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# Changing policy environments in Europe and the resilience of the third sector

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# Changing policy environments in Europe and the resilience of the third sector

## Abstract

In the article, we analyse the impact of changing policy environments on the development of the third sector in Europe. Based on the results of systematic comparative research in eight European countries (Austria, Croatia, France, Germany, the Netherlands, Poland, Spain and the United Kingdom), we identify commonalities and differences. In a three-step analysis, we examine policy changes, effects on the third sector and responses by third sector organizations (TSOs) in the social domain. Overall, the third sector in Europe has proven resilient. However, not only have public and private funding decreased, the process for acquiring such funding has become more demanding for TSOs, as have requirements to be accountable. There are signs of a proliferation of more market-based, hybrid organizations. Despite this general trend towards marketization, the impact of policy changes varies across Europe with TSOs being better equipped to adapt and survive in countries where collaborative ties between the state and the third sector have traditionally been strong.

159 words

## Keywords

Non-profit organizations, welfare state, social services, governance, civil society

## 1. Introduction

The policy environment for the third sector in Europe has significantly changed. Public management reforms, which in some countries started as early as the 1980s, have led to deregulation and increased cooperation with private actors in service delivery (Anheier and Krlev 2014; Bode and Brandsen, 2014). On top of this came the global economic and financial crisis of the late 2000s, which led to austerity policies and a reduction in public grants throughout Europe. As a result, relations between the state and the third sector have been changing. Finally, in a number of countries, governments that have, at best, an ambiguous relationship with the third sector, have come to power. The question is: how have third sector organizations (TSOs) reacted and how have they held up against this background?

In this contribution, we use the results of a European research project to assess the effects of the changing policy environments on the third sector in Europe. The analysis is based on a cross-country comparison of eight European countries (Austria, Croatia, France, Germany, the Netherlands, Poland, Spain and the United Kingdom) using multiple methods. The analysis addressed the following three key questions: (1) How have policy environments changed for social TSOs, (2) what kind of opportunities and obstacles have they encountered and (3) how have social TSOs responded to changing policy environments? The focus of our comparative analysis is on TSOs working in the welfare domain as a key area of third sector engagement and cooperation with the state.

First, we will outline the general background to the changes in national policy environments. Then we will, respectively, describe the theoretical and methodological approach that we took for the analysis. This will result in the identification of an analysis of commonalities and differences between countries. The paper ends with a short reflection on the current position of the third sector in Europe.

## 2. Background

The third, or non-profit sector – commonly understood as a “social space beyond the market, the state, and the household” (Salamon and Sokolowski, 2016) – has played an important role in Europe. In many European countries, TSOs have a long tradition and fulfil vital functions in society, particularly in the

fields of welfare provision, education and labour inclusion (Evers and Laville, 2004; Enjolras et al., 2018). The majority of the approximately 13.6 million people working in the European social economy belong to TSOs (Monzon & Chaves, 2017). Several trends have affected the third sector, some of which date back two decades, others which are more recent.

