Creating a more entrepreneurial mindset – engaging third sector suppliers to the NHS

Public sector commissioners and third sector organizations (TSOs) often struggle to make sense of each others’ world views and working assumptions. This cannot be easily overcome, but dialogue can be improved through exploring third sector outcomes and entrepreneurial language, practices and mindsets.

Under the national programme entitled World Class Commissioning (Department of Health, 2007) more providers, and different kinds of providers, are encouraged to enter the health and social care market in England. An increasingly diverse provider market across the public sector is expected to ensure value for money by improving quality while driving down costs, meet the public policy objective to support small businesses, and harness the energies of third sector organizations (TSOs) to tackle social challenges.

Here, we focus on delivery of social care and health under contract to the state by the “third sector” (broadly defined as formal organizations that are not part of the public or private sectors). This is happening against a background of contested notions of a modernized public sector and a third sector encouraged (or constrained) to adopt entrepreneurial practices, language and mindsets associated with the private sector.

The third sector – between the market and the state

Health and social care are provided in developed economies by the state, the market, the household and voluntary agencies – in combinations that vary across time and place. No single term is used to capture that part of the economy beyond the public and private sectors. It is variously called the “voluntary and community sector”, the “social economy”, the “third sector” and the more inclusive “civil society”, each of which has different nuances and different supporters. State agencies in the UK currently favour the “third sector”, perhaps on account of its verbal echo of the Third Way politics of New Labour. Conservatives regard the term as demeaning to the sector, and propose re-branding it as the First Sector and opening up the delivery of a wider range of services.

TSOs are:

- formal or institutionalized;
- separate from government;
- non-profit-distributing; and
- self-governing.

Moreover, they typically involve some degree of voluntary participation although many are professional organizations with paid staff. TSOs include charities and community groups as well as social enterprises that can share many characteristics with for-profit small businesses. Social enterprises offer an alternative model to mainstream
business including motives to create and sustain social values, and different legal structures and governance.

In some countries, such as Germany and The Netherlands, the third sector has traditionally played a large part in the welfare state. Third sector involvement is not entirely new in the UK, however. TSOs were pioneers of social welfare in the nineteenth and twentieth centuries.

It was claimed five years ago that the increased role of the third sector in public services was a revolution as far reaching as the privatization of nationalized industries under Margaret Thatcher. Competition and market orientation in public services were among the principles broadly labeled new public management (NPM) that were adopted in the UK by Conservative Governments of the 1980s and early 1990s. NPM can be defined as “a desire to replace the presumed inefficiency of hierarchical bureaucracy with the presumed efficiency of markets”. NPM promoted a vision of a public sector that emulates the entrepreneurial practices and values of business.

NPM is no longer new. Indeed, some analysts consider that it has largely stalled or reversed, and has limited relevance now. Others take the view that, in the context of the UK public service modernization, NPM is not so much in decline as changing to become less ideological and more technocratic. Labour, in common with its conservative predecessors, has seen market mechanisms and a mixed economy of service provision as sources of innovation, efficiency and improvement. Involving the third sector in service delivery contributes to opening up the supply side to new providers and accessing innovative ideas to meet increasing demand for personalized services with limited resources.

Entrepreneurship: institutional, policy and social

Entrepreneurship can be narrowly defined as the creation of new organizations. Contemporary definitions of entrepreneurship however tend to centre on pursuit of opportunity and effecting change. Entrepreneurs pursue opportunities regardless of the resources they currently control. The entrepreneur, unlike other economic actors, always has to think about what action to take as s/he is doing something fundamentally new.

Definitions of entrepreneurship have tended to focus on economic outcomes, but entrepreneurship and entrepreneurs have recently been celebrated not only as founders of businesses but also as agents of change. Entrepreneurship can take place outside markets, for example in the public sector, and even in non-market economies. Policy entrepreneurs help to open “policy windows”, by investing time and resources into registering a specific issue on the policy agenda or promoting a particular solution to it.

The classical framework of entrepreneurial process has been applied to explain initiatives by local government in the fast changing environment of competitive bidding for EU funds. Risk taking and pro-activity have been proposed as key dimensions of entrepreneurial orientation in public organizations, which must respond to frequent policy changes and pressure for quick results. Social entrepreneurship has become a high-profile policy agenda in health, social care and regeneration. The “creation of something of value” to a community or a cause is the link between theories about the third sector and entrepreneurship. Key themes within social entrepreneurship – as with for-profit entrepreneurship – are opportunity recognition, value creation, innovation, and networking.

Being an entrepreneurial supplier in the world of world class commissioning

For many TSOs world class commissioning (and the agenda for change towards third
sector suppliers to the public sector more generally) has profound implications that are both welcomed and feared. Some see the opening up of public sector contracts as a chance to improve services as well as to develop new and relatively reliable funding streams and escape dependency on donations and grants. Such income sources can make a significant contribution to organizational independence and growth.

Third sector leaders, according to the professional association for third sector chief executives should never underestimate the importance of opportunism. Commissioners perceive that commission ready TSOs are flexible and willing to change. Not all, however, concur that this agenda from central government should be wholeheartedly embraced. There are concerns within the sector that in competing for contracts for services specified by state agencies, a sector built on community, trust and togetherness is being challenged by trends towards “business-like” practices. Moreover, there is a perceived danger that incentivizing TSOs to grow in order to win contracts will lead to weakening of distinctive identity and the values associated with communitarian activity and volunteering.

Barriers to more productive two-way relationship between the public sector and the third sector include a series of assertions and assumptions across the sectors. Many TSOs, for example, are perceived by commissioners as still living in a grant culture belonging to the past, while commissioners, according to advocates of the third sector, struggle to discard old habits of grant funding when dealing with TSOs in competitive procurement processes. Such statements imply that “progress” from grant to earned income is both desirable and inevitable.

There is a contention, however, that trading adds to the income diversification of the third sector but grants remain part of that mix. Third sector groups are proud of their ability to respond quickly to unmet need and they bemoan what they see as commissioners’ aversion to risk and reluctance to move out of their own comfort zones. Commissioners perceive TSOs as not business-like enough, and too prone to assert that they “do good” while reluctant to specify the value they bring to services. For TSOs, it is difficult to demonstrate value in ways commissioners understand. TSOs see commissioning processes as bureaucratic, and think that commissioners have little awareness of the third sector market and prefer to work with big players. Public sector agencies in turn complain that TSOs write tenders based on what they want to deliver, rather than what the commissioner wants to buy.

The need for consortia to deliver contracts beyond the capacity of single TSOs is not sufficiently recognized in the third sector, according to commissioners, while consortia and prime contractor arrangements are seen by TSOs to lead to tokenism and being marginalized, and commissioners do not recognize difficulty of forming consortia.

Becoming more entrepreneurial, in short, can be associated with being adaptable and responsive to changing demands and new opportunities; or it can seem to signal weakening of the social and voluntary ethos associated with communitarian outcomes.

Many of the arguments and tensions indicated in this section – moving on from “grant culture”, demonstrating value to funders, the problems of commissioning processes and size of contracts – suggest the “service delivery” part of the typology of third sector outcomes indicated above. Working through these requires being business-like but not necessarily entrepreneurial. The more entrepreneurial themes of expanding frontiers and changing systems are hinted at however in discussions of (respectively) consortia building and ability to respond to unmet need.

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