Striking a balance:

A study of how community businesses in Bradford, Hartlepool and Middlesborough build working relationships with the public, private and third sector

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September 2019

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About this report

This research was funded in 2018 through the Power to Change Research Institute's open research grants programme. The open research grants programme aims to support the community business sector and its partners to deliver the evidence the sector needs for its own development, and to make the case for the value of community business. The research is conducted independently of Power to Change. The work and any views presented are the authors' own.

Acknowledgments

Executive summary

The study explores how community businesses make decisions about when to work autonomously or in partnership with other organisations in the public, private and third sectors. It does so in the context of their need to maintain a balance between their objective to support communities while ensuring that their organisation remains operationally sustainable.

We sought a better understanding of the challenges and opportunities that community businesses share when initiating and building relationships with other organisations – what factors lead to the development of productive, mutually beneficial interactions and what might encourage stronger, more sustainable arrangements. We drew on qualitative research evidence from a sample of 24 community businesses in Bradford, Hartlepool and Middlesbrough. The sample comprised organisations of different sizes and characteristics, operating in a variety of local contexts, and which trade in a range of ways to serve many social purposes.

Our key findings

Working with the private sector

For relationships with private businesses to be established in the longer term, an empathetic understanding of the desires of the partner organisations need to be reached, expectations must be met, and the outcome of the interactions must be mutually beneficial – even if for different reasons for each partner. To maintain trust, such relationships have to be constantly nurtured to be kept in balance.

'Our community-based initiative is absolutely about that – talking to and engaging with them. If we make orders from the local sandwich shop, they'll put up posters for us or take donations from customers on their counter. And then when we put on a fashion show, they'll make some pizzas for us, so there's all sorts of small-scale things which will develop. Our staff can be incredibly persuasive as far as those relationships are concerned so we've been able to get something like 20 exceptional sets of fundraising prizes which have gone out there and raised us hundreds and hundreds of pounds. And we go back to these guys and thank them and make sure that they have got proper recognition for what they've done for us. That all goes back to the values of the organisation and that's how I believe we work in the community.'

Positive interactions between private sector companies and community businesses were not all about financial exchange – they involved investment of time and expertise, in both directions. While the benefits for each organisation could differ, the effort bargain always has to be balanced. If community businesses simply expected to be recipients of support without offering something in return, they were in for a disappointment – this is not how it does or should work. It has to be about complementary interests at both organisational and community level.

Working with the public sector

The value of public sector service contracts is being driven down while expectations of service delivery are also often being raised. The consequence is that community businesses choosing such contracts often lose money to maintain or enhance the quality of service offered to their community. Some do this by subsidising the work from other income streams, but there are limits. Many community businesses with insufficient income from other sources cannot enter the marketplace, which in turn may disadvantage the communities they serve.

'We've gone for certain contracts that we feel are crucial to our community. We provide services to [beneficiaries] who have quite complex needs. We have a [number of] volunteers who help to support the front-line service which is delivered by a group of people who are paid and properly managed to do [skilled caring work]. We might not be making any money on it, the reality is that we're contributing about 12 per cent, but we think it is so important, that we're prepared to do it because nobody else could do it properly [at this price].'

Contracts appear to be getting bigger and more complex, especially in larger local authority areas. This can result in community businesses being unable to marshal the resources to win them, unless they work in consortia or as sub-contractors to prime national organisations. Some community businesses are comfortable with these options but contract values that are too low may put pressure on those partnerships.

Working with other third sector organisations

Relationships worked well when organisations with different strengths came together rather than those that worked in similar ways. This required tolerance and empathy for other community businesses, which took time to develop. Community businesses doing similar things in similar ways could work together, as long as they were not operating in the same locality – this allowed them to draw boundaries around activities and reduced the risk of competing over resources.

'When I started out, I tried to hold on to my clients by looking after them well and keeping them to myself. And now you just realise what an illusion that was. Actually, the paradox is that the more you open your doors and share resources, the better things are in the long run. But there's an underlying tension all the time, through all the partnerships you join, you know that there's going to be money coming through, so you're all looking out for your own position to some extent. A constant tension.'

Local circumstances make a difference. In some local authority areas, where collective activity had been less successful in the past, community businesses tended to have low expectations of working collectively in the future. This could be compounded if local public sector organisations failed to encourage good partnerships or made local relationships weaker.

In areas where there had already been successful interactions, there was more scope to sustain them or develop more in future. Some of the best emerged when community businesses actively encouraged smaller organisations and groups to define the issues they could tackle and helped them to take control themselves, without taking over.

How community businesses 'strike a balance'
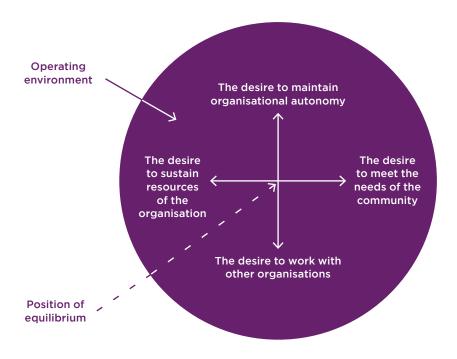
Community businesses are not all the same: their size, structure, purpose, capacity, capability and preferred practices vary greatly.
But some aspects of running a community business are common to all of the organisations we studied.

Community businesses assessed opportunities by weighing two inter-related sets of drivers, and balanced:

– the desire for organisational autonomy with the need to work with other organisations in the private, public or third sectors

– the need to access the resources to sustain their organisation while meeting their desire to have a beneficial community impact.

Figure 1: The need for community businesses to balance conflicting priorities

Achieving a balance is difficult because community businesses cannot control the social, political and economic environment around them. Most notable is the impact of government austerity policies, which have affected both the way that local public sector organisations operate and the demand for services from beneficiaries in the community.

These factors have made the working environment more competitive for community business. Community businesses have to strike a balance between the *collective endeavour* to achieve social benefit and *direct competition* with other organisations. Competition takes place over resources in three distinct areas:

1. **ideas that achieve social value:** organisations need to be 'persuasive' about the value and efficacy of the goods and services they have chosen to produce. This pushes them into direct competition with others claiming they can produce the same, similar or better.

2. **people resources to deliver social value:** organisations need to recruit and retain capable and motivated people to produce goods or services. But they also need beneficiaries or customers to consume what they produce. There is potential for direct competition in both domains.

3. **finances to resource useful practice:** organisations tend to have ambitious objectives – whether for profitability and/or social value. There is direct competition for access to the financial resources to achieve these objectives.

Organisations in the private, public and third sector must find a way to command the resources to remain viable and sustainable. Their ability to work together in formal or informal ways is always shaped to some extent by competition and an underlying interest to retain autonomy.

Most community businesses were uneasy about having their autonomy compromised, and especially so in the face of unreasonable expectations or demands. And yet we found many examples of organisations working well together, despite the difference between their cultures, value systems and strategic objectives. The most successful found common ground on which they could work productively without threatening their own identity.

Conditions for successful partnership working

Formal or informal partnership arrangements work well when organisations from the same or different sectors both identify benefit. This benefit may not need to be 'equal' in material terms (such as the amount of money they access) or in value terms (because organisations may want to achieve different, albeit complementary, things) – but the arrangement must feel *balanced* and *fair* in relation to the commitment offered and the effort expended. Our research shows how this occurs when four conditions are met.

1. The organisations involved *want* to take the time to learn about each other and develop an empathetic understanding of each other's needs and desires. On the surface, good relationships appeared to be brought together by luck or fate. However, the organisations that could work together were alert to the mutual benefits of collaboration and 'open-minded' about the possibility of working with others.

2. Organisations build trust and confidence steadily by starting with small things before moving on to the next stage if those worked well. It is not necessarily about 'making friends' or being 'nice', but a requirement to be open and honest. Indeed, some relationships worked well because there were direct and vigorous exchanges at the outset about what each organisation was prepared to do.

3. It does not seem to matter, and can sometimes help, if organisations have different cultures, purposes and practices, providing they share the journey. 'Chalk and cheese' relationships can work better than those between organisations that are very similar. Sharing a common purpose to contribute to the local community is important, but does not mean that organisations should do things in the same way, or value all achievements equally.

4. Sustainable working relationships require continual investment of time and energy. This means that organisations must weigh up the 'costs' of injecting resources with the 'benefits' that can be produced. Some good productive relationships may not need to last very long, while others may be worth maintaining over years.

1. Introduction

Our research explored the social processes involved in partnership working and identified conditions that need to be met for community businesses to work effectively with other organisations in the private, public and third sectors.

The study sought to understand the challenges and opportunities that community businesses share when building relationships with other organisations. The report draws on qualitative research evidence from a sample of 24 community businesses of different sizes and characteristics, operating in a variety of local contexts, which trade in a range of ways to serve many social purposes.

The report explores the tensions all community businesses manage as they make decisions about when to work autonomously or in partnership with others, and how they maintain a balance between supporting communities and ensuring that their organisation remains operationally sustainable.

1.1 Community business trading interactions

Community businesses rely on trading to sustain their activity, even though in light of their social objectives most also depend to some extent on in-kind or grant support from external agencies or individuals (Chapman and Gray, 2018). Trading includes selling self-generated services or manufactured goods, renting or letting space, and delivering service contracts for other organisations.

The term 'community business' embraces a range of organisational types primarily in the third sector. They include organisations of various legal forms including:

– companies limited by guarantee

– cooperatives and community benefit societies[1]

– charitable incorporated organisations

– community interest companies and registered charities.

Some community businesses have been operating for decades while others are relatively new, for example emerging from asset transfer programmes. Evidence from the Third Sector Trends Study[2] indicates that in the north of England, community businesses tend to be larger than other third sector organisations (TSOs): 60 per cent have income above £100,000 a year compared with 27 per cent of general TSOs which earn a proportion of their income, and just 11 per cent which earn no income (Chapman and Gray, 2018, p. 22).

Community businesses generally recognise a need to work formally or informally with other organisations in the private, public and third sectors. Community businesses have formal relationships with **private sector companies**, for example, by renting or letting accommodation. Trading also exists when community cafés, shops or pubs depend upon private sector suppliers for materials and services which cannot be produced in house, or they may themselves supply goods and services to the private sector.

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[1] 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 'cooperative' or 'community benefit societies'. Such societies are included in the Third Sector Trends study, providing that they invest profits wholly towards social purposes rather than private personal benefit.

[2] The Third Sector Trends Study has been running in the north of England since 2010. It uses biennial surveys to assess change in the structure and dynamics of the voluntary, community and social enterprise sector. More detail on the survey can be found online at: **https://www. communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/**. In 2018, reanalysis of the survey data explored the way community businesses operate in comparison with other third sector organisations (see Chapman and Gray, 2018). Power to Change Research Institute has also produced research evidence on organisational size and structure (see Thornton et al., 2019).

Less formally, private sector firms also support community businesses in other productive and supportive ways by providing financial and in-kind support (Chapman and Hunter, 2018, Hunter, 2019).

Community businesses may develop formal relationships with **public sector organisations** such as government departments, local authorities or NHS foundations and trusts, when community businesses tender for contracts. Other formal interactions with public sector officers take place through collaborative governance and are associated with local planning and the development of strategic initiatives. Informal associations with public sector officers and elected members are also valuable ways of interacting.

Many community businesses develop good formal working relationships with other **third sector organisations** through tendering for public sector contracts in partnership or by joining consortia or alliances of local organisations. Less formal relationships include initiatives to strengthen sector interests, often when acting as community anchor organisations or through local infrastructure organisations.

1.2 Aims

Our aim was to learn more about the quality and depth of formal and informal relationships between community businesses and organisations in the private, public and third sectors. Building on existing quantitative analysis of the interactions between organisations in the north of England from the Third Sector Trends Study (Chapman and Gray, 2018), this project used qualitative research methods to explore key questions in more depth:

– What factors lead to the development of formal and informal interactions amongst community businesses and with other organisations in the private, public and third sectors?

– What factors contribute to the building of durable, productive and mutually beneficial formal and informal relationships, and to what extent do community businesses have to invest time and energy over time?

– What kinds of conditions encourage community businesses to build stronger formal and informal relationships with other organisations in their locality which may ultimately strengthen local economy and society?

1.3 Structure of the report

This report has seven sections:

Section 2 – an account of the research methods together with the definition of community business used to identify the sample of organisations involved in the study.

Section 3 – a brief description of the characteristics of the three local authority areas studied and an overview of the principal characteristics of the organisations involved in the study.

Sections 4, 5 and 6 – an analysis of the extent, depth and quality of relationships between community businesses and other organisations in the private, public and third sectors. Each section looks at formal relationships and informal interactions.

Section 7 – a discussion of those factors which contribute towards the development of enduring relationships between community businesses and other organisations in the private, public and third sectors.

2. Research methods

This project aimed to build on existing knowledge of community business interactions with organisations in the private, public and third sectors gained from quantitative analysis of more than 3,500 TSOs in the north of England (Chapman and Gray, 2018).

Having established a broad understanding of the purpose, extent and future ambitions for organisational interactions using data from the Third Sector Trends Study, we recognised that too little was known about how such relationships were established, about their quality, depth and endurance, or about how they produced social and community benefit. This level of understanding was only available through in-depth qualitative research with community businesses.

2.1 Research methods and process

The project involved a variety of methods:

– Face-to-face interviews with five stakeholders in each area studied – Hartlepool, Middlesbrough and Bradford – to gauge their understanding of the role of community business in the context of their local area and to appraise levels of enthusiasm for further development in the future. We chose stakeholders who had a 'big picture' perspective on the work of the sector in each locality and included respondents primarily from public sector and third sector infrastructure organisations.