In some respects, European third sectors are very different, with varying welfare state and third sector policy traditions (Esping-Andersen, 1990; Arts and Gelissen, 2010). One group includes corporatist welfare state systems such as **Germany, Austria, France and the Netherlands**. Historically, TSOs in these countries have developed a close relationship with the welfare state (Archambault et al. 2014). Typically, the significance of the third sector is grounded in a comparatively strong welfare state and a tradition of collaboration with government, particularly at the local level. The principle of “subsidiarity” is a central feature, especially with respect to church-related initiatives (Zimmer et al., 2004). This means that TSOs traditionally had a privileged position as the state’s partners in social service delivery. In France, TSOs have enjoyed quite a similar position, even though the role of church initiatives has been smaller. **Spain**’s welfare state tradition can best be described as Mediterranean-style, with a strong role for the Catholic Church and the family in the social domain (Ferrera, 2010; Chaves and Zimmer, 2017). Countries such as **Croatia and Poland** have post-Communist welfare states, in which third sector evolution started after the end of socialism, thereby significantly later than in other countries, and is still weaker (Aidukaite 2009; Cook, 2010). The **United Kingdom** is usually classed as a liberal regime. For example, Salamon and Anheier (1998) and Salamon et al. (2017) grouped the UK alongside the US, due to its combination of a comparatively large voluntary sector and low welfare spending. At the same time, the UK retained some social democratic regime features, based on pro-state attitudes fostered by the government’s wartime successes and working-class mobilization (op cit, 1998: 241, drawing on Kendall and Knapp, 1996, chapter 2). Such ‘pro-state attitudes’ have been under strain, and sometimes direct attack, in recent years. It is probably now safer to think of the UK as an evolving, unstable hybrid both containing and expressing a wide and complex range of social and political forces (see Macmillan and Kendall, 2019).

However, despite these marked differences, there have also been some cross-cutting developments in recent years. In particular, during governance reforms since the 1980s, so-called ‘New

Public Management' (NPM) approaches and practices included “a greater emphasis on performance”, especially through measurement of outputs, “the injection of market-type mechanisms” and “a wide spread substitution of contracts for hierarchical relation as the principal coordination device” in the public sector (Pollitt and Bouckaert, 2011: 10). As a result, TSOs are confronted with growing competition from for-profit organizations and with other TSOs, as well as stronger requirements for accountability.

Also, in the late 2000s, European countries were hit by the global financial crisis, which has been described as “the most severe financial crisis since the Great Depression” (Claessens et al., 2010). The economic downturn and cost of stimulus packages led to cutbacks in public spending at all levels of government (Lane, 2012; Zamora-Kapoor and Coller, 2014). These austerity policies in the European Union also deeply affected TSOs, which had, in all countries, been receiving at least some measure of public subsidy before the crisis (Pape et al., 2015). Simultaneously, the crisis also led to fewer donations and private grants for TSOs in Europe, particularly in Spain (Chaves et al., 2016), but also in countries with traditionally higher levels of private philanthropy, e.g. the Netherlands (Pape et al., 2015).

These general developments could be observed in all countries in our study. However, how they have affected TSOs appears to have been influenced strongly by historically-shaped institutions. In this paper, we examine the nature of this variation and its probable causes.

### **3. Analytical framework**

To understand the effect of policy environments on the strategic actions of TSOs, we apply the theory of fields developed by Fligstein and McAdam (2011; 2012). This theory aims to explain how stability and change are achieved by social actors in circumscribed social arenas, which are defined as “strategic action fields”. A field is a “basic structural building block of modern political/organizational life in the economy, civil society and the state” (Fligstein and McAdam, 2012: 3). Field theory is of general importance in the social sciences, as it provides a suitable way to address the structure/agency divide, as well as balancing micro and macro scales of analysis. In third sector studies, field theory can be

helpful for understanding the influence of the environment and institutional context on TSOs. In their study on the third sector in public policy provision at the local level, Stone and Sandfort (2009: 1072) argued that “the policy field frame is a structured analytical approach to filtering elements of complex institutional structures while acknowledging the agency that individuals exercise to shape these structures.”

The policy fields framework contains several theoretical elements, including policy domains, societal sectors, the structuration of fields, policy networks, and social skills (Stone and Sandfort, 2009). The structuration of fields refers to the individual actor and his or her ability or social skill to influence and be influenced by the structure of organizational fields and networks. Using the policy fields framework requires the following analytical steps: (1) determine primary policy domains, (2) specify relevant legal regulations (laws, vertical relationships and administrative authority), (3) determine which organizations have an interest in the problem and which have power to influence decisions, (4) specify linkages and ties among these actors, and (5) analyze how the structure of the local field constrains and/or enables organizational and individual action (Stone and Sandfort, 2009). An example of research that has used field theory in the context of the third sector is Macmillan et al.’s (2013) study in the United Kingdom. It showed how the third sector can be understood as a “strategic action field” consisting of organizations that are themselves fields and are part of vertical policy domains or sub-fields such as health and housing (Macmillan et al. 2013).

