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Engaging Third Sector Suppliers to the NHS

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Introduction

Under the national programme entitled *World Class Commissioning* (Department of Health, 2007) more providers, and more kinds of provider, are encouraged to enter the health and social care market in England. There are “new opportunities for innovative providers from any sector to meet the needs of users” (Department of Health, 2006: 4). An increasingly diverse provider market across the public sector is expected to: ensure value for money by improving quality while driving down costs (Gershon, 2004); to meet the public policy objective to support small businesses (HM Treasury, 2008); and harness the energies of Third Sector Organisations to tackle social challenges (Department of Health Third Sector Commissioning Task Force 2007). In this working paper our focus is on delivery of social care and health under contract to the state by the ‘Third Sector’ (broadly defined as formal organisations that are not part of the public or private sectors). This is happening against a background of contested notions of a modernised public sector and a Third Sector encouraged (or constrained) to learn from the private sector and adopt a more entrepreneurial mindset. We will explore how these concerns are understood, interpreted and acted upon across the public and third sectors.

We offer a critical overview of claims and counter claims around increased expectations that organisations from the Third Sector (TSOs) will compete for contracts to deliver public services. We scrutinise these debates through a lens of entrepreneurship, itself a term that is argued over and which some writers consider should be broadened to represent the creation of social as well as economic value (Chell, 2007). Then we report how some of these tensions are being played out in current policy and practice intended to achieve ‘world class’ commissioning of health and social care. We highlight the city of Manchester, where there are persistent and severe health inequalities and where NHS Manchester (formerly the Primary Care Trust) has adopted a strategy to harness the

capacity of local Third Sector Organisations to improve health outcomes. This working paper is based on our recently started 12 month project *Engage - Stimulating Third Sector Organisations in the Health Sector Supply Chain* under the ESRC Business Engagement Opportunities scheme. We are working with NHS Manchester, and local Third Sector delivery and infrastructure organisations, to increase learning that can lead towards stimulating more Third Sector Organisations to consider bidding for NHS contracts.

Context 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 United Kingdom currently favour the 'Third Sector', perhaps on account of its verbal echo of the Third Way politics of New Labour (Haugh and Kitson, 2007). The Conservative opposition regards the term as demeaning to the sector and proposes re-branding it as the First Sector and opening up the delivery of a wider range of services (Conservative Party, 2008). For the sake of brevity (and consistency with current policy documents) we adopt the term Third Sector in this paper. Third Sector Organisations (TSOs) are: formal or institutionalised; separate from government; non-profit-distributing; and self-governing. Moreover they typically involve some degree of voluntary participation although many are professional organisations with paid staff (Billis and Glennerster 1998). TSOs include charities and community groups as well as social enterprises that share many characteristics with for-profit SMEs (Shaw and Carter 2007; Di Domenico, et al. 2009). Social enterprises offer an alternative model to mainstream business including motives to create and sustain social values, and different legal structures and governance (Bull and Crompton, 2006; Social Enterprise London, 2007). According to Pearce (2003) the difference between a social enterprise and for-profit business lies in the primary purpose of a social enterprise as social, with commercial activity as a means to achieve that purpose. TSOs (including social enterprises) are a diverse set of providers whose potential the government perceives to be as yet under used (Department of Health Third Sector Commissioning Task Force, 2007; Audit Commission, 2007).

In some countries (eg Germany and the Netherlands) the third sector has traditionally played a large part the welfare state (Brandsen and Pestoff 2006). Third sector involvement is not entirely new in the UK. TSOs were pioneers of social welfare in the nineteenth and twentieth

