better Boards: What's the problem?* Newcastle: Northern Rock Foundation, 2011, (Robinson, F., Bell, V. and Chapman, T.).

'Trouble with champions: local public sector – Third Sector partnerships and the future prospects for collaborative governance in the UK', *Policy Studies*, Vol. 30, No.6, pp. 613-630, 2010, (Chapman, T., Brown, J., Ford, C. and Baxter, E.).

*Forearmed with Foresight: speculations on the future development of the Third Sector in North East England and Cumbria*, Newcastle: Northern Rock Foundation, 2010, (Bell, V., Robinson, F., Chapman, T., van der Graaf, P., Shaw, S., Brown, J. and Chinaka, G.).

*Keeping the Show on the Road: a survey of dynamics and change amongst Third Sector organisations in North East England and Cumbria*, Newcastle, Northern Rock Foundation, 2010, (Chapman, T., van der Graaf, P. Bell, V., Robinson, F. and Crow, R.).

*What makes Third Sector organisations tick? Interactions of foresight, enterprise, capability and impact*", Newcastle: Northern Rock Foundation, 2010, (Chapman, T., Robinson, F., Brown, J., Crow, R., Bell, V. and Bailey, E.).

*Mapping registered Third Sector organisations in the North East*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2010, (Kane, D. and Mohan, J.).

*Mapping registered Third Sector organisations in Cumbria*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2010, (Kane, D. and Mohan, J.).

*Mapping registered Third Sector organisations in Yorkshire and the Humber*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2010, (Kane, D. and Mohan, J.).

*Beyond 'flat earth' maps of the Third Sector*, Newcastle: Northern Rock Foundation Third Sector Trends Study Working Paper, 2010, (Mohan, J., Kane, D., Wilding, K. Branson, J. and Owles, F.).

*A Mosaic, Jigsaw or Abstract: getting a big picture perspective on the Third Sector in North East England and Cumbria*, Newcastle: Northern Rock Foundation, 2009, (Chapman, T. Robinson, F., Brown, J. Ford, C., Shaw, S. Crow, R. and Bailey, E.).

*A Thriving Third Sector: a study of North Yorkshire and City of York*, Middlesbrough: Social Futures Institute, 2008, (Chapman, T. and Crow, R.).

'Entering a Brave New World? An assessment of Third Sector readiness to tender for the delivery of public services', *Policy Studies*, Vol. 28, No 1, pp. 1-17, 2008, (Chapman, T., Crow, R. and Brown, J.).

'They think they have God on their side': the impact of public sector attitudes on the development of social enterprise', *Social Enterprise Journal*, Vol. 2, No. 1, pp. 78-89, 2008, (Chapman, T., Forbes, D. and Brown, J.).

*Facing the Future: A Study of the Impact of a Changing Funding Environment on the Voluntary and Community Sector in the North East of England*, Middlesbrough: Social Futures Institute, 2006, (Chapman, T., Crow, R. Brown, J. and Ward, J.).

## Notes



# Policy & Practice



St Chad's College, Durham University