– Lists of TSOs matching the criteria adopted for defining community business were drawn up in each of the local authority areas studied (see Section 2.2). These were assembled from suggestions provided by local stakeholders in each area, via a search of the Charity Commission register and from the Third Sector Trends database. Researchers approached community businesses through email and follow-up phone calls explaining the study, the response from community businesses was positive and shortlists of 10–12 organisations in each area generated a sample of 24 respondents. Interviews took place over four months, from September 2018.

– Desk-based research on the community businesses built an understanding of their aims, practices and current financial position. Research drew on publicly available material like corporate websites and recent annual reports accessed from the Charity Commission.[3] Online searches for media stories involving the community businesses helped to build a picture of their public profile.

– Site visits between September and December 2018 explored organisations' premises in their local context, and included in-depth interviews with the chief officer and/or chair of each organisation.

– Analysis of the qualitative material identified key themes and issues which were used alongside quantitative data on the characteristics of each of the organisations to enable researchers to make judgements on organisational ethos, policy, practice and financial capability.

– The Power to Change Research Institute's initial review identified those emerging findings that could be valuable to policymakers and practitioners. Focus groups in Hartlepool, Middlesbrough and Bradford, involving key stakeholders from the public and third sectors alongside some of the 24 community business respondents, tested these ideas during March and April 2019.

– The final phase supplemented the initial findings with the outcomes of the focus groups.

The research primarily used qualitative findings to explores formal working arrangements between community businesses and other organisations in the private, public and third sectors. The small sample does not allow broad generalisations to be made about relationships between sectors or about local authority areas, but it has helped build a better understanding of how such relationships are initiated and sustained, together with a clearer picture of the factors that contribute to their depth and quality.

[3] Although one of the organisations in the sample was not registered with the Charity Commission, it provided annual reports and accounts on request.

2.2 Sampling and defining community businesses

Prior to sampling we needed to clarify the definition of community business. We recognised from the quantitative analysis of Third Sector Trends Study data that relatively few TSOs were likely to self-identify with the term 'community business'.[4]

To build a suitable sample, we identified organisations with a variety of legal form, size, age, location, beneficiary focus and practice preferences. All were involved in trading activities to such an extent that they had substantial reliance on income from these aspects of their work.

We aligned the sampling criteria with Power to Change's definition of community business (Perry, et al., 2018, p. 4) which includes the following:

– **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 cafés, selling produce they grow or generating energy.

– **Accountable to the local community**: they are accountable to local people. This can mean 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,

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[4]   These findings are borne out by parallel research on village halls for Power to Change
    **https://www.powertochange.org.uk/wp-content/uploads/2018/08/
    Village-halls-open-call-report-Final.pdf** and by Social Enterprise UK's State of Social
    Enterprise Survey (2017) **https://www.socialenterprise.org.uk/
    the-future-of-business-state-of-social-enterprise-survey-2017**

age and scope of community businesses but they all share some key, central characteristics' (Perry, et al., 2018, p. 4).

Research funded by the Power to Change Research Institute recognises that identifying community businesses which match these criteria is empirically challenging. 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 (Roger and Bonner, 2017) when a diverse range of organisations operate within specific legal forms.

Similarly, as Diamond et al. (2017) have shown, community businesses work across a wide range of sectors which complicates the process of definition – e.g. employment support training 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.

Most of the organisations which were identified as community businesses for sampling in Bradford, Hartlepool and Middlesbrough, did not necessarily identify themselves as such, nor were they all aware of the term. In one Power to Change Research Institute publication, different terminology was adopted and organisations were defined as 'community based social enterprise' (Bailey et al., 2018). It was tempting to adopt this term in the current study because the term 'social enterprise' is better known than 'community business' and 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 made a good deal of sense.

However, the term 'social enterprise' is also contested and has its detractors. Indeed, some advocates of social enterprise suggest that such organisations are sufficiently different from other TSOs that they constitute a 'fourth sector.[5] Consequently, it was decided that we should adopt the term 'community business' throughout this report.[6]

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[5] See for example: **https://www.fourthsector.net/for-benefit-corporations**.

[6] Over-claiming the differences between social enterprises and other TSOs can be counterproductive, especially when arguing that social enterprises can become sustainable through trading alone. Indeed, Third Sector Trends Study evidence which underpins this study, shows that the majority of organisations which use '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 operate in similarly business-like ways and sometimes to a greater extent than those which do self-identify as social enterprises. 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 that engage in trading activity. While social enterprises often work exclusively locally, many work more broadly which can mean that their social and economic impact is more widespread. This may mean that some social enterprises also channel their social and financial investment more widely.

3. Areas studied and sample characteristics

Our study is based on 24 organisations and cannot claim to be fully representative of all community businesses. The sample was divided equally between three local authority areas – Bradford, Hartlepool and Middlesbrough.

3.1 Characteristics of study areas

Bradford[7]

Bradford is a large city in West Yorkshire with a population of 534,800. It has medieval origins but was smaller and less politically important than neighbouring towns and cities such as Leeds, Wakefield and Halifax. As the woollen industry developed during the Industrial revolution, Bradford became a major centre for cloth manufacture – growing at its fastest rate during the nineteenth century. The textile industry grew more slowly in the twentieth century but remained a major employer. During periods of labour shortage, this led to significant immigration from South Asia, and Pakistan in particular.

Bradford is now one of the most diverse local authority areas in the country – 26 per cent of the population is Asian or Asian British, Two per cent Black or Black British and five per cent mixed race or other ethnic groups. Industrial decline towards the end of the twentieth century has led to significant levels of deprivation in the city – it is ranked eleventh by local concentration of deprivation using the indices of multiple deprivation.[8]

The city has a large third sector, comprising around 1,170 organisations (Kane and Mohan, 2010, p. 51) which is supported by local infrastructure organisation Community Action for Bradford and District (CABAD), together with alliances and consortia of TSOs which focus on specific areas of beneficiary need (Chapman, 2018).

[7]   For a useful recent introductory text on the history of Bradford, see Hall, 2013 (see also, Hall, 2013, Fieldhouse, 1972 and Firth, 1997).
[8]   Data from Office for National Statistics: **https://www.ons.gov.uk/search?q=IMD** (accessed 15 May 2019)

Hartlepool

Situated on the North Sea coast in North East England, Hartlepool is an ancient town with monastic roots founded in the seventh century. It expanded significantly in the nineteenth century as West Hartlepool's docks were developed and industrial manufacturing grew in importance.

In the second half of the twentieth century, Hartlepool suffered economic decline as major industries including steelmaking and shipbuilding closed (Beynon, et al., 1994). This has produced persistent problems of social deprivation in the town – it is currently the thirteenth most deprived local authority area (ranked by local concentration of deprivation). The town is the smallest unitary local authority in North East England, with a population of 92,000.

Hartlepool's local third sector is made up of around 172 organisations although many more operate in the town from neighbouring local authorities or further afield (Kane and Mohan, 2011, p. 49). The town no longer has a local infrastructure organisation (such as a Council for Voluntary Service, or Voluntary Development Agency) following the closure of Hartlepool Voluntary Development Agency in 2017.[9]

Middlesbrough

Middlesbrough is a large town in North East England with a population of 174,000. At the start of the nineteenth century, Middlesbrough was a small village, but grew dramatically following the establishment of 'Port Darlington' to ship coal from County Durham. The town's industrial heritage was built primarily on steelmaking and heavy engineering and by the end of the century, the population had grown from just 25 to over 90,000, earning it William Gladstone's accolade in 1862: 'This remarkable place, the youngest child of England's enterprise, is an infant, but if an infant, an infant Hercules' (Briggs, 1990).

The town's rapid development could not be sustained and, by the second half of the twentieth century, industrial decline had led to a significant rise in social deprivation (Beynon, et al., 1994). Middlesbrough is now the fifth poorest local authority area (ranked by local concentration of deprivation).

Middlesbrough has a well-established third sector of around 272 organisations (Kane and Mohan, 2011, p. 49) and is supported by Middlesbrough Voluntary Development Agency, its local infrastructure organisation.[10]

[9]   For the most recent statistical report on the third sector in Teesside, see Chapman, T. (2015) Third Sector Trends in Tees Valley, Durham: Policy&Practice.
[10]   Ibid.

3.2 Sample characteristics

The sample of 24 community businesses is divided equally between the three areas of study. As discussed in Section 2, the sample enabled us to engage with community businesses with a wide range of characteristics. This section provides an overview of these characteristics to frame the analysis that follows in Sections 4, 5 and 6.

Community focus and area of operation

Relatively few of the TSOs sampled explicitly defined themselves as 'community businesses' – indeed, more than half did not have a working knowledge of the term. Instead, organisations in the sample self-identified as 'charities', 'voluntary and community organisations' or 'social enterprises'. While all the community businesses in the sample were clearly based in and worked to benefit their local community, it was possible to define which ones in practice existed *primarily* to serve the interests of the community as a whole (13 organisations), or to focus primarily on a defined group of beneficiaries within the communities where they operated (11 organisations).

Community businesses in the sample were not initially selected according to the geographical focus or range of their activity. However, on the basis of interviews it became apparent that 10 operated within the boundaries of a single local authority (eight of which were located and worked in a single community). The remaining 14 worked across local authority boundaries. As may be expected, larger community businesses were more likely to work across a wider geographical area but this was not always the case and some focused entirely upon their immediate neighbourhood. Half of the smaller community businesses worked across boundaries rather than restricting their activity entirely to their local community.[11]

Community business size, level of earned income

Using publicly available data, it was possible to sample community businesses by size (as measured by their level of income). Six of the community businesses in the sample were small (with income below £250,000), seven were medium sized (income £250,000 to £1 million), seven were larger organisations (income between £1 million and £2.5 million) and the remaining four had income above £2.5 million.

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[11] There are several ways to define the way that community businesses are oriented towards places and define the boundaries between them, see Harries and Miller (2018, p. 10).

It was also possible to discern from published financial data whether income had taken an upward, stable or downward trajectory over the last five years. Fourteen of the community businesses in the sample (58 per cent) had rising income during the last five years, four (17 per cent) had relatively stable income, and the remaining six community businesses (25 per cent) had experienced falling income. This is not to suggest that those organisations which had falling income were in a financial crisis or were badly run, nor that those with rising income were fundamentally 'more successful' organisations.

As shown in a related Third Sector Trends Study analysis, most TSOs must continually adapt to changing financial circumstances and a key indication of their capability as organisations is their ability to plan effectively for rising or falling income in the medium term. TSOs with declining income may not be in financial trouble – they may manage a medium or short term decline in income well. Similarly, TSOs with significantly rising income, if badly managed, can get themselves into serious trouble if the work they have taken on is beyond the organisation's capability or is not valued by the staff and volunteers who are expected to undertake that work (Chapman, 2017).

The level of income community businesses earned from trading varied considerably. Trading included self-generated income from the sales of goods and services, earned income from contracts and income gleaned from property and investment assets. Nine community businesses (38 per cent) earned more than 80 per cent of their income. Ten community businesses (42 per cent) earned between 50 and 79 per cent of their income, and five earned less than 50 per cent of their income.

The delivery of public service contracts constituted a significant source of earned income for many community businesses. However, only 29 per cent of organisations in the sample were heavily reliant on contracts to the extent that they would be unlikely to survive without this source of income. Indeed, 67 per cent took on contracts only when they felt this would be of benefit to themselves as an organisation and for their community or beneficiaries. Only one community business in the sample was disinterested in the idea of undertaking contract work.

Assets and financial wellbeing

Some community businesses were better positioned to generate trading income on their own account rather than by tendering for contracts. A majority of community businesses in the sample (63 per cent) had clear capability in this respect – only 17 per cent appeared to lack the potential to do so. The ability to generate income on their own account was largely shaped by possession of property assets. While investment assets were valuable to a small number of community businesses in the sample, for the most part property ownership was the most common and valuable asset in terms of its potential to produce regular rental income.

We assessed the relationship between organisational assets and financial wellbeing, using the available evidence.

– Six community businesses (25 per cent) were in a strong financial situation, all of which had a secure asset base – these organisations were sufficiently stable to take a long-term strategic view.[12,13]

– Nine organisations (38 per cent) had a sound financial foundation which allowed them to plan and practice with a measure of confidence in the medium term – but they remained vulnerable to some extent on social and commercial market conditions.

– Six community businesses (25 per cent) were judged to be sustainable in the medium term, but they were vulnerable to turbulence in the social and commercial marketplace and found strategic longer-term planning challenging as a consequence.

– Three organisations (13 per cent) were in a vulnerable financial position and, while they were attempting to effect longer-term strategic planning, they were living from hand-to-mouth at the present time.

While some community businesses were in a stronger financial position than others and were better able to plan strategically, this does not necessarily mean that less financially secure organisations had a less well developed sense of mission. However, those community businesses which had lower levels of financial security tended to adopt a more flexible outlook when considering new areas of practice.

[12] In the analytical phase of this project, coding grids were set up for each of the community businesses. These included a mix of factual evidence (such as change in income levels over the last five years) and evidence-based judgments agreed by the researchers on organisational capability. These evidence-based assessments of capability were based on techniques developed in the qualitative phases of the Third Sector Trends study. For further detail see Chapman, 2017.

[13] A Power to Change report focusing on the economics of community owned assets in England also found that three-quarters of assets were in good financial health. See Archer et al (2019) https://www.powertochange.org.uk/wp-content/uploads/2019/07/Assets-Report-DIGITAL-1.pdf

People resources

While the above assessment of the financial wellbeing of community businesses is useful, the value of their people resources should not be overlooked. Trustees, staff, volunteers and advocates from outside of the organisations played a pivotal role in the success of the community business. Most of the organisations in the sample invested in their employees' personal and professional development in a regularised way and many had dedicated training budgets. Reliance on volunteers (excluding trustees) was relatively low across the sample as a whole: only five of the community businesses in this sample relied heavily on volunteers to do their work, while 15 had a moderate level of reliance. Half of the smallest community businesses relied heavily on volunteers compared with just one of those with income above £1 million.