centuries (Osborne et al., 2008). The 1990 NHS and Community Care Act made voluntary organisations significant in the provision of services for disabled adults and older people in England. New Labour, elected in 1997, declared its intentions to boost the Third Sector's role in public services. The HM Treasury Cross Cutting Review (HM Treasury, 2002) called upon all government departments to work more effectively with the third sector. Since then reforms have been put in place to make public contracts more accessible to third sector organisations. Solutions are in the form of guidance and training to address lack of expertise and produce more 'commission ready' TSOs, with skills to promote and sell their services (SCEDU 2008). The infrastructure body National Council for Voluntary Organisations (NCVO) reports that government contracts with the sector across the UK amounted to £7.8bn in 2006/7, representing a steep rise from £3.8bn in 2000/2001 (NCVO, 2009). A market mapping exercise for the Department of Health estimated that 35 thousand TSOs provide health and/or social care in England and that a further 1,600 are potential providers within three years (Department of Health Third Sector Commissioning Task Force, 2007). It was claimed four years ago that the increased role of the Third Sector in public services was a revolution as far reaching as the privatisation of nationalised industries under Margaret Thatcher (Mathiason, 2005, quoted in Davies, 2006). This may be an exaggeration that signals a profound sense of change. Across the whole public sector the proportion of spending going to the third sector, although rising, is in the region of only 2% (PUBLIC ADMINISTRATION SELECT COMMITTEE, 2008). Nevertheless, the increased emphasis on TSOs as service providers in a competitive market for contracts with state agencies has resulted in significant changes for commissioners and TSOs.

Competition and market orientation in public services were among the principles broadly labelled New Public Management that were adopted in the UK by Conservative Governments of the 1980s and early 1990s. New Public Management (NPM) is not a single, coherent theory but a term used to denote a cluster ideas and practices that seek to use private sector and business approaches in the public sector. A new 'entrepreneurial' paradigm to replace out-dated, rule bound bureaucracy was proposed by the influential American advocates of government transformation Osborne and Gaebler (1992). Power (1999: 43) defines NPM 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 (Denhardt and Denhardt, 2000).

New Public Management is no longer new. Indeed, some analysts consider that it has limited relevance to 21st century public services (Haynes 2003) and that with a few exceptions worldwide its reforms have stalled

or been put into reverse (Dunleavy et al.,2006) Others take the view that in the context of UK public service modernisation NPM is not so much in decline as changing towards a less ideological and more technocratic face (Martin, 2000; Dean 2006; Newman 2001). New 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 (Martin, 2002; Entwistle and Martin, 2005). 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 personalised services with limited resources (Audit Commission 2007). The Third Sector is seen as having particular strengths in tackling the most entrenched social, environmental and health challenges (HM Treasury 2002; Department of Health Third Sector Commissioning Task Force, 2007).

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 (Stevenson and Jarillo, 1990). The entrepreneur, unlike other economic actors, always has to think about what action to take as s/he is doing something fundamentally new (Swedberg 2000). Many scholars of entrepreneurship also argue that networking is a fundamental part of entrepreneurial behaviour.

“mobilizing resources to pursue opportunities requires entrepreneurial contacts, knowledge and confidence. Mobilizing resources also involves asking others to raise money, labor and effort for a venture with an uncertain future. Entrepreneurship is thus inherently a networking activity”

(Dubini and Aldrich 1991: 305 quoted in Chell and Baines 2000)

Definitions of entrepreneurship have tended to focus on economic outcomes, but entrepreneurship and entrepreneurs are important not only as founders of businesses but as agents of change (Chell 2007; Sundin and Tillmar 2008; Petchey et al. 2008). Entrepreneurship can take place outside markets, for example in the public sector (Sundin and Tillmar 2008) and even in non market economies such as the Soviet Union (Rehn

and Taalas 2004). Policy entrepreneurs - a term coined by Kingdon (1995) - 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 (Petchey et al., 2008). Stevenson and Jarillo's 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 (Zerbinati and Souitaris, 2005). Risk taking and proactivity have been proposed as key dimensions of entrepreneurial orientation in public organisations which must respond to frequent policy changes and pressure for quick results (Kearney et al. 2009). 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 (Chell, 2007). Key themes within social entrepreneurship - as with for-profit entrepreneurship - are opportunity recognition, value creation, innovation, and networking (Chell, 2007; Shaw and Carter, 2007)

We now turn to explore current debates and concerns about third sector contracting for health and social care services in the light of entrepreneurship. Entrepreneurship of course is by no means characteristic of all for-profit enterprises or of all third sector organisations that engage in commercial activity. The Third sector, as already indicated, is large and diverse - a "loose and baggy monster" (Kendall and Knapp, 2002). As a heuristic device for talking about the various dimensions of these arguments therefore we draw upon a typology of generic third sector outcomes (Harris et al., 2002). Harris et al propose four outcomes across the sector: service delivery (i.e. meeting identified and accepted needs); communitarian (i.e. addressing needs through communal activity such as volunteering); expanding frontiers (i.e. moving into new areas to mitigate needs); changing systems (i.e. developing ideas or advocating for new needs). The later two of these outcomes resonate with the entrepreneurial qualities of opportunity recognition, change and innovation.