In this contribution, we focus on European TSOs in the welfare domain as a strategic action field, which we will discuss as vertically organized fields, embedded in national welfare systems and structured by partnerships between the state and the third sector. We define policy environments as the “broader field environments” in which each strategic action field is embedded (Fligstein and McAdam, 2011: 2). In our analysis of social TSOs, policy environments encompass all regulations, rules and instruments that govern the work of social TSOs in their respective countries. In the part on the effects on the third sector, we discuss how these changes in policy environments, particularly changes in welfare state and third sector policies, have affected social TSOs in the eight countries in our sample. Response strategies, in turn, refer to the organizational strategies that social TSOs have adopted in dealing with these changes. Response strategies included adaptation, active adjustment and exit strategies, which are

related to the long-term trend of the economization of the third sector (Maier et al. 2016). In the discussion on response strategies, we will refer to the notion of organizational resilience, understood as “the ability to respond productively to significant disruptive change and transform challenges into opportunities” (Witmer and Mellinger, 2016: 255-256). Organizational resilience is closely linked to social skills that social actors need in order to “create and maintain stable social worlds by securing the cooperation of others” (Fligstein and McAdam, 2011: 7).

Overall, the aim of our analysis is to show how environmental conditions for social TSOs in Europe have changed over the past two decades, how these changes have impacted the third sector, particularly in the social domain, and to what extent TSOs have been able to respond effectively to changing policy environments. In the following paragraph, we will explain how we collected data in the eight countries.

#### **4. Methods and data collection**

This article is based on empirical research undertaken as part of the Third Sector Impact project, funded by the 7<sup>th</sup> Framework Programme of the European Union.<sup>1</sup> Research was conducted in eight European countries (Austria, Croatia, Germany, France, the Netherlands, Poland, Spain and the United Kingdom). Data were collected and analyzed in 2014-2016 from the following sources:

- (1) Statistical data from secondary sources on the scope and size of the third sector, based on the conceptualization developed by Salamon and Sokolowski (2016). In this article we focus on a subgroup of the third sector, TSOs active in the social sector, which we shall for the sake of convenience refer to as ‘social TSOs’.
- (2) For each country, 20 to 30 in-depth interviews with representatives of umbrella organizations and policy experts. They covered seven topics, including personnel development (paid staff and volunteers), finances, legal regulations and organizational formats, third sector governance,

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<sup>1</sup> More information on the research design, the methods for data collection and analysis, the empirical data, the national reports and the participating institutions and individual researchers can be found on the project website: Third Sector Impact, <https://thirdsectorimpact.eu/> (accessed 9 November 2018).



public image, sectoral infrastructure and equipment, as well as inter-sectoral and inter-organizational cooperation.

- (3) An online survey among TSO representatives, covering the same topics as the interviews (see Enjolras et al., 2018). Between 75 and 250 responses per country were collected and analyzed according to a coding scheme. In the UK, the online survey was included in a regular survey and generated more than 1,000 responses. The online surveys were adjusted to national context and distributed via well-known communication channels and umbrella organizations. Due to the adjustments in each country, the surveys cannot be considered representative. However, the responses illustrate the perception of the main developments among third sector representatives and experts in the respective countries.
- (4) In each country, six in-depth case studies were conducted on organizational strategies for overcoming the challenges derived from the organizational field.