Engaged and committed trustees could play a pivotal role in the success of organisations and their contribution to organisational governance and strategic direction was often highly valued by their chief officers. Organisations regularly in a position to review the composition of the board and engage trustees in their own personal development activity tended to have higher levels of organisational capability. In some cases, boards were weaker because trustees were less engaged, skilled or well-informed. This could often be associated with the history of organisations where the route to becoming board members was constrained by custom and practice or previous funding regimes, rather than the specific skills needs of the organisation. In such cases, revitalising boards was difficult to achieve and inevitably tended to put more responsibility on the shoulders of the chief officer to lead and manage.

Organisational advocates provided support for the organisation by influencing key stakeholders in the area. Advocates could include elected members, public sector officers and business leaders. But more often than not, they tended to be chief officers of other TSOs in the locality which were not in direct competition with the community business, or leaders of TSOs in a similar area of practice operating in other localities. The importance of these external connections is developed further in Sections 4, 5 and 6.

Sector interactions

There is good evidence to show that community businesses in the sample were generally keen to work with other organisations formally or informally. As Table 3.1 indicates, a majority of organisations in each of the areas researched exhibited clear enthusiasm for inter-organisational working.

Table 3.1: Number of community businesses which show enthusiasm for working closely with organisations in the private, public and third sectors

	Enthusiastic about working with the private sector	Enthusiastic about working with the public sector	Enthusiastic about working with other third sector organisations
Bradford (n=8)	6	6	6
Hartlepool (n=8)	5	5	8
Middlesbrough (n=8)	6	8	7
All community businesses (n=24)	17	19	21

The enthusiasm community businesses had for close formal or informal relationships with other organisations was not unqualified, however, and as the following sections show, community businesses were careful to build relationships slowly until mutual trust and reciprocity was cemented. Where trust was not established or benefit imbalanced, such relationships were unlikely to persist.

4. Building relationships with the private sector

Most research on the contribution of private sector business to the third sector has focused on the corporate social responsibility (CSR) programmes of major companies (le Claire, 2014, Malecki, 2018). Most of that research is primarily concerned with the impact of CSR work for the firms which engage in such work rather than the extent to which they interact with or complement the third sector.

There has been surprisingly little research on the interaction between the local third sector and local private sector businesses (Chapman and Hunter, 2018, Hunter, 2019); so this project starts to break new ground by looking specifically at the interactions between community business and the local private sector.[14]

This section will explore how productive formal and informal relationships with private sector businesses are initiated and sustained. Before presenting the analysis of qualitative evidence it is useful to take an overview of recent quantitative findings on these relationships in the north of England from the Third Sector Trends Study (Chapman and Gray, 2018).

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[14]   The term 'local private sector' is used here to refer to private sector firms which operate in localities where the community businesses are working. Such companies may range from micro businesses to major multinationals which have head offices or branches in the locality.

Such relationships with private sector companies can be beneficial to community businesses in a variety of ways. According to Third Sector Trends Study data, only 17 per cent of community businesses claim that money from private sector businesses is of 'great importance' to them, but 54 per cent stated that such relationships with businesses are valuable for a mix of financial and other beneficial reasons (such as pro-bono professional support, free provision of services, facilities and volunteer support). Only 25 per cent of community businesses stated that they had no relationship with business – compared with 46 per cent of general charities which earn none of their income from trading.

The current qualitative study for Power to Change broadly reflects these findings: where the majority of community businesses (75 per cent) in the sample had established formal or informal relationships with businesses and only 25 per cent had no relationship with business. While the Third Sector Trends Study shows that there is a good deal of interaction between community businesses and private sector businesses, less is known about the quality of these interactions or how they came about. This section therefore uses qualitative evidence to explore these factors by looking at how 'formal' and 'informal' relationships were initiated and embedded, and the extent to which they are valued by either side.

4.1 Formal relationships with private businesses

Formal trading interactions were common amongst those community businesses which needed to establish continuous and reliable relationships with private sector businesses. But for the most part, such relationships were not associated with the social objectives of the community businesses. Instead they related to pragmatic exchange relationships where private businesses supplied, for example, goods or services to community businesses so that they could function efficiently. These services ranged from the delivery of catering products to the provision of laundry services or maintenance contracts. Such relationships were unproblematic inasmuch as they were sustained for as long as they ran smoothly at the right price.

'We have strong relationships with local businesses on a supply chain basis, we work with other [businesses like ours] to share good practice occasionally – but it's also based on price and quality.'

Longer-term and generally 'deeper' formal relationships were more likely to be established with private companies when community businesses owned property and were in a position to let space to companies or were working in some areas linked to firms – e.g. providing training and support to apprentices in the construction industry. The contractual nature of such relationships shaped the patterns of social interaction and usually meant that community businesses had to adopt a business-like ethos and working

environment when working with companies. When community businesses worked mainly with commercial partners, they had to think carefully about how they designed and managed facilities or positioned their training courses so that resident companies were reassured that this was a 'proper' business environment.

This was particularly evident for one community business in the study, and the interviewer was not initially convinced that they had arrived at the right location. In the fashion of a conventional business-park, entry to the premises was signalled by corporate signage and managed by a security gate. The rented units were arranged in a horse-shoe plan around a central management block. The atmosphere was busy and productive with many liveried vans on site. In the pristine and exceptionally well-lit reception area, meet-and-greet arrangements were polite and proficient. It did not 'feel' like this organisation had charitable objects as stated in its Charity Commission reports – and of course that was entirely purposeful. To sustain reliable business rent which underpinned the financial security of the community business, the environment had to be right and business discipline had to be maintained.

In the interview with the chief executive officer (CEO), the interviewer complimented the quality of the reception area in the management block. It emerged that there was a story behind this. One of the companies on site, an electrical contractor, had difficulty in filling their order book and appealed for a reduction in rent. While sympathetic, the community business could not undermine its position by being flexible as the story would soon get around to other tenants. So an agreement was reached that the company would refurbish the reception area with new lighting, heating and air conditioning systems in lieu of rent.

All of the larger community businesses observed in the study which had a substantial property portfolio presented themselves in a similarly business-like way, although in one case it was stated that the character of the environment changed at different times of the day. During conventional working hours, the site had a distinctly business-like environment where employees and clients wore formal clothes and adopted a business-like demeanour. But as the CEO pointed out, in the evening, it reverted to a community space and offered a completely different cultural environment.

Failing to cement formal business-like relationships with tenants could be hazardous. One community business, which had only limited experience of renting business space, encountered emotionally challenging and financially costly difficulties when their relationship with a business tenant broke down and resulted in costly legal action.

'Actually, it's been awful [laughs] and everything went tits up. The business didn't know what they were doing, all taken up a lot of my time and energy, so you wonder if it was worth it, but we've got some more moving in so it can all start to fit together a bit more smoothly.'

Those community businesses which had property assets and rented space to several businesses, had been through a learning journey as they worked to initiate and sustain good social working relationships with companies at a financial and social level. Similarly, those community businesses which relied on income from letting accommodation to individuals or households needed to formalise interactions in a disciplined way. Achieving this could be difficult, however, as factors beyond the community businesses' control could undermine such relationships.

For example, the viability of renting property could be undermined if social conditions in the neighbourhood deteriorated. In one case, a community business had no control over falling house prices in the area where they operated due to the entry into the marketplace of rogue private landlords which led to an influx of transient tenants in neighbouring houses. Increased levels of anti-social behaviour in the neighbourhood made it more difficult for the community business to hold on to their own tenants. Consequently, property assets that could once have been relied upon to secure regular income for the community business became unsaleable liabilities.

Beyond the sphere of property renting, it was harder to find evidence of enduring formal or semi-formal relationships between local firms and community businesses. Where they did exist and worked well, a great deal of work had to be invested by community businesses to initiate and sustain relationships. This was not always easy, however, due to negative pre-conceived ideas about the ability of 'charities' to work in business-like ways. Consequently, when one community business brought private sector business people in to see their site, they explained that while they were a charity, they also had a trading offer:

'I'd like to think I'm telling them that we're not just a charity – rather what I'm saying is that we have meeting rooms available, we can do buffets. If you want to have an off-site meeting, please consider us. I'd like to think that [our building] isn't a worn, slightly smelly community centre.'

In a second example, a community business which ran a café that also offered external catering relied heavily on trade with local businesses. But overcoming prejudices about charities, so that good working relationships could be established, was not always easy.

'I think in some cases it's a matter of the private sector not valuing what the third sector can provide. And when they come around they say, "oh, this is good, that's not what we were expecting. You know we were suspecting some old community centre with magnolia all over the walls." We stopped telling people that we are a charity. Business thought the offer would be amateurish because we are a charity.'

This community business learned that they had to be careful about how they offered their trading services to clients so that any doubts about the quality and proficiency of their services would be set aside.

'We realised that people measure their expectations on the basis that they thought it was going to be a charity. So when we didn't say, we started to get a few small contracts for basic catering from the private sector. Occasionally, some big business would give us some contracts.'

The community business recognised that building a regular client base was reliant on trust that the quality and service would be maintained continuously – but they mistakenly believed that if a client discovered further down the line that they were a charitable organisation, this would not undermine that trust.

'We developed a relationship with one big business and then six or seven months into that relationship we told them we were a charity and since then [trade with them] has gone down. Up until then they were really happy with the product but [when they found out we were a charity] then they started to think they were getting something a bit amateur. [So] we try and play it down. We have no signage to say we are a charity outside.'

Direct competition with local private businesses was found to be rare in this study. Only in exceptional cases did community businesses enter into direct competition with private business.

'We've made a commercial decision to offer services that we know, and are priced up as lower than the commercial sector. So we can go in and say, not only are we offering you a good quality service for less, but what's different is that we don't have a director who's going to buy a new Audi based on what profit he makes. And you know, we have made profit producing those services, but we're using that fund to be able to support some of the [other] services that we've got as well as build up some of our reserve pot … those projects that have started to generate profit can help to provide the "nice to have" support in those areas as well.'

In this case, the CEO drew no distinction between community businesses and private businesses.

'There's no difference between us and the private sector business over the road. We have running costs, staff costs, we need to bring in money in to cover the costs of our expenses and if we don't we sink, if we do we swim … but there are some services that we provide that will always need some additional support, [we can't] rely only on profit.'

In another area which suffered severe economic and social deprivation, by contrast, a community business recognised that small private sector firms were also struggling to keep going. Consequently, they purposefully ceased direct competition with them.

Most community businesses felt that they were operating in a different way from private sector businesses which reduced the prevalence of direct competition. These differences were rooted in their commitment to produce social value through their activity, although where possible they were keen to produce profits where they could, to invest in social objectives.

Working in complementary ways with local private businesses

In a community business, which provided services under contract in two adjacent local authority areas in the field of social care, the CEO was clear that they did not want to diversify their offer and enter into related areas of service delivery which were currently met by private firms in the area. This was partly because the community business had built good working relationships with those private companies and this led to regular referral of clients.

The CEO did not want to undermine these beneficial arrangements by competing with their private sector counterpart. Furthermore, the contracts delivered by private firms for the local authority were strictly defined – involving closely monitored and time-limited interactions with clients. Entering into that field of work was considered to be risky by the CEO, as it could undermine good relationships with their fee-paying clients who had come to expect a more relaxed and informal relationship with their staff.

'I'm not saying we couldn't have done it, but it runs against what we are here for… It's a question about whether we are here to make money or meet a need: we're a bit businessy – but not too much.'

In this example, the community business was trying to strike a balance between the need to sustain their financial model to deliver a service while also building strong value-based relationships with clients which underpinned their work as an organisation. The impetus to do so was not driven solely by the acceptance or refusal of contracts by those who governed, led and managed the community business, but also by the people who delivered these services as employees.

'We're here to help those people who genuinely are struggling in one way or another but are really trying to help themselves. We have to think about why we're doing it then, it's because we actually care about [our clients]. If we get into [other aspects of practical support] I think it alters the relationship between the people who use our services and us. This actually allows our staff to go the extra mile – and something freely given is more valuable than something you've paid for – it sounds a bit touchy- feely [laughs]. It all hinges on the relationship. People don't have to stay with us, they don't have to keep in touch with us.'

Knowing their mission and sticking to it was integral to the success of this community business. Taking this approach served them well because it engendered good working relationships with private firms in the area which were mutually beneficial.

4.2 Informal relationships with private businesses

A majority of community businesses in this study had good, relatively informal and in some cases quite long-lasting relationships with private sector businesses in their locality. For the most part, these relationships did not involve direct transfers of cash, but were associated with in-kind support or occasional gifts of goods or services which were of value to the community business.

Initiating such relationships was not straightforward. Some respondents from community businesses felt, perhaps a little grudgingly, that owners of private businesses did not generally go out of their way to offer support to them. Sometimes this was thought to be because the activities of community businesses did not appeal to private businesses. As one respondent stated:

'There is a lot of stigma about [the people with whom we work] and it's hard to raise awareness of it, challenge the stigma and remove the shame – [so] the interest from the private sector isn't there.'

Other community businesses reported that it was hard to find ways of making connections with private firms – and when opportunities arose, the reception they received was not always positive.

'There's no format for contact with the private sector where we can say "here we are, we're a local charity and we'd be really interested in working with you". I was at a Chamber of Commerce meeting and someone [in the private sector] said [sneeringly] "there are quite a lot of charities here".'