Being an entrepreneurial supplier in the world of world class commissioning

The Audit Commission Review of Health Inequalities in Greater Manchester set out the areas that need more attention by the PCTs and

Local authorities including engagement with the Third Sector. The city of Manchester is beset by severe health inequalities and statutory services struggle to engage with the needs of people from the marginalised communities where health outcomes are poorest. People in most need especially BME communities don't seek help until it's too late (MACC, 2008). NHS Manchester (responsible for commissioning and directing NHS funds into a wide range of services for communities across the city) has adopted a *Commissioning Strategy* in which a key priority is to reshape its provider profile with new service contracts from TSOs. It is clear that much learning is needed on both sides to make this achievable. In what follows we draw on national reports and commentary on expanding the health supplier market to TSOs as well as a series of reports on the subject recently undertaken by local Third Sector infrastructure organisations. It is also informed by preliminary discussion with NHS Manchester, Third Sector infrastructure organisations in Manchester, and intermediaries that we have undertaken in preparation for the 12 month project *Engage: Stimulating Third Sector Organisations in the Health Sector Supply Chain*. *Engage* is funded under the ESRC Business Engagement Opportunities scheme to support a set of activities (placements, seminars and impact generation) around the challenges of commissioning services to address social and health inequalities. . It is a collaboration between Manchester Metropolitan University (Sue Baines and Mike Bull) and NHS Manchester, working closely with local Third Sector Organisations (TSOs).

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 (Alcock et al. 2004; Blackmore 2006). Third sector leaders, according to the professional association for third sector chief executives should never underestimate the importance of opportunism (ACEVO, 2007). Commissioners perceive that commission ready TSOs are flexible and willing to change (Packwood n.d) 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 (Bull, 2008). Moreover, there is a perceived danger that incentivising TSOs to grow in order to win contracts will lead to weakening of distinctive identity and the values associated with communitarian activity and volunteering (Coyle, 2007).

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 while commissioners, according to advocates of the Third Sector, struggle to discard long-standing habits of grant funding when dealing with TSOs in competitive procurement processes (ACEVO 2007; Public Administration Select Committee, 2008). 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 (Packwood n.d). Commissioners perceive TSOs as not business-like enough and too prone to assert they do good while reluctant to specify the value they bring to services (Chapman et al., 2007). For TSOs it is difficult to demonstrate value in ways commissioners understand (Munoz, 2009). 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 (GMCVO 2008; MACC, 2008). 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 (Packwood n.d). The need for consortia to deliver contracts beyond the capacity of single TSOs is not sufficiently recognised in the Third Sector according to commissioners while consortia and prime contractor arrangements are seen by TSOs to lead to tokenism and being marginalised, and commissioners don't recognise difficulty of forming consortia (Together Works, 2008; Munoz, 2009).

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' outcomes 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.

Results

This working paper is based on preliminary findings from the preparation stage of the Business Engagement Opportunities project. In it we have been concerned not with final results but with situating our work in the context of emerging debates about the Third Sector, public services, values, and entrepreneurship. We have tentatively mapped a series of claims and counter claims from Third Sector and Public Sector organisations onto a typology of Third Sector outcomes, against a

background of notions from the wider literature on entrepreneurship. These are likely to resonate for TSOs confronting the challenges of commissioning opportunities, and for commissioners seeking to expand the supplier market to access the contribution of TSOs.

Implications and value

Public sector commissioners and TSOs often struggle to make sense of each others' world views and working assumptions. This can not be easily overcome but ways of improving dialogue are proposed. This paper offers a new, grounded reflection on the nexus of public sector contracts, third sector values, and entrepreneurship.

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