The focus of this article is on European social TSOs which we define as TSOs working in the welfare domain. Traditionally, in Europe, the majority of these organizations have been social service providers. However, social TSOs also include more advocacy-oriented organizations, such as patient organizations, as well as grassroots initiatives, community groups and social enterprises. The underlying rationale for our decision to focus on TSOs in the welfare domain is threefold. First, social TSOs form a large and highly visible part of the third sector in Europe with close to 40% of TSOs being active in social services (Salamon et al., 1999). Second, the welfare domain is the area of the public sector where government-non-profit partnerships are traditionally strongest (Archambault et al. 2014). Changes in government policies and cooperation mechanisms will therefore most likely have an effect on the third sector at large, even though not all social TSOs are directly cooperating with the state. The third reason for selecting one policy domain is related to the comparative analysis. Focusing on TSOs in one policy area in eight countries allows us to identify commonalities and differences throughout Europe, which are independent from the differences between TSOs in various policy areas.

The focus on social TSOs also implies certain limitations. Third sector development in other policy areas, such as sport or culture, might differ from our analysis. However, in general, the

development of TSOs in Europe is closely connected with the predominant trends in their policy environments, which are largely shaped by state regulations and public funding policies.

## 5. Findings

The comparative analysis of third sector development revealed interesting commonalities and differences among European countries. The following analysis is structured on the basis of (1) changes in the policy environment, (2) the effects on the third sector, and (3) the responses of the third sector.

### Changes in the policy environment

The analysis of the policy environment, as the “broader field environment” (Fligstein and McAdam, 2011: 2) of the strategic action field of social TSOs in Europe, included the institutional and legal context conditions that have affected European TSOs over the past two decades. The main transformation in the social domain is the introduction and continuation of public management reforms, which have profoundly altered the cooperation mechanism between the state and social TSOs throughout Europe.

In all countries, public management reforms have continued, although to varying degrees. The country that has gone furthest in this is the **United Kingdom**. Its third sector is considered strong because of its relatively wide ranging economic scope, scale and structure (Kendall, 2003; Salamon et al, 2017), but also because it is supported by a rich variety of public policy and practice arrangements, including the regime of charity law, elaborated tax provisions, institutions to foster “infrastructure” (specialist representative organisations functioning within the sector itself, and also operating from inside the state), and the existence of supportive policy discourses, well embedded in and interwoven with national traditions of both liberalism and social democracy (Kendall, 2009). New Labour’s pre-recession “mainstreaming” of this sector (Kendall, 2000) followed by the pursuit and crystallization of extreme austerity policies under the Coalition and Conservative administrations from 2010 onwards, served to dramatize, amplify, and generalize this instability, making it much more politically visible, and substantively consequential for the sector in terms of political and economic resources. While these

governments' rhetoric has remained upbeat – the latest version refers to charities as central to the “shared society” – now that David Cameron's “big society” has been abandoned – the realities on the ground have been deeply problematic. This has not only been because of severe cuts to relevant public social policy budgets, alongside the insensitive and crude application of NPM approaches; but also because of volunteering-related (including governance) challenges, and an increasingly difficult media environment, toxified by scandals (see Kendall et al, 2018).

In countries with a corporatist welfare system such as **Austria, France, Germany and the Netherlands**, TSOs have remained important players in welfare arrangements and social stability has been quite high (More-Hollerweger et al., 2014; Brandsen and Pape, 2015). The biggest change was the shift towards NPM reforms, in which TSOs lost their privileged position in welfare state arrangements. This was particularly the case in social welfare, where the establishment of quasi-markets increased controlling and accountability mechanisms within the sector. Competitive tendering procedures were opened up to commercial providers, whose share of the market has since been rising, particularly in areas like domiciliary care (Zimmer et al., 2016). In France, for instance, between 2005 and 2011, public grants were cut by 17% (3% less per year on average) while public contracts increased by 73% during the same period (10% per year on average) (Tchernonog, 2013). Extensive reporting obligations increased the administrative burden for TSOs: “Bureaucratization is an important keyword for us. We observed that many TSOs became so occupied with explaining and legitimizing their projects that not much time remains for their operational work” (Non-profit expert, Germany, June 2015). Also, due to the short-term nature of contracts, the third sector faces more difficulties in building long-term partnerships with governments and other stakeholders.