A small minority of community businesses were perturbed by the lack of opportunities to connect with local firms; expecting, perhaps, that business should beat a path to their door to support them because they were doing good work for the community. Others bemoaned the fact that it was hard work to network with private firms and, even when they did have opportunities to do so, support offered was regarded as insufficiently valuable or appropriate to make it worth their while. As one CEO stated:

'We've got the network with the VCS, with the local authority and CCG, but what we don't have is a network with businesses. We've been talking about sponsorship or investment from them. [we've tried consultants] but they say, "why don't you do something like they do in London" but they work with these big financial blocks, but we don't have those kinds of businesses here. You're comparing apples and pears so we can't do it. Or we get [a national bank] come along and offer us £5,000, but they want singing and dancing and it's too much to do. We need money to help maintain the building, but nobody [will], you know, it's not sexy is it?'

The offer of small grants by companies could be viewed with caution (and sometimes even be spurned) by community businesses if they felt that their value was undermined by unreasonable expectations from the company to engage in public relations exercises, or demands to account for the value and impact of the grant.

Other community businesses were, however, more conducive to the idea of accepting small grants or donations, but in doing so they recognised that this was an exchange relationship, and as a consequence they worked hard to ensure that future grant offers may follow.

'One-off donations of £5,000 are of no value for us unless these are the kinds of sustainable relationships we need to build. We have to treat them with proper respect, and to do that you have to take time to understand them. You can't just expect them to hand over a cheque and for that to be that, we need to demonstrate that that £5,000 has enabled us to dot-dot-dot, to deliver these activities which people have always told us that they wanted. It's making sure that we can join those dots to show them demonstrably what the value is of their contribution. The days of getting money like this from the local authority is over, and so we have to be careful about how we communicate [to private sector businesses], it's got to be crisp, it's got to be relevant – we've had to change the language.'

Expecting that private sector businesses should simply recognise the value of the work done by community businesses and provide them with the money or support they needed is clearly unrealistic. Community businesses which had strong relationships with local firms recognised that they had to work hard to build and maintain mutually beneficial rather than one-way exchanges. The first step was to ensure that the community businesses

committed time to find out about and then interact with companies – although it was recognised that this involved an element of luck, by being in the right place at the right time. As one community business stated:

'It's relatively healthy, we get donations, returned goods, from a [DIY store], a [bakery] sends us bread for the kids and [a takeaway] gives us meat when they're cleaning out their freezers, things like that.'

Interviewer: *'Do they come to you, or do you go to them?'*

'A little bit of both. The [DIY store] saw a press story so they got in touch with us, we used [the bakery] and just got to know each other, it wasn't really planned or on purpose.'

Unanticipated interactions which led to the gifting of goods tended to put little pressure on the community business to offer anything in exchange. This may be because the firms were contributing stock which was of no further value to them and would otherwise be discarded – so their ability to make an in-kind contribution to the community business was valuable in itself.

Forging productive and lasting relationships with large and small private businesses

One of the community businesses studied relied heavily on trading income from charity shops. For them, forging positive relationships with companies in the area was a strategic priority so that relationships could remain productive for them in the longer run.

'What we find is that national companies, even if they have big offices based here, is that building relationships is quite frustrating. So we need to pitch up at the right sort of a level to try to create partnerships that are appropriate for local independent charities … So we need to be a little bit patient there – so we try to build appropriate and sustainable relationships and we need to know the benefits we can offer to these companies … unless you have an opportunity to discuss and describe those options it's not necessarily understood …'

This community business forged a strong relationship with a large local company which resulted in the firm regularly allocating time to employee-supported volunteers to engage in a range of activities. These activities included, for example, the decoration of charity shops, collection of items for resale, organising fundraising campaigns and providing hampers for Christmas. Company employees were empowered to plan initiatives and could apply to do special 'activity days'. As the CEO of the community business stated:

'It's really strong now, a really healthy relationship – and while it is all "in-kind" support, there's no cash across the table, it can be very valuable to us – such as the donation of £1,000 worth of stock.'

Relationships with local small businesses were equally valued by this community business, but it was no less demanding in terms of the investment of the staff or volunteer time required to develop sufficiently trusting relationships to sustain them.

'Our community-based initiative is absolutely about that – talking to and engaging with them. If we make orders from the local sandwich shop, they'll put up posters for us or take donations from customers on their counter. And then when we put on a fashion show, they'll make some pizzas for us, so there's all sorts of small scale things which will develop. Our staff can be incredibly persuasive as far as

those relationships are concerned so we've been able to get, something like 20 exceptional sets of fundraising prizes which have gone out there and raised us hundreds and hundreds of pounds. And we go back to these guys and thank them and make sure that they have got proper recognition for what they've done for us. That all goes back to the values of the organisation and that's how I believe we work in the community.'

The offer of support from professionals or employee-supported volunteers could be attractive to community businesses, as shown above, but not always. Indeed, there was quite wide-spread scepticism about those companies which tried to persuade community businesses, often through intermediaries such as national charities, to provide placements for employee-supported volunteers as part of CSR programmes. The piecemeal character of such investments lacked value, it was felt, if employee-supported volunteers were not fully engaged with the activity or if the community business had to invest too much effort in 'finding them something to do'.

In this study, only a few examples emerged of community businesses
benefiting from pro bono support from professionals. It was clear that when
support arrived from accountants, solicitors or architects, for example, it
could be helpful on a one-off basis. Networking with professionals was not
easy and indeed had become less so with the demise of local skills brokerage
services in some areas. The absence of organised brokerage services led
to interactions being occasional, ephemeral and, by definition, difficult to
anticipate. But this did not mean that unanticipated encounters lacked value.

In one case, the community business's CEO had a chance meeting with a
senior executive in a national company which has its headquarters locally.
This proved to be of great value to both organisations, as it led to the
placement of a group of senior staff in the community business for a week.
As the community business works with people on the margins of society
who face pernicious social and personal issues and whose behaviours can
be challenging to those who seek to support them, introducing employee-
supported volunteers into the environment required care and sensitivity. As
the CEO remarked:

*'As you can imagine of people of that calibre, the first day they were
hiding away but by the end of the week they were everywhere, right under
the fabric of the organisation, talking to the service uses and getting to
know everything. Their task was to invent a social enterprise in a week …
but they did it.'*

This example shows that working with business informally can be valuable
both to private sector companies and to community businesses even if it
is an ephemeral event. But as this section has shown, it is also possible to
sustain relationships over time providing that understanding, commitment
and mutual benefit is recognised and sustained on both sides.

4.3 Summary of key findings

Until we undertook this research, relatively little was known about the quality and strength of relationships between private sector businesses and community businesses. This section has shown how interactions are initiated, embedded and sustained over time. More specifically it has been demonstrated that:

– Conventional trading relationships between companies and community businesses run smoothly providing that they operate in a 'business-like' way. Arrangements work less well when expectations are imbalanced. This can lead to misunderstandings, feelings of disappointment or even exploitation, thereby threatening trust and confidence in relationships.

– If relationships are to be established in the longer term, an empathetic understanding of the desires of the partner organisations need to be reached, expectations must be met, and the outcome of the interactions mutually beneficial – even if for different reasons for each party. To maintain trust, such relationships have to be constantly nurtured to be kept in balance.

– Positive interactions between private sector companies and community businesses were not all about financial exchange relationships – they involved investment of time and expertise (in both directions). While the benefits gained by each organisation could differ, the effort bargain has to be balanced. If community businesses simply wanted private sector businesses to beat a path to their door and become the recipients of their largesse without expectations of something in return, they were in for a disappointment – this is not how it does or *should* work. It has to be about complementary interests at both organisational and community level.

– Private firms, especially when small and local, were often keen to take up opportunities to work in complementary ways with community businesses. But, unlike large companies with corporate social responsibility strategies, they did not always think about this in strategic CSR terms. Instead, they had to be nurtured/enticed into such relationships and the potential benefit for their own business and the wider community needed to be clear to them.

5. Building relationships with public sector organisations

There has been a great deal of research over the last two decades on the relationship between the third sector and public sector organisations at governmental level which cannot be reviewed in any depth here (see, for example, Taylor, 2004, Powell and Hewett, 2002).

Much of that research literature has focused on the 'problematic' relationship between the two sectors which arise from differences of value, principle and practice – and substantive inequalities of power. At the local level, similarly, research has tended to concentrate on the consequences of these wider issues in relation to, for example, the development of a 'mixed economy of welfare' and the imposition of 'new performance management' which has accompanied the growth in the use of contracts to deliver public services (Carmel and Harlock, 2008, Chapman et al., 2010).

The published research evidence tends not to cast inter-sector relationships in a positive light. And yet, evidence from the Third Sector Trends Study shows that in the north of England, most community businesses have close formal or informal relationships with the public sector (Chapman and Gray, 2018, see also CLES, 2018). Indeed, almost 90 per cent of community businesses (which have a relationship with the public sector) agreed or strongly agreed that they felt their work was valued by public sector organisations, and 87 per cent of community businesses stated that public sector bodies respected their independence. As to the extent to which community businesses felt that they were involved appropriately in developing strategy and implementing policy, however, only about half of them believe this to be the case.

According to Third Sector Trends evidence, about half of community businesses are primarily reliant on public sector sources for their income (rising to 64 per cent amongst larger community businesses with annual income above £100,000). Furthermore, 46 per cent of these larger community businesses currently deliver public services under contract. While much of their income comes from contracts to deliver public services, grant income remains valuable too, with 61 per cent of community businesses stating that they had been successful in winning a grant from a public sector body in the last two years (compared with just 34 per cent of general TSOs which earned none of their income).[15]

It is evident that many community businesses rely heavily on the public sector financially. But this may not auger well for the future. In 2016, only two per cent of community businesses expected that income from public sector sources would increase significantly in the next two years and, indeed, nearly 60 per cent expected that public sector income would decrease.

[15]   Research in the Liverpool City Region (LCR) helps to confirm the validity of these percentages. In LCR 63% of community businesses had drawn in grants, donations or legacies in the previous year to bolster their income (Heap et al., 2019, p.40).

5.1 Formal contractual interactions with the public sector

All of the community businesses in this qualitative study had engaged in formal contractual relationships with public sector bodies in the areas where they worked. Long-term formal links could be established, for example, when community businesses rented property from local authorities for office accommodation or service delivery and community centres. More often, however, formal ties were time limited and associated with contracts to deliver public services for local authorities, NHS trusts and foundations and clinical commissioning groups, with government departments such as the Department for Work and Pensions and the Department for Housing, Communities and Local Government.

The development of relationships between community businesses and public authorities was shaped by the history and political geography of the areas within which they worked. The local authority was undoubtedly the most influential institution in this respect in all three areas studied. In Bradford, which is a large city with a single metropolitan borough council, all but one of the community businesses in the sample had undertaken work under contract at some point for the local authority – but few transcended the boundaries of the city to work in neighbouring boroughs in West Yorkshire.

In Middlesbrough, all of the community businesses had engaged in contractual relationships with their local authority – but working relationships were rarely limited to Middlesbrough. Most community businesses also worked in one or more adjacent local authorities (especially in Stockton-on-Tees and Redcar and Cleveland, but some also worked in Hartlepool, Darlington, North Yorkshire and County Durham). In Hartlepool, similarly, all eight community businesses had entered into service delivery contracts with the local council, five of which also worked in similar ways in neighbouring local authorities.

In all three areas, many community businesses also worked with other major public bodies such as NHS foundation trusts, NHS clinical commissioning group and Department of Work and Pensions. The spatial boundaries within which these large public bodies worked often cut across local authority boundaries and produced additional complexity in the network of relationships.

The quality of community business's relationships with public sector bodies was shaped to a large extent by fiscal pressures imposed by national government austerity policies over the last decade. It was widely accepted that relatively poor areas such as Bradford, Hartlepool and Middlesbrough had been hard hit (Gray and Barford, 2018). The leaders of community businesses involved in the study were sympathetic about the challenges faced by local authorities. They expressed worries, nevertheless, about the consequences for

their own organisations when entering into contractual relationships to deliver
public services. Two interrelated issues commonly emerged: the incremental
pressure on community businesses to deliver the same or similar services at
lower cost, and the growing tendency, especially in larger local authorities,
to scale up the size of contracts.

Expectations that the value of public service contracts could be driven
down raised obvious questions about how the quality of provision could
be maintained by community businesses. By definition, the submission of a
tender indicates that a community business decided to do the work required
at a specified price – so complaints about arrangements if that tender was
won (providing that new expectations were not imposed subsequently)
would be redundant. But in this study, it is clear that several community
businesses submitted tenders with their eyes open – having made an
appraisal of the risks and potential consequences of entering into contracts
with, for example, reduced unit costs, changed criteria on the quality of
provision or the imposition of new expectations on employees' training or
remuneration, and so on.