Sometimes the pressure came less in the shape of budget cuts than of increasing decentralization and complexity. Between 2005 and 2011, in France, for example, public funding to associations only decreased from 51% to 49%. However, this apparently minor decrease masks profound shifts within public funding (Tchernonog, 2013). Along with a more general decentralization process, the contribution of the national state to the third sector decreased in favour of territorial funding schemes. As a result, funds were parcelled out across governments at different levels and were therefore

increasingly variable and uncertain. Public resources most frequently come from territorial or local governments, linking them to specific projects and increasing the administrative costs for associations.

These reforms have changed how social organizations engage in service delivery. Until the 1990s, public funds granted full cost coverage. The development of quasi-markets and performance-related remuneration has led to a highly-differentiated array of contracts. Generally speaking, the financial risk of providing services has been shifted towards third sector service providers. Moreover, TSOs are generally not reimbursed for providing a supply structure, but only for providing the service itself. The increased accountability requirements in social service delivery can also constitute an impediment for organizational development, or as one TSO representative described it: “Many resources are wasted because of the funding system. We invest a lot of energy in subsidies and grant applications that work with a competitive tender system. If we do not win a grant, we lose the costs for investment and development.” (TSO representative, The Netherlands, September 2014).

Throughout the past two decades, some countries have also seen significant changes in third sector-specific legal regulations. A major change in **Spain** and **France** was the adoption of a Law on Social Solidarity Economy (SSE) in 2011 and 2014, respectively (Petrella and Richez-Battesti, 2016; Chaves and Zimmer, 2017). This law builds upon the criteria defining SSE: a purpose other than the distribution of profits, democratic governance, reinvestment of profits and compulsory asset lock. It included associations, cooperatives, mutual organizations and foundations. It also opened up the field of the SSE to commercial enterprises whose economic activity purpose is social utility (support to persons in vulnerable situations, combating exclusion and inequalities, education in citizenship, sustainable development) and whose management meets the following criteria: allocation of financial surpluses to a social mission and to compulsory reserves, no distribution of shares on capital markets and an equitable wage policy (with a wage scale from 1 to 10 maximum). These can be labelled solidarity enterprises of social utility (ESUS) by public authorities at a regional level (prefecture). In **Spain**, as a result of the lobbying activity of the national umbrella “Social Third Sector Platform” (PTS), new laws on social TSOs and on volunteering were adopted in 2015. In addition, tax incentives for donations to organizations serving the public good were introduced in 2014.

In the post-Communist countries of Europe, the legal frameworks for the third sector have also been strengthened over the past two decades. **Poland** has seen the development of a coherent legal framework for the third sector, most of which occurred prior to the 2010s (Nałęcz et al., 2015). Specifically, it was shaped by the Law on Foundations (1984), already introduced during Communist times, the Law on Associations (1989) and the Law on Public Benefit Activities and Volunteering (2003). These regulations form a consistent set of norms, which regulate the activities of TSOs and their relations with the state. There have not been any major changes to this legal framework in recent years. In the last two decades, partly due to an increase in public funding, the number of TSOs in Poland grew exponentially, from over 27,000 in 1997 to over 83,000 in 2012, with employment in the sector rising from 81,000 to over 123,000 jobs (Leś et al., 2016). However, public funding has fallen again in recent years. Also, despite the apparent stability and growth, there remains the possibility that the current government of the Law and Justice Party will make significant changes. A government plenipotentiary for civil society was established in 2016 and there were debates on the third sector in the National Development Council, an advisory body to the President. Further, in the online survey, many TSO representatives did not consider the current government as supportive and felt they were not taken seriously as a partner in the planning and delivery of social services. It is, as yet, hard to predict where this will lead.

During the same period, the third sector in Croatia also experienced notable legislative changes, notably the 2014 Law on Associations and the 2015 Law on the Financial Operation and Bookkeeping of Non-Profit Organizations (Bežovan et al., 2016). The former introduced an obligation for all associations to re-register, while the latter introduced more demanding procedures for tenders, financing and bookkeeping. Both were established with the stated aim of increasing the sector's transparency and strengthening financial control, although experts have criticised them as too restrictive and endangering the viability of smaller, especially newly established, grassroots associations (Bežovan et al., 2016). For instance, a TSO now needs to maintain double-entry bookkeeping for the first three years after establishment, which limits its activities. Such overregulation, as representatives of the third sector perceive it, is an unfavourable environment for strengthening social entrepreneurship and social

innovation (Bežovan et al., 2016). At the same time, these new trends can constitute a risk for more traditional or smaller TSOs which lack the capacity to adjust and adapt.

Overall, the main common changes of the policy environment for TSOs in Europe include the impact of NPM reforms on cooperation mechanisms between the state and the third sector, as well as a related decrease in public funding, growing accountability and reporting requirements and intensified competition between profit and non-profit providers over scarce funding resources. These trends have been stronger in European countries with a liberal, Mediterranean or post-Communist welfare system than in countries with a corporatist welfare system.

### Effects on the third sector

The changes in the policy environment have affected the strategic action field of social TSOs to varying degrees. This development can mainly be attributed to the differences in the tradition of welfare state and third sector policies in Europe. In the countries with a corporate welfare system, despite policy shifts, the overall size of the third sector has remained broadly stable. In both **Germany** and **France** (between 2008 and 2014), the number of TSOs has in fact been growing (Zimmer et al., 2016; CNCRESS, 2017); meanwhile, in **Austria** and **the Netherlands** the number of TSOs has remained stable (Brandsen et al., 2016; Simsa et al., 2016). However, changes in policy frameworks have led to changes in the composition of the sector. In Germany, the areas with the highest organizational growth rate have been health, consumer interest, education and international solidarity. Around 40% of organizations active in those fields were founded after 2000. Asset-based organizations, such as limited liability companies and foundations, grew sharply, while member-based organizations grew to a far lesser degree; 51% of limited liability companies and 50% of foundations were founded after 2000, as compared to only 19% of cooperatives and 23% of associations (Bertelsmann Stiftung et al. 2012). Thus, the composition of the sector is shifting in favour of TSOs closer to the market. In Austria and the Netherlands, similar trends can be identified. In France, we can observe an increase in the number of TSOs rather than an organizational evolution in their policy fields (CNCRESS, 2017).

With regard to the revenue structure of TSOs, there were important shifts in the shares of different income sources. While in the 1990s, public grants were still the biggest funding source for German TSOs, funds generated by business activities, e.g. service charges and fees, are now the most important source of revenue (Priller et al., 2012). Due to project-based public grants, TSOs that are highly dependent on public funds have been confronted with short planning intervals and often lack the resources necessary to invest in a sustainable infrastructure (Priemer et al., 2015; Simsa et al., 2016). In Austria, too, the overall share of public funding has been decreasing, whereas market income has gained importance, though to a lesser degree than in Germany. Membership fees and donations have increased slightly and public funding still accounts for more than 50% of TSOs' budgets (Pennersdorfer et al., 2013). Nevertheless, besides direct cuts in public funding, TSOs have experienced indirect or "creeping" cuts, such as no adequate adjustments to inflation, public funder expectations of an increase in output even with the same level of funding, or the growing need to pre-finance services.

To summarize, in all of these countries, TSOs have faced budget cuts, especially at the regional and the municipal levels, though these were less dramatic than in Southern Europe. Simultaneously, many third sector representatives reported a slight deterioration in public opinion towards the third sector, with reduced levels of public trust in the sector (Simsa and More-Hollerweger, 2013). This means that TSOs have found it harder to generate the necessary public support for their work at a time when they were already under pressure.