The troubling aspect to this, however, is that many of the community
businesses entered into such contracts knowing they would lose money –
or, to put it more constructively, it was accepted that they would have to
subsidise the work if good quality services could continue to be provided
in the communities they sought to support. The benefits community
businesses perceived to gain from entering into contracts below cost
were underpinned by clearly articulated strategic decisions – they were
only rarely acts of organisational desperation to raise income at any price.
As one CEO remarked:

*'We've gone for certain contracts that we feel are crucial to our
community. We provide services to [beneficiaries] who have quite
complex needs. We have a [number of] volunteers who help to support
the front-line services which is delivered by a group of people who are
paid and properly managed to do [skilled caring work]. We might not be
making any money on it, the reality is that we're contributing about 12 per
cent, but we think it is so important, that we're prepared to do it because
nobody else could do it properly [at this price].'*

It would seem that community businesses are more likely to accept
contracts below cost than private sector businesses – where financial profit
tends to sway arguments on the attractiveness of opportunities. But there
are exceptions, such as the case of 'loss leaders' where private companies
work below cost for a limited period of time to undercut or eliminate other
businesses from new and potentially lucrative markets. A small number of
community businesses referred to loss leaders, as one CEO commented:

'Some of the contracts [produce] losses, and the true cost of delivery is

*[much higher] but the buy-in from the local authority gives confidence to
other funders to support us.'*

But such views were rare. Only in one case did a community business
accept a contract below cost because the organisation was in a difficult
financial situation and urgently needed to increase cash flow. Instead, the
principal finding is that community businesses accepted contracts below
cost because their assessment of the opportunity took both financial and
social value into account. This is not to say that the prospect of profitability
was undervalued – on the contrary, producing a surplus, where possible,
was viewed positively because it could afford opportunities to reinvest
profits in social objectives. As one CEO stated:

*'People often frown on the word profit in the voluntary sector because
they shouldn't be making a profit. [but] should it be run as loss leaders all
the time? In the work we do here there'll always be some. But wouldn't it
be great if we can support that work ourselves on projects that are being
commercially driven that are producing a surplus.'*

The idea of producing a surplus is attractive and laudable. But, of course,
if social marketplace conditions are such that profitability from contracts
cannot be attained, fundamental questions about the financial viability of
community businesses must be asked. Unless community businesses could
bolster their income from other sources such as unrestricted grants,
self-generated trading, rent or dividends from investments – they were
excluded from the social marketplace. As one community business CEO
stated, income from rent could help compensate for loss-making activities.

*'Well, we're lucky because we do have some assets from which we can
generate income and we have recently increased our asset base as well.
We never intended to be a landlord, it happened by accident, but we've
been pretty good at it …*

Other community businesses recognised that a balance needed to be struck
between grants and earned income if they were to remain involved with
contracts:

*'In order for us to be competitive commercially we still probably do
need an element of grant funding to enable us to keep on working
with [our beneficiaries].'*

The idea that supplementing earned income with grants was only the preserve of community businesses, however, was firmly rejected by this community business CEO:

'Grants are really, really useful though, but I mean, even in the private sector, they will utilise grants all the time, actually, or subsidies – whatever they are called. So it feels a bit disingenuous to suggest that it's just this sector.'

While it may make sense in social value terms for a community business to subsidise contracts, it produces serious consequences for the sector as a whole – not least because it poses the risk that public authorities will welcome such downward pressure on costs. Indeed, in this study, a clear example emerged of a local authority procurement officer adopting a 'take it or leave it' approach, even though the value of the contract was known to be insufficient to achieve what was demanded without subsidy.

'We just had a conversation with the contract manager and she was really positive about the contract continuing but they are not putting the contract value up – but we are expected to meet the [council's] living wage commitments. And so we are [further] in the red – and the response was "well it's better than nothing".'

It is not known whether or not this is an isolated example, but it may be the case that many public sector organisations feel that lowering the value of contracts is acceptable when working with TSOs because they believe that their operating costs are lower or that they may be in a position to subsidise their work from grants. Such views may be based on an expectation that TSOs can draw on voluntary workers to supplement the activities of paid staff. But such assertions, this study strongly suggests, are misplaced. Reliance on volunteers for the delivery of contracted work in all the community businesses consulted in this study was limited – and when it did happen it was associated with aspects of 'added value' that the community business *chose* to invest in. Furthermore, these choices generally led the organisation to incur further expense in the management and training of volunteers.

Several community businesses in this study used their network of volunteers to bolster the impact of their contracted work, but the nature and delivery of contracted service activities necessarily relied upon well-managed, highly-skilled, motivated and experienced staff to do the work. It was essential that employees felt valued by their managers and were fairly remunerated to continue 'going the extra mile' for the people whose interests they served.

Those community businesses which had the scope to subsidise contracts from their own surpluses inevitably put other organisations at a disadvantage if they want to enter into this marketplace. Such organisations tended to be well-established, have a strong asset base, good local connections and the know-how to operate in a relatively stable but nonetheless pressured economic environment. It is not surprising, therefore, that in each of the local authority areas studied a small group of middling-sized organisations tended to dominate the local social marketplace as far as public sector service contracts are concerned.

Recognising this situation does not imply that these community businesses operate a 'cartel' which purposefully restricted access to the social marketplace to maintain high levels of profitability for themselves. The truth is that they were all stretched financially but were managing contracts as well as they could within their own operating context. That stated, the ability of community businesses to subsidise public service delivery contract work is not limitless. As one CEO commented:

'We've probably become a bit more cautious on [renewal of] contracts where it comes in for less than the [cost of] the service we are currently delivering. We can't really "tender for an hourly rate" because we're certainly not making money on it now – and probably taking a £5,000 hit. It's already a real squeeze … but we've kept a good level of grant money coming in – about 20 per cent of our income.'

Undertaking contracts becomes harder to justify, in short, if downward pressure on their value continues.

Fiscal pressures on local public sector organisations has led to other changes in the way service delivery contracts are let. A common strategy, which was widely reported in all three areas studied, was the consolidation of contract activity into much larger and more complex packages by local authorities, health authorities and government departments – thus making prospective lets more attractive to national charities. As one community business CEO observed:

'The local [public sector bodies] are themselves under more pressure, [so] they're upping the size of contracts which is now shoving organisations like ours into a supply chain position. So I have to broker deals with national primes – it's a whole different ball game – but that's where our main contracts are now.'

Working with national charities to retain participation in larger-scale public sector contracts

One community business had been undertaking contracts autonomously and successfully for local public sector bodies for many years. And, while their work had been highly valued, the decision was made to bring this aspect of service delivery into a much larger and more varied package of services which were to be contracted out to a lead organisation. The consequences for the community business were potentially damaging.

'The [public sector organisation] consolidated everything into one contract and we could have gone under at that point had I not built the right relationship with the prime – and I know people say the big nationals are coming in and taking our work – but I got the right deal done in the end. There's not as much in it for us as there was, but we've done the very best we can in the circumstances … The initial contract with the prime was really outrageous and it's taken a year to get the right deal. We got there though.'

Stories regularly circulated in the local third sector in all three local authority areas about national charities entering the marketplace and dislocating local organisations (this issue is discussed further in Section 6). But in this case it was recognised that there were advantages to be gained from working with a national charity – and indeed, the community business had established a strategic priority to build positive and productive links with national charitable organisations:

'*So I suppose we've tried to build strategic relationships with other [third sector providers], sometimes at a national level and we work with them to help import and tailor new models … And you know, we're not exactly on each other's patch, I know they're national, but there's not that same sort of "you're going to be nicking", you know, "money out of my wallet".'*

Undertaking work under sub-contract to national charities remained a viable option for some community businesses if the value and length of the contract was sufficiently attractive. That said, community businesses were cautious about becoming over-reliant on a single income source. As this community business CEO stated:

> *'[we have to be careful] not to keep all our eggs in one basket – we've got to keep all the other things going. It's quite difficult to break into other markets that, even a year or two ago, I wouldn't have dreamed of – but it positions us well. I've invested time and resources in community assets, asset transfer etc., looking at new lines of work rather than [our core service activity].'*

In this study, community businesses which were heavily engaged in delivering public sector service contracts showed little sign of withdrawal from the social marketplace at the present time. However, there was a feeling that relationships with public authorities had become more formalised and impersonal. It was recognised that this was largely due to the loss of capacity within the public sector to invest in broader inter-sector relationships. The next section looks at the consequences of these changes.

5.2 Non-contractual relationships with the public sector

A common view expressed by community businesses in this study was that forming productive and reciprocal relationships with public sector organisations was becoming more difficult. The main reason for this was that public sector organisations, and especially local authorities, sought to retain or extend their influence and control over interventions that could have a positive impact on social and community life, but clearly no longer had the resources to achieve this.

It has been argued in the academic literature that the tendency of public sector bodies to seek to manage relationships with external bodies, such as community businesses, in consistent ways has been exacerbated by the assimilation of a 'new public management' ethos in the last two decades.[16]

This has tended to shape the way public sector organisations frame questions about the 'scale', 'value' and 'impact' of all financial or in-kind exchange relationships with the local third sector.

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[16]   See, for example, for useful critical reviews of the literature: Mongkol (2011), Batley and Larbi (2004), and De Vries and Nemec (2013).

In this study, a number of community businesses argued that it made little sense for public sector bodies to try to impose the same logic and operating principles which were adopted with large service delivery contracts, programme grants or service level agreements, onto exchange relationships with much smaller community businesses which were not operating in that part of the social marketplace.

Challenging public sector narratives about impact

One of the smaller community businesses which could not or did not want to engage in large-scale contract work became frustrated when public sector narratives about scale, reach, value and measurable impact were imposed upon them. Or more specifically, when public sector organisations were unable to 'hear' alternative points of view on the achievement of social value. As one community business CEO argued:

'With commissioning, you're deciding what needs doing, defining the cost and then it's up to us to decide if we can do if for that kind of money. If you're working with the grass roots you can't have that, because you're already dictating too much, it's all about control. The council hides behind EU procurement and competition rules and so you get really badly designed activity, you've got blue sky thinking going in some tower block somewhere and it's just cutting out [the opinions and values] of thousands of people.'

As this community business CEO went on to explain, their approach ran contrary to the logic of growth and financial accountability which was enmeshed in the new public management ethos.

'It's about knowing our size, not about how much money we can get, it's not about [financial] growth. And I'm very comfortable with that, this particular charity doesn't need to be ambitious in terms of finances, but [we are ambitious about] more people being involved in this place. And in that sense we have grown – almost doubled in the last 10 years.'

The engagement and involvement of more people was not a simple question of counting the number of service users. This community business was quite adamant that providing services was not its objective.

'We don't provide services, we just need to know where you need to get to. Isn't it better to know that you're a good people-gatherer, grant-giver, facilitator, that kind of thing and let people [in community groups] own the desire to be what they want to be and help them get there – no matter how small they are if it is important.'

Facilitating community activity was the objective of the community business, not defining, shaping or directing what people should do.

'What we want to do is provide a shelter, a place for [groups] to do what they want to do and let them get on with it. So often they start with no governance whatsoever, but they have an idea. We can say, look we have the constitution, the procedures, health and safety, so just stand under our umbrella and we'll act as the governance and you just get on with it.'

Other community businesses voiced similar views about local authorities attempting to dominate arguments in areas of activity where they appeared to lack the expertise or insight, or worse still, when trying to impose delivery models which produced negligible benefit. As one community business CEO argued:

'The council was on the middle ground with a soft spot for grants, but now it's moving into this market model, and it's rubbish, honestly. You get really poor solutions and really good organisations doing really rubbish projects because that's what the funders decided. I hate to say it but it's about local authorities or health authorities not recognising what they are really good at and not good at – they end up thinking that they are good at everything, and they're not.'

A second way that public authorities formalised interactions with the third sector was through the medium of 'collaborative governance'. Collaborative governance reached its peak in terms of influence during the period of New Labour government from 1997 to 2010 (Craig and Taylor, 2002, Harris et al., 2004, Kelly, 2007). At that time, a great deal of political energy and financial resource was injected into the public sector to establish, for example, local strategic partnerships which helped to manage and distribute major funding programmes such as the Neighbourhood Renewal Fund.

While the principles underpinning collaborative governance were always controversial, it created opportunities for TSOs to engage with public sector bodies and create cross-sector networks of organisations working in similar areas of interest. An added incentive for TSOs was the likelihood that access to public funding could be enhanced if they were involved in such networks.

When the Conservative/Liberal Democrat coalition took power in 2010, however, enthusiasm for collaborative governance waned and the requirement for local authorities to sustain local strategic partnerships was abandoned. Following several years of austerity policies imposed by national government, much of the infrastructure which enabled collaborative governance has gone. Faced with these changes in the local political landscape, many community businesses in this study emphasised the problems they faced in building and maintaining productive relationships with public sector organisations. As one community business CEO observed:

'It's okay, but the public sector is quite amorphous. You get people you can work with then they change their job roles or shift to other priorities. To be honest, they've faced bigger cuts than we've had, and they're stretched and there's almost a dishonesty about the impact of that, where they're pretending that they're doing things when the reality is that it's not going to happen.'

This situation led many community businesses to try to build positive and productive informal relationships with elected members to try to maintain a degree of contact and influence in priority setting. In some cases it was suspected, however, that elected members' and the local authority's power had increased in response to the abandonment of collaborative governance principles where the local council was positioned as just one amongst many partners. As one community business CEO argued:

'I very quickly came to realise that if our local councillors are not involved, then they just block things and make things very difficult. [So] I have built those relationships and I do use them to influence outcomes.'

While the authority of the local council may have been reaffirmed, this does not mean that they had the financial leverage to act. As one community business CEO stated:

'We do have pretty strong relationships with political members … and there's a recognition they can't do everything and they've just got to accept that. We go to them with an offer, we very rarely go with an ask anymore. We've got stuff that they can use or be useful to them. If you go in with an offer that changes the conversation, it changes the dynamic of that relationship.'

That stated, evidence of joint ventures generated by local authorities and community businesses in all three geographical areas studied were thin on the ground. Initiatives could only get started when financial support arrived from other sources, such as grant-supported government pilot programmes, injections of resource from charitable trusts and foundations or major grant-funded programmes which were part funded by the European Union.

Perhaps ironically, the necessity for local authorities to reduce costs, by default, led to some new opportunities for community businesses. For example, when asset transfer programmes were established in local authority areas. In this study, only two community businesses had been involved in asset transfer.