Despite the cuts in public grants, exacerbated by the crisis of 2008, TSOs in **France** have proved to be quite resilient (Petrella and Richez-Battesti, 2016). They still account for more than 10% of total employment in the economy. Although third sector employment decreased slightly in the crisis years of 2011 and 2012, it has subsequently recovered, with a total increase of 0.8% between 2008 and 2013. At the same time, employment in the rest of the French economy increased by only 0.2% during this period. Since 2008, employment in SSE has in fact been more or less stable, even showing a slightly positive trend. Regarding the size of the sector, the number of organizational dissolutions increased slightly between 2008 and 2010, but decreased afterwards and is now even lower than before the crisis (CNCRESS, 2014). Furthermore, the 2014 Law on Social and Solidarity Economy created new financial tools (enlargement of socially oriented pension funds, support for social investment, tax incentives for

philanthropy and social impact contract, etc.) and thereby contributed to the process of financial hybridization in French TSOs (Petrella and Richez-Battesti, 2016).

Other countries have been hit harder. In the **United Kingdom**, the funding environment proved extremely challenging for TSOs, although there has been variation in the extent of austerity measures taken according to policy subfield. Many organizations have ceased to operate, downscaled, or repositioned themselves relationally towards the state in response to the deterioration of local and national conditions. Meanwhile, others have maintained activity levels, although the sustainability or otherwise of measures taken to allow this is often considered unclear at best, or severely compromised at worst. Much more recently, large datasets on the third sector have shown significant variation by subfield and according to other features, including size, age and the extent of deprivation encountered geographically, but it is also possible to present an aggregated picture (Clifford, 2017; Kendall et al., 2018). Overall, perceived shortfalls in local government and foundation funding have been experienced as the most prevalent financial constraints in recent years (Kendall et al., 2016).

In **Spain**, traditional quangos (quasi-autonomous NGOs) came under pressure in the aftermath of the 2012 economic crisis, which had a greater impact there than in the other countries in our sample. Austerity was felt across Europe, but had a particularly strong bearing on the third sector in Spain (Zamora-Kapoor and Coller, 2014). As a consequence of the economic crisis, Spain had one of the highest unemployment rates in Europe (around 25%), many working poor and people at risk of severe poverty, and a major increase in inequality. Since the major fields of the third sector are poverty, immigration, social inclusion, homelessness, the unemployed and services to vulnerable people, the demand for third sector services has greatly increased (Fundación Lealtad, 2013), or as one expert explained: “TSOs now have to assist more people with fewer resources.” (Non-profit expert, Spain, June 2015). At the same time, the crisis had an uneven impact on social TSOs. Between 2010 and 2013, public subsidies and grants for these organizations decreased by 30.1% (Chaves et al., 2016). Nearly a quarter of TSOs dissolved, more than half were involved in human resources and budget restructuring processes, while only a few percent - in general, the big TSOs - maintained or increased their level of activity. Simultaneously, however, new activist organizations have become stronger in Spain and are able to mobilize for social needs.



In both **Croatia** and **Poland**, given the structural weaknesses of the third sector, financial cutbacks hit harder than in countries where the sector was already better established. On the one hand, there had been a steady increase in public finance over the preceding decades. On the other, it has remained low, compared to other countries in Europe and has, in some areas, even been reduced due to budget cuts. However, it should be noted that the availability of reliable statistics makes it impossible to pinpoint the effects precisely. In Poland, the responses to the online survey show that TSO representatives share a widespread desire for more public assistance, combined with a lack of satisfaction with legal regulations and relations with public bodies (Leś et al., 2016). Likewise, in Croatia, the lack of public funding was seen as a significant problem for third sector development (Bežovan et al., 2016).