Asset transfer as a means to support the autonomy of community business

One community business had successfully completed the process which had provided them with a measure of autonomy to develop their programme of work in the future. While another was negotiating with the local council on the release of property. As one of the CEOs observed:

'It's [a community resource] and that's what it should be. We're not going to make a great deal of money, It's not going to be a commercial enterprise. So that the idea that it's an asset and there's lots of money to be made out of it is, we've been trying for 35 years, just silly [laughs]. So we've tried to tip the balance to make it more sustainable, which it is now … Asset transfer process has been incredibly helpful in consolidating and bringing people together … [and the] prospect of a 99-year lease has helped people get behind it.'

Freeing themselves from formal control from the local authority helped to build and strengthen community commitment to the enterprise. But freedom to do things their own way but brought new obligations too – not least to maintain the buildings they now had a responsibility to look after.

Relationships with local authorities had, in recent years, become more difficult for community businesses in all three geographical areas studied – but in different ways and for different reasons, depending on local political circumstances. In some areas, local authorities were working hard to maintain productive links with local community businesses because they saw the value in such investments. In other areas, local authorities were consolidating their own position and progressively withdrawing from investment in and direct engagement with the local third sector. In some cases this could amount to direct competition when, for example, local authorities brought services back in-house.

Because the principles of collaborative governance have been all but abandoned in some areas, and significantly weakened in others, it was up to community businesses themselves to take responsibility for building and sustaining networks, alliances or consortia of like-minded organisations. But as Section 6 will show, these too were not easy options.

5.3 Summary of key findings

Relationships between community businesses and local public sector bodies vary considerably from place to place. For ethical reasons, it has not been possible to detail those factors that seem to lead to such differences. And of course, we have only talked to eight organisations in each area and have only heard one side of the story, so it would be unfair to make judgements that cannot be fully substantiated. It is possible, however, to summarise some general issues that shaped relationships between public bodies and community businesses and which apply to a greater or lesser degree.

– In all areas we studied, the value of public sector service contracts is being driven down. Often this is accompanied by raised expectations on the processes and practices surrounding service delivery. The consequence for community businesses is that they may have to work at a financial loss to maintain or enhance the quality of service offered to their community. It has been shown that some community businesses can do this by subsidising the work from other income streams – but there are limits. It is evident that those TSOs which do not have sufficient income from other sources cannot enter the marketplace which may, in turn, disadvantage the communities they serve.

– Contracts appear to be getting bigger and more complex – especially so in larger local authority areas. This can result in community businesses being unable to marshal the resources to win them unless they work in consortia or work as sub-contractors to national prime organisations. Some community businesses are comfortable with these options, however, if contract values are too low this may put pressure on these partnerships (as will be discussed in Section 6).

– Formal collaborative governance arrangements between public sector bodies and community businesses continue to exist. But in reduced financial circumstances the attraction of investing time in such work for community businesses is diminishing. The lack of opportunities for organised interaction through formal networks or less formal interaction with public sector officers may have increased the likelihood of community businesses interacting with public authorities only at a political level which can, in turn, undermine relationships within the local third sector.

6. Working with other third sector organisations

There is a substantial academic literature on third sector interactions with public sector bodies. Much of that literature considers the situation of those TSOs that work in partnership to deliver public services (Carmel and Harlock, 2008, Haugh and Kitson, 2007).

Currently, there is only limited research on interactions amongst community businesses or between community businesses and other TSOs (Chapman and Hunter, 2018, Hunter, 2019). This section therefore breaks new ground by looking specifically at issues surrounding the initiation of such interactions and the quality of working relationships established.

Evidence from the Third Sector Trends Study in the north of England (Chapman and Gray, 2018) shows that partnership and collaborative working amongst community businesses is common: only three per cent of community businesses regard themselves as 'rugged independents', working alone. Most community businesses work closely but informally with other TSOs and about two-thirds of these community businesses are open-minded about the idea of formalising relationships. Just over half of the community businesses have formal interactions with other TSOs (about two-thirds of which have been successful in partnership bidding).

The idea that TSOs can work in partnership to deliver public services under contract is appealing to public sector bodies at national level. At the local level too, public sector officers involved in commissioning and procurement have a broadly positive view of the benefits that partnership working *within* the third sector might bring, and especially so as budgets have been progressively tightened in local authorities. A number of commonly-held assumptions underpin these positive attitudes (Chapman, Mawson et al., 2018).

–   Because most locally-based TSOs are relatively small, using partnership working is thought to be a medium through which it can be possible to 'scale up' the volume of service outputs considerably.

–   By creating partnerships it can be possible to 'add value' to service provision – for example, by drawing in smaller TSOs which have good local knowledge of, and connections with, service beneficiaries and drawing on volunteers to extend reach and impact.

–   It is often assumed that through partnership working, others may capitalise on the 'innovative' approaches adopted by some TSOs, thus spreading 'best practice'.

–   Third sector partnerships may be more likely to adopt participatory approaches to service delivery, involving beneficiaries in priority-setting and decision-making, thereby escaping the straightjacket of institutional and procedurally-driven public sector approaches to service delivery.

–   By 'scaling up' service provision, it would be possible to focus more clearly on producing higher quality and consistent service outcomes for beneficiaries, which could be effectively monitored through performance management systems.

Most of these expectations about the advantage of partnership working tend to align with statements that third sector representatives regularly make about TSOs' ability to be 'innovative', to produce 'added value', to work well in 'partnership' and to connect with and engage people that the public sector found 'hard to reach, hear or help'. In this way the third sector claims that it can produce continuous improvement in service terms. Such promises may sound appealing at local and national government levels. The next section explores whether such claims are well-founded in practice.

6.1 Formal relationships with third sector organisations

Although there is good evidence to demonstrate that there is extensive partnership working amongst community businesses and with other TSOs in the north of England, it is difficult to discern from quantitative research whether community businesses enter into such relationships because they think that partnership working has 'intrinsic value' or whether the impetus for partnerships is driven by other factors. Our analysis will show that formal partnership working can occur for many reasons – but that this can produce mixed results in terms of the quality and endurance of those relationships.

Austerity policies have shaped the environment within which partnership working takes place – where, as shown in Section 5, government departments and local authorities are eager to reduce the costs for delivering public services. This is often accompanied by public service contracts becoming larger and multifaceted. Because few TSOs are big enough to take on such contracts on their own, such contracts contain implicit drivers or explicit requirements to encourage partnership bids.

As one community business CEO suggested, it was an imperative to engage in partnership bidding as this was often the only way that organisations could retain their place in the public service marketplace.

'The days of £200, £300, £400,000 contracts seem to be on the wane and now it's multi-million pound ones and even if we wanted to and thought we could put the infrastructure in place for them, we couldn't get past the initial phase of the tender process [unless working in partnership].'

Some community business CEOs felt caught in a bind where they were neither large enough to compete autonomously, nor small enough to work autonomously.

'We are not big enough to go for the big massive contracts, yet we are not small enough to compete with one-man bands because we have overheads, so we've had to rely on selling our social value offer. So we work with like-minded organisations who want the extra benefit that we can deliver.'

Some community businesses which wanted to remain in the public sector service delivery marketplace felt that they were being driven into partnership working arrangements. As one community business CEO stated: 'the consequence is that local organisations like ours get pushed into a supply chain with big nationals'. Others took a more strategic approach, so that when they engaged in joint bidding for contracts they could limit the risk of conflict between partner organisations. As one community business CEO argued:

'We try to build up relationships where you're not identical first, where we've both got something to offer, we're different … I can see that when you've got very similar organisations in the room … it's just a bit too tense … [in the past] we've been forced into bids against our will unfortunately by consortiums where you can never build that trust … So we need boundaries, where you've all got something that's very clear, but different, but you share the same values you can work on trust with those people. That works out.'

If autonomous working was no longer a feasible option, the mindset of organisational leaders necessarily changed. This was not only a question of working with other organisations to retain position in the marketplace, but could also represent a shift in attitudes about competition. As one CEO argued:

'When I started out, I tried to hold on to my clients by looking after them well and keeping them to myself. And now you just realise what an illusion that was. Actually, the paradox is that the more you open your doors and share resources, the better things are in the long run. But there's an underlying tension all the time, through all the partnerships you join, you know that there's going to be money coming through, so you're all looking out for your own position to some extent. A constant tension there, looking for a leverage to see how you can advance – I'd say that's the primary objective for the chief executive. And when you've got a time like this when there's a lot less funding and concern about sustainability – those behaviours become more pronounced.'

Such tensions were harder to manage if the financial value of public service delivery contracts was insufficient to fulfil requirements.

Maintaining 'third sector values' when working on joint projects

In one example where a community business worked with several TSOs on a contract, it soon became apparent that they could not live up to 'third sector values' about good partnership working.

'It sounds nice and fluffy, but actually it was hard work to do a really good quality job at a cheap-as-chips price. And then stuff started happening. We got approached about variations in what we were doing which were fairly sketchy. If we were a [private sector] business partner we'd be saying, "well we can't do that, we'd need extra money to do it". But when it's "the [third] sector" people think you can take it a bit easy. And I'm not sure that's a good thing.'

The CEO of this community business was troubled that value-laden pressure had been applied to work well beyond the contractual agreement.

'I think actually, you think "yes, we can do a bit extra" but some of the stuff that happened there, you know, being asked to come and sort things out that we didn't even work on in the first place; and you think, is that because they don't value what we're trying to achieve here? … It made us think long and hard about it, we should have pushed for a [contract] variation on that, but it was a tight timetable and we were all getting pushed to hit the deadline so we were allowing ourselves to be squeezed to do a little bit more – [afterwards] well, we felt a little bit, well, abused. It's that fine line, isn't it, between doing a little bit more – a bit of customer care – and them taking us for a ride.'

Some of the community businesses in the study had learned from difficult experiences and become more cautious about entering into new partnership relationships. Most commonly this involved making a judgement about whether the values and practices of potential partner organisations were compatible.

Achieving compatibility often involved working with organisations which had different but complementary skills. Alternatively, preference was given to organisations with similar approaches to practice but operating in different locations – as one community business CEO confirmed, 'The best relationships are with similar providers in other areas. We're all in a similar boat, [but] we're not competing directly with each other.'

The political and historical context in the local authority area where community businesses operated could have a bearing on the way CEOs felt about working together. In those areas where several stories circulated about serious difficulties in partnership working within or between sectors, attitudes tended to harden against working with others. As one respondent observed:

'Agencies with an area focus tend not to mix well with other agencies with the same area focus. We've got a small number of relatively mature organisations, but there's that competitive element when contracts are scarce, [and] there's been an awful lot of history between some people and agencies and it tends to make quite conflict-laden relationships – quite often that conflict is not on the surface – so you've got people around the table talking about what is, theoretically, the "common cause"; but nothing happens towards progress towards objectives.'

In other local authority areas there was more confidence about partnership working which resulted in more enthusiastic investment in informal relationships or working in consortia and alliances. This could lead to community businesses investing energy in building trust to ensure that arrangements were inclusive, transparent and fair. As one CEO observed:

'We try to respect each other's boundaries. I mean I'm a partnership person. Someone did come along suggesting [our community business] did a project across the whole area, but that's not my way of working, so I got in touch with [names a number of other area-based community businesses] so that they could do it on their patch. That meant that we got far less money, but it also means that I still have a good relationship with the people that I work with. I don't want to alienate people, there's nothing worse.'

Another CEO in the same local authority area echoed these sentiments. But they were under no illusion that such negotiations could be affected by potential arguments about individual organisational interests.

'There is secrecy and competition, so we're trying to get things going with [a programme bid] that no one organisation could do [by arranging a meeting of interested organisations] where it was made clear that there's no one in the room who can say, "I've lost out". So we explained, there's not a lot of money in it, there's not enough to pay for workers … but it was about what you know about your area and what you could do. [We had to say that] you don't always need megabucks. It was challenging for a lot of people who are not used to collaborating, to sharing. It was seeing about what we've all got to offer … it's about being respectful about others' strengths … it's about building a culture of interaction.'

These examples show that, when conditions are right, it is possible for organisations to work together in complementary ways within one project. But sustaining such cooperation in the longer term requires commitment and deft political management, if serious ruptures are to be avoided. As one community business CEO – who played a leadership role in an alliance of TSOs – made clear, managing complex relationships amongst organisations is not easy, and especially not if their organisational ambitions are at odds:

'There are some frictions [in the partnership]. One of the members of the consortia is more ambitious than the rest of us, and they'll go for anything [around here] while the rest of us are more clearly neighbourhood anchored – but we try to work round that as well as we can.'

Our analysis reveals that if community businesses are to gain access to opportunities they have to manage tensions between their desire to retain organisational autonomy and the need to work collectively. These tensions are compounded by the need to balance the operational integrity of the organisation with the desire to achieve as much as possible for the communities and beneficiaries they serve.

6.2 Informal relationships with third sector organisations

We have shown that formal partnership working is widespread amongst community businesses. But the balance of evidence suggests that these relationships are rarely straightforward because partnership arrangements inevitably limit the autonomy of community businesses to do things their preferred way. While enthusiasm for partnership working can be muted, and especially so if there have been poor experiences, it is clear that many community businesses remain determined to keep going with this kind of activity and are working hard to find ways of building trust, confidence and commitment amongst organisations.

Formal partnership arrangements are generally associated with contracts to deliver public services or larger grant-funded programmes of work. Usually they are time-limited and partners are unable to step in and out of such agreements once established. By contrast Informal working arrangements are more likely to be open-ended, where participating organisations share a common purpose and rely upon mutual trust, obligation and reciprocity to sustain relationships and momentum. As one CEO stated:

'My view, generally, is that we can achieve more through collaboration rather than partnerships. I think partnerships are just hard work. Not with the private sector where it's quite straightforward in that the end goal is to generate a profit and if you don't do that it's not working. Whereas with the VCS, we're a bit reticent about what the end goal is – and just because of

the pressures on resources and so on I think some of those partnerships can be not equal by any stretch, and you can get lead partners that behave quite poorly, really, and that they're not "aligning with VCS values" [laughs] – it's just difficult.'

Representing sector interests is another important aspect of collaborative working. Such work tended to fall mainly to the larger community businesses in this study because they had the capacity. As one community business CEO commented:

'Because we're bigger, we end up on all the committees and taking up [a number of] chairs. We do it, it's good profile for us, but it doesn't bring direct benefit to us … it's about collaboration, where we face up to the fact that [other TSOs] can do this better than us.'

Larger community businesses also operated as 'anchor organisations' in the community, providing accommodation, support and services for smaller organisations. This could, however, be a difficult task because change in the political or funding environment could come quickly, unsettling the equilibrium in long-standing relationships between larger community businesses and smaller organisations, community and interest groups. This was most likely when funding regimes had changed and the expectations of smaller community groups and organisations could no longer be met.

How anchor organisations manage expectations of smaller voluntary organisations and groups

When the resource base of larger community businesses changes, this can impact on the way relationships are framed with other local community organisations and groups. As one CEO from a large community business stated:

'It's been a bit of a transition for [our community business] unshackling itself from [a previous funding programme]. We had £[x] million to give away to groups all around the area for 10 years and then that all stopped. And there's been quite a lag with everybody else catching up with that – partly because we can still run a small grants scheme. So everyone looks at us and says, they've got a lot of assets, they're loaded. And it's true we have assets but we're not that cash rich.'

When such anchor organisations had been established by funding programmes like New Deal for Communities or Single Regeneration Budget, they focused on managing large budgets. But once the programmes ended, the organisations had to adapt their culture and learn how to run a business. Organisations with smaller spheres of influence could be slow to recognise that this transition had taken place, or reluctant to accept the implications.

'People have had to catch up with the fact that we're a community business, that we have to be self-sustaining, we can still put [a reasonably large amount of money] out to local community organisations. It's been quite a transition for the board and for the community organisations and their relationship with us.'

When board members were drawn primarily from the local community this could slow down the process of culture change, putting pressure on CEOs and their senior staff to manage expectations internally and externally. These community businesses were fortunate in that they tended to have significant property assets from which they could generate income by letting space. But that good fortune also brought responsibilities and raised expectations for what the community business could achieve for its local community. As the community business CEO commented:

'We're a catalyst for good in the area, there needs to be community anchors, [and] we're here for the long run. We're not overly dependent on grants and we're quite resilient; we've got lots of connections with people and organisations and we're building new ones all the time. We're trying to be open and transparent so that the community can hold us to account. We might not be doing it as well as they'd like, but we're getting better at it. If we get it wrong, people let us know!'

Arrangements worked better for some community businesses than others – and often local politics limited organisations' ability to achieve as much for their area as they hoped. In one of the three areas studied, long-standing political animosities made if difficult to provide support for individual organisations or establish networks. As one community business CEO pointed out, 'When we started, bigger organisations held our hand, and now we want to hold the hands of newer smaller organisations and support them'. But this did not prove to be easy:

'I've tried to bring a network of the local [organisations] together but people haven't wanted to join because they didn't understand what our agenda was in bringing the managers together. The rationale was about supporting each other and learning from each other, but people said no we're fighting for the same people, we don't want to get together.'

In the same local authority area, a community business CEO explained why long-standing animosities amongst organisations were hard to overcome.

'There is still no joint or partnership working because the structure of the sector is so unhealthy. No one is having any honest conversations. People pride themselves in what they are doing – but they won't talk about their struggles. No one is sharing in the sector – no one wants to share the challenges openly. No one will share the challenges that they are facing because they think it is a weakness. There is a gatekeeper organisation which seems to govern what people know – organisations will phone [the local infrastructure organisation] and ask for their opinion and then [respondent expressing frustration] make a decision on what they say.'

Some community businesses in this local authority area enjoyed more success, but it had taken perseverance to win the trust of others and to demonstrate that working in complementary ways could be advantageous for all involved.

'There are opportunities. For example, I put on [a technical training] course and had two spare places and I offered them out to people, this time two [TSOs] are sending people. They are paying, but it is cheaper for them to come on my course. I wanted [us] to support each other around key things that we all have do.'

In some areas, local circumstances appeared to thwart attempts to build positive relationships. But in others, attempts to bring people together worked well – providing that expectations were well-managed. Such support could be provided by larger community anchor organisations, but this was not always the case. Indeed, in some cases, relatively small community businesses could help to empower small local charities and community groups.

Communicating and negotiating the limits of support anchor organisations can provide

One small community business provided support to local charities and groups from its central and visible location in the heart of the neighbourhood. Given its own limited capacity to undertake development work, however, clear boundaries had to be drawn around what they could achieve for smaller, usually relatively informal, community groups. Managing expectations required the CEO to take a firm line on what they could or could not do for others.

'if we constantly say we can do x and y, then they'll constantly come back to us and expect us to do it. But if we say we can do x for you, or with you for a while, but we can't do y, they might not like it, but you start to build trust.'

Achieving this was difficult for the community business because it no longer had sufficient core funding to provide development work for local charities and community groups. The initial response of local charities and groups to this reduction in support was less than sympathetic. As the CEO observed:

'They say, "hang on a minute you've always done it for us before and you're now telling us to care for ourselves, why?" There's got to be an education process with the people we work with so that they can understand there's a responsibility. We say, "You can do this, you don't need us; we can hold your hand, but you can do this". We had to learn to move away and [recognise that] they are quite capable of doing it on their own – but in a community like this, it takes a heck of a lot longer.'

As the community business in question adapted to its new situation, it learned a good deal about the limits of what it could achieve for the community. It was on the periphery of the local authority area where a relatively large transient refugee and recent migrant population faced complex issues that were compounded by multiple deprivation. In the absence of other community businesses or TSOs to support the local area, the responsibility to lend support generally fell to this community business.

It recognised, however, that it had too frequently played a part in defining which community issues needed to be addressed rather than responded to the needs identified by the community.

'If you try to do it all for them, you don't know if you're doing the right things. When we got down to it, it was dementia that they were worried about, whereas we were more worried about what their housing conditions were like and that we should do something about it. But that wasn't the problem for them. So we helped them arrange dementia training.'

The imperative to be alert to the changing needs of a community was a concern shared by many of the community businesses which sought to support others. As one of them explained:

*'I do think that bigger organisations have a responsibility to others in the
sector. We're better able to be visible, but it's not just about size, it's about
having something that legitimises us as being able to influence and support.
That surely has to be about trust, you know, and we can only get that trust
by our deeds not by what we say about ourselves.'*

6.3 Summary of key findings

Community businesses enter into relationships with other TSOs in many
different contexts. There is no single model for successful relationships:
instead, they can be more or less formal, more or less equal and be
enduring or ephemeral. Furthermore, community businesses can and do
simultaneously engage in many different kinds of partnerships, while also
working autonomously on other activities.

– Local circumstances make a difference. In some local authority areas,
  where collective activity had been less successful in the past, community
  businesses tended to have low expectations of working collectively in
  the future. This could be compounded if local public sector organisations
  failed to encourage good partnerships or made local relationships
  weaker. In areas where there had already been successful interactions,
  there was more scope to sustain them or develop more in future. But it
  was never easy for community businesses to work closely together as
  this necessarily incurred cost and the time and effort to compromise –
  especially in a social marketplace where financial pressures are becoming
  more intense.

– Good relationships emerged and worked well when organisations with
  different strengths came together rather than those that worked in
  similar ways. This required tolerance and empathy for other community
  businesses, which took time to develop. By contrast, community
  businesses doing similar things in similar ways could work together as
  long as they were not operating in the same locality – this allowed them
  to draw boundaries around activities and reduced the risk of competing
  over resources.

– There is little evidence of trading between community businesses. It is
  hard to discern whether this was due to a lack of trust and confidence in
  other organisations to provide reliable high quality services or goods, or
  that potential trading synergies simply did not exist. This does not mean
  that community businesses did not support and encourage each other
  in various ways. Indeed, many community businesses played anchor
  roles, providing services and support to other smaller organisations and
  community groups in their area. Some of the best examples emerged
  when community businesses actively encouraged smaller organisations
  and groups to define the issues they could tackle and helped them to
  take control themselves, without *taking over.*

7. Discussion and conclusions

This research project had three principal objectives.

Firstly, to explore those factors which lead to the development of positive formal and informal interactions amongst community businesses and with other organisations in the private, public and third sector. Sections 4, 5 and 6 demonstrate that many issues shape the way community businesses frame their desire to work autonomously or with other organisations. For the most part, the impetus to work informally or formally with other organisations is opportunity led – often associated with garnering resources to achieve social objectives. And while we did come across arguments about partnership being a core 'sector value' amongst community businesses and with other TSOs, this was not the principal driving force.

Secondly, exploring the factors that contribute to the building of durable, productive and mutually beneficial formal and informal relationships and examining how community businesses invest time and energy in such interactions over time. Despite considerable variation – depending on the structure, practices, capacity and mission of community businesses – it is clear that mature relationships of these kinds were relatively rare amongst community businesses. This was not due to a fundamental lack of interest in collaborative working, but more to do with the pressures individual community businesses faced in sustaining momentum as an organisation. Competition for money, ideas and people, therefore, played a part in inhibiting collaborative working.

Relationships with public sector bodies could clearly endure over time, but the formal nature of mostly contractual relationships meant they were generally procedural and impersonal. Long-term relationships with private firms were also comparatively rare but strong where they existed – usually when both parties made efforts to sustain arrangements because it helped them achieve their own objectives, even if there may have been a shared purpose to support community wellbeing. Not all relationships with private firms were durable, but this was not necessarily regarded as a problem if outcomes were productive – sometimes 'ephemeral' events brought benefit to both partners as well as the local community.

Thirdly, exploring the conditions that may encourage community businesses to build stronger formal and informal relationships with other organisations in their locality which may ultimately strengthen local economy and society. It has been relatively straightforward to identify what the principal condition is, simply by observing its absence –sufficient financial resource to *enable* and the people to *deliver* productive partnerships or collaborative initiatives. The stark reality is that money is tight and people are stretched in the private, public and third sectors – that tends to focus minds on the 'here and now' just to keep things going. But challenging conditions do not mean that good collaborative or complementary working arrangements are not possible and we found many examples of productive inter-organisational working within and across sectors.

7.1 Making sense of community businesses interactions

The overarching aim of this research was to develop a better understanding of how community businesses frame formal or informal partnership working arrangements within their own strategic objectives. Sections 4, 5 and 6 demonstrate how community businesses face many challenges when they work with other organisations in their own sector or with others in the private or public sectors. But these difficulties should not be over-played, if we are to avoid giving the impression that community businesses face an impossible task when working with other organisations.

Several key insights emerged from our study and analysis – about how effective working relationships between community businesses and organisations from across the private, public and third sectors could be developed and maintained.

– All the community businesses valued their autonomy because they feel that they have a special role in their communities that other organisations cannot perform. When they work with other organisations, such relationships are framed by this determination to retain a measure of autonomy in setting priorities, developing preferred ways of working and choosing who they will work with.

– The community businesses studied were resilient because they were well managed, could identify and appraise opportunities and were able to steer their strategic direction. The prospect of working with other organisations was often a key consideration when deciding whether or not to pursue opportunities.

– The businesses studied were clear about their social objectives and nearly all tended to prioritise those above more conventional private business objectives that deliver profit. Social objectives did not impinge on decision-making to such an extent that led them to work only with like-minded organisations. On the contrary, they tended to work more effectively with those organisations in the community which had complementary but *different* objectives, or with organisations sharing similar objectives but that worked elsewhere.

– Most community businesses had clear business plans, but within such plans it was recognised that income from trading would normally only form a part of their resources and that income from property or investment assets and grants were also important. Those organisations with the strongest asset base tended to able to exercise more choice about working with other organisations.

– Most community businesses drew on non-financial resources to sustain or bolster their activity – often this came from in-kind support from local private sector firms, or the work of volunteers and trustees. Those organisations which formed close relationships with private businesses on a regular basis tended to rely heavily on in-kind support provided by employer-supported volunteers.

It is clear that community businesses need to 'strike a balance' between a range of factors that shape their preferences and practices, and make successful working partnerships with other organisations more likely to succeed.

7.2 How community businesses 'strike a balance'

Community businesses are not all the same. Their size, structure, purpose, capacity, capability and preferred approach to practice vary greatly and it is unsurprising that community businesses' expectations and experiences of working with organisations in the private, public and third sectors differ widely too.

Despite this variety, some aspects of running a community business are common to all the organisations we studied and this enables us to draw some useful general conclusions.

This section outlines these shared features and recommends how to encourage and support community businesses to work harmoniously and productively with organisations from their own and other sectors.

It is not a problem that community businesses operate in different ways and to attempt to impose a standardised approach to practice would do more harm than good. It is their distinctive and hard-won autonomy that permits them to decide how they work with other organisations and enables them to work effectively and respond flexibly in a complex and ever-changing social, political and economic environment.

Figure 7.1 shows how two sets of 'internal' organisational tensions shape the way all community businesses work:

– Organisational autonomy vs collective action

– Organisational needs vs community needs.

The following describes the tensions that need to be managed between these drivers, for community businesses to operate effectively and fully realise the benefits that can come from collaborating with others.

Organisational 'autonomy' versus 'collective action'

No organisation operates within a social vacuum. Their autonomy to do things exactly as they choose is always compromised to some extent by external factors. Some community businesses are in a better position than others to exercise their autonomy. For example, several organisations in this study have substantial property or secure investment assets which provide some measure of financial security.

These organisations can make choices about their priorities and practices that are not fully dependent upon winning support and resources from others. Community businesses with a very limited asset base, by contrast, operate in a more uncertain environment as they tend to need others to help with the resources that enable them to deliver for their community.

While some community businesses are more autonomous than others, this does not necessarily indicate they lack interest in working collectively with other organisations in the third, private or public sectors. Indeed, most community businesses with a strong asset base are no less committed than other organisations to collective enterprise or common purpose if it brings greater social benefit.

However, autonomous and collective drivers are not entirely shaped by resources and a few community businesses, whether or not they have strong assets, prefer to work alone and do things their way. Social objectives, commitment to a particular practice and orientation to the community they serve also drive the extent to which particular community businesses seek autonomy or collective action.

'Organisational need' versus 'community need'

Community businesses are autonomous legal entities. No matter what is going on around them and whoever they are working with, decisions on what to do remain their responsibility alone.

Constrained to some extent upon their legal form, all community businesses are required to define their social objectives and identify who in the community their activity aims to benefit.
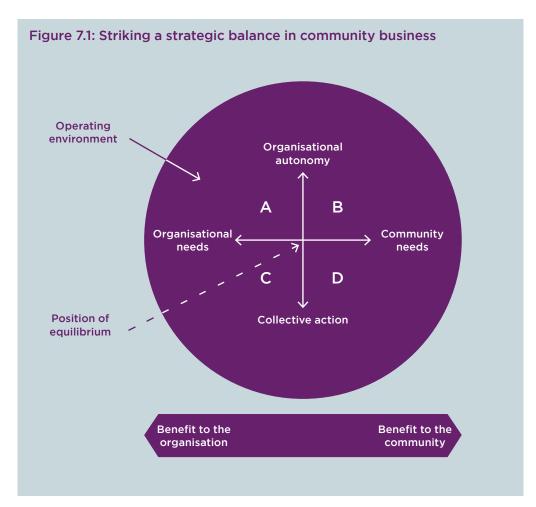
Social objectives sit at the heart of community businesses, and the people who govern, lead and practice in such organisations tend to have a very strong commitment to these aims. But there are limits to the extent that an organisation can achieve its social objectives if it does not attend properly to the needs of the organisation itself (Third Sector Trends Study: 'You can't help if you don't exist', Bell, et al., 2010, p. 18).

Organisational resource needs include:

- **Financial:** the resources to pay staff and the costs of facilities, equipment and materials to deliver services. To be able to manage money effectively and appraise funding and business opportunities.

- **People:** the assembly and management of skilled, competent and committed people to act as advocates, volunteers, employees, managers and trustees.

- **Ideas:** identifying and understanding personal, community or societal problems and considering ways to solve or manage them

Neglecting these needs can undermine the organisation's ability to achieve its mission.

Striking a balance between the needs of the organisation and the needs of communities is challenging for any community business and a functioning equilibrium is hard to achieve when so many external factors come into play.

Figure 7.1: Striking a strategic balance in community business

To the left of the diagram (in positions A and C), a community business would appear to be 'out of balance' – putting too much store on its own organisational needs, potentially at the expense of the needs of the community beneficiaries it serves.

To the right hand side of the diagram (positions B and D), by contrast, the community business would appear to be unduly emphasising service to the community at the expense of meeting its own needs.

In an ideal world, community businesses should occupy a position at or close to the cross-section of these two sets of dimensions – where a desire to maintain autonomy sits in reasonable harmony with the need to work effectively with other organisations, and where, it can balance the needs of the organisation with a desire to achieve good things for the community.

While the community businesses we have studied are all very different, they all spend considerable time bringing these four drivers into some kind of harmony. In so doing, they all have to assess the opportunity costs of the decisions they take.

This is not easy. Organisations do not operate in a vacuum and must work with or alongside other organisations in the private, public and third sectors to develop and deliver their services. And however well they anticipate challenge and plan for the future, change is unpredictable and no one can control everything happening around them.

7.3 Balancing organisational autonomy and the collective endeavour

The purpose of this research was to build a better understanding of organisational interactions by looking at the way community businesses *choose* to work autonomously or collectively with other third sector organisations, public sector bodies or private sector businesses to achieve particular outcomes. The substantive analysis presented in Sections 4, 5 and 6 focused on detailed aspects of these interactions. This analysis enables us to show how community businesses maintain a balance between the desire for organisational autonomy and the need for collective enterprise. It is equally important to recognise the pitfalls of allowing priorities to fall out of balance, to understand why this happens and to consider what can be done about it.

Figure 7.1 showed community businesses need to find a balance between maintaining organisational autonomy and working collectively with other organisations in their own or other sectors. As autonomous entities, community businesses exist to achieve something which is particularly important to them, believe they have something 'special' to offer beneficiaries and feel that it is *potentially* best-placed to do this for them. This does not preclude them from working with other organisations if they want or need to, and this is not a clear-cut issue – community businesses can work in many different ways alone or with others simultaneously.

Section 6 showed that community businesses often see real benefit in working closely with other TSOs. In some cases they felt that it was their role to encourage and facilitate the activity of others as an end in itself. This did not threaten their sense of organisational autonomy or credibility because they retained a belief that they had a special role to play in the community that other organisations could not (or perhaps *should* not) perform. A fine balance was struck on a case-by-case basis, between the *collective endeavour* to achieve social benefit and *direct competition* with other organisations.

An element of competition is inevitable. Each of the community businesses studied were able to articulate the purpose and distinctiveness of the work they do – and they were rightly proud to feel that they were well placed to achieve their objectives.
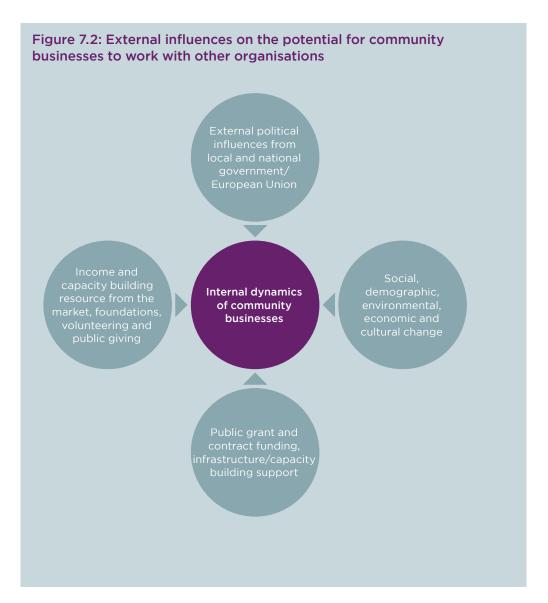
Competition occurs on three dimensions (see Section 7.1).

1. **Competition over the ideas that achieve social value:** organisations need to be 'persuasive' about the *value* and *efficacy* of the goods and services they have chosen to produce. This pushes them into direct competition with other organisations which claim that they can produce the same, similar or *better* goods or services.

2. **Competition over people resources to deliver social value:** organisations need to recruit and retain capable and motivated people to produce goods or services. And they also need beneficiaries or customers to consume their goods and services. There is potential for direct competition in both domains.

3. **Competition over finances to resource useful practice:** organisations tend to have ambitious objectives (whether these are associated with profitability and/or social value). Organisations compete directly to secure the financial resources to achieve these objectives.

Organisations in the private, public and third sector must find a way to command the resources to remain viable and sustainable. Their ability to work together in formal or informal ways is always shaped to some extent by competition and an underlying interest in autonomy.

The ability of organisations to survive or thrive is also shaped by a continually changing external environment over which they have little control. These external drivers shape the way community businesses work and have implications for the relationships between organisations from all sectors. These factors are represented in Figure 7.2.

Figure 7.2: External influences on the potential for community businesses to work with other organisations

External political influences from local and national government/European Union

Income and capacity building resource from the market, foundations, volunteering and public giving

Internal dynamics of community businesses

Social, demographic, environmental, economic and cultural change

Public grant and contract funding, infrastructure/capacity building support

The likelihood is that most community businesses have *many* different types of formal or informal relationships in place with organisations in the private, public or third sectors at any one time. All of these relationships are shaped to some extent by external drivers.

7.4 How to work effectively in partnership: learning how to compromise

Community businesses face dilemmas in striking a balance between the need to secure the resources to keep their organisation running effectively and achieving their ambitions for the communities they serve. They do this in the context of continual social, economic and political change.

All community businesses face the challenge of balancing their desire for autonomy with the need to work with or alongside other organisations in their own sector or in the private and public sectors. Working with other organisations is not easy when they too have priorities and are tackling their own resource needs.

This report could be concluded in two different ways. A somewhat negative approach would be to list all the problems community businesses face when working with private firms, public sector institutions or others in the third sector. It would be tempting then to conjure 'ideal world' solutions for each of these.

But we have identified that there is no 'ideal world' and each organisation occupies its own private world, regardless of its sector. Arguably, the interaction between any two organisations will therefore be a collision of cultures with clashing interests. A more optimistic conclusion would be to comment on the process and benefits of compromise.

One thing common to all of the community businesses involved in this study was how they felt about working in formal or informal relationships with other organisations – uneasy about having their autonomy compromised. They felt affronted by demands from other organisations that they should or must do things differently from their preferred approach, and could be quick to take offense when they encountered alternative approaches or faced an imposition of unreasonable expectations or demands. When sensitivities are jarred, working together can feel like an unattractive option.

And yet we found many examples of organisations getting along quite well, despite their very differing cultures, value systems and strategic objectives. They found common ground on which they could work productively without threatening their own identity. In contrast, organisations which shared much more could not get on with each other at all. In such cases it was competition of some kind that sunk the idea of working together.

Formal or informal partnership working arrangements work well when both organisations identify benefit from the arrangement, whether they are from the same or different sectors. Such benefit may not need to be 'equal' in material terms (such as the amount of money they access) or in value terms (because each organisation may want to achieve different but complementary things) – but the arrangement must feel *balanced* and *fair* in relation to the commitment offered and the effort expended. This only occurs, we can now conclude, when certain conditions are met.

– Both (or several) organisations *want* to take the time to get to know about each other and develop a good empathetic understanding of each other's needs and desires. On the surface, some of the good relationships we looked at seemed to have been struck up entirely by accident, as if they were brought together by luck or fate. But that is only partly true. The organisations which found they could work together were alert to the possible mutual advantages of collaboration. They were 'open-minded' about the possibility of working with others.

– Organisations build trust and confidence steadily by trying small things out initially before moving on to the next stage. It is not necessarily a question of 'making friends' or being 'nice', but a requirement to be open and honest. Indeed some relationships worked well *because* there were direct and even vigorous exchanges at the outset on the limits of what each organisation was prepared to do. Brushing aside issues that concern organisations, for fear of causing offence, can foment resentments and undermine the chances of relationships maturing in a positive way.

– It does not seem to matter, and indeed can sometimes help, if organisations have different cultures, purposes and practices providing that they both take the same journey – even if they are doing so for different reasons. We found a number of 'chalk and cheese' relationships which worked better than those where the match between organisations looked, on the surface, to be compatible. Sharing a 'common purpose' to contribute to the local community is something to be valued – but this does not mean that organisations need to do the same things in the same way, or value all achievements equally.

– It is abundantly clear that if working relationships are to be sustained, they require continual investment of time and energy. This means that organisations must continually weigh up the 'costs' associated with injecting resources with the 'benefits' that can be produced. Some good relationships which are productive may not need to last very long, while others may be worth keeping going for many years.

These four simple conditions underpin good inter-organisational relationships, and apply to all the different types of good relationships we studied. Albeit simple to understand, they are hard to apply, not least because any community business may be maintaining many relationships at any one time, each of which requires a distinctive and different form of compromise to remain efficient for all businesses involved and effective for the communities they serve.

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Appendix
Schedule for interviews

Preliminaries
First explain what the interview is about. Confirm that the interview is confidential and ask permission to record. Inform the interviewee that they can choose not to answer specific questions or request that the recorder switched off at any time

Start the interview with warm up questions:

– This project is funded by Power to Change, who are interested in promoting Community Business. Do you have any views on this relatively new way of describing TSOs which earn some or most of their income from trading?

– How's it been going for your community business in the last couple of years? What have been pressures/opportunities? How does it compare to previous years – better or worse?

– We're really interested in how third sector organisations work together formally or in less formal complementary ways to support local communities … can you tell us about these kinds of relationships?

The balance between earned income and given income
– Roughly speaking, what's the balance between trading income (including contracts) and given income (mainly from grants, but also in-kind support, low rent etc) in your organisation?

– Is sustainability ever possible without some support from grant funding?

– Has the balance between earned and grant income shifted in your organisation over time or stayed about the same?

Working with other organisations
– How much interaction exists between TSOs and other organisations in the public sector and private sector around here?

– With whom do you 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?

– Do these relationships benefit the whole community in a broad sense or are they simply focused on the discrete needs of beneficiaries?

– To what extent have you initiated, built and sustained productive relationships with other TSOs in your 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?

The impact of complementary working on communities

– How do you serve the interest of your community as a whole?

– Is there any evidence to show that interactions amongst TSOs are more beneficial to localities than autonomous working?

– If such evidence of positive interaction exists, how can policymakers and funding organisations help to facilitate more interaction of this nature? And what can they do (or do they do now) to stop hindering them?

Being accountable to communities

– Is there any sense in which your organisation is accountable to the local community?

– Does it need to be accountable? Is it possible to be so? What are barriers and stimulants?

– If community business is, as it 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?

Supporting community business

– If evidence of synergy amongst TSOs can be identified, then what kinds of support, if any, might organisations need to encourage them to do more of it? How and by whom might such support be best delivered?

– Can you give any examples on how you've been successfully supported in the past that has really made a difference to the way you work?

– Where do you find out about opportunities to build new relationships and find out about potential new partner organisations – such as meetings, networks, promotional events?

Have we missed anything you expected us to ask about?

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