## Responses of the third sector

The responses of social TSOs to changes in their policy environments have shown strong commonalities across Europe. TSOs have adopted business-style management methods with regard to social competences, the design of organizational structures, the management of diversity, contradictions, flexibility and external relationships (Simsa et al., 2016). In particular, TSOs working in the areas of health and social services have adapted their governance structures and management styles, a move necessary to gain legitimacy in the eyes of stakeholders.

At the organizational level, many TSOs have tried to professionalize their management and strengthen their entrepreneurial dimension. As elsewhere, most have adopted managerial tools borrowed from the private sector (control, quality management, accountancy) in order to improve their managerial professionalism, though in different ways (Petrella et al., 2014; Petrella and Richez-Battesti, 2016). To reduce costs and survive in a more competitive environment, TSOs have been searching for economies of scale and synergies by merging or creating networks at the territorial level. Organizational innovation, e.g. pooling resources, setting up umbrella organizations, networking and forming new alliances with the private sector, has become a key response strategy (comp. Tzifakis et. al., 2017). Some successful organizations adopted growth strategies in alliance with the private sector. In doing so, TSO

representatives, however, emphasised the importance of preserving the social qualities of the third sector: “In order to be convincing to our stakeholders, the social purpose of our organization has to be set in stone” (TSO representative, France, November 2015).

TSOs are not only expected to act in accordance with accounting standards, but are increasingly encouraged to measure social impact, for instance, by applying the Social Return on Investment method (Maier et.al., 2015; Simsa et. al., 2014). This pressure comes not only from governments, but also from philanthropists and other private donors. TSOs often compete with one another when they apply for public contracts and donations. However, given the nature of social problems, there is an equal need for collaboration within the sector. This collaboration takes place in the public domain (e.g. in the context of caring communities) and in case management (Grohs and Bogumil, 2011).

Fundraising and diversification of resources have become more important. This has included new forms of financing such as crowd-investing, crowdfunding and venture philanthropy, though these have been less significant in practice than is often suggested. TSOs have competed in a growing number of tenders, which have carried additional administrative tasks and led to bureaucratization. In **France** and **Spain**, TSOs faced major difficulties in mobilizing private resources. One was that the privatization of resources came from an increase in users’ contributions for the sale of goods and services, which raised issues of unequal access to services (Petrella and Richez-Battesti, 2016). Sponsorship, venture philanthropy and crowdfunding were difficult and limited in scope. These difficulties were hard to overcome, due a lack of competence and time on the part of the organizations, as well as a failure to communicate impact effectively to private investors. As public and private funds decreased during the economic crisis, Spanish TSOs mainly adjusted by downshifting resources, attracting more volunteers and reducing the number of paid staff. Facing similar problems, TSOs in Croatia and Poland have developed similar strategies. Mostly, these organizational strategies were aimed at improving their position vis-à-vis state institutions. More organizations have been developing economic activities and competing for “weighty” EU funds, in which they have been relatively successful. However, TSOs in both France and Spain have differed in their capacity to adjust to the changes in their policy environment: “Some organizations are able to develop in other policy areas, as they possess comparative knowledge and opportunities” (non-profit expert, Croatia, October 2016). Depending on their organizational

capacities, TSOs can choose for different survival strategies: Some barely survive; others succeed due to professionalization, access to EU funding and new management techniques (Bežovan et al., 2016).

Generally, three different types of responses could be identified: (1) adaptation, (2) strategic adjustment, and (3) exit strategies. Adaptation included all organizational strategies to conform to the market logic introduced by governance reforms. Strategic adjustment included all organizational strategies TSOs adopted to adjust to the changing policy environment without neglecting their characteristics as third sector organizations. Some TSOs pooled resources in order to collaborate in the face of increased competition. Other TSOs invested in social innovation to improve their position. The third organizational strategy was exit, including closure of the organization as well as organizational reorientation. Although the overall size of the third sector remains relatively stable in Europe, there have been social TSOs that have left the strategic action field, either by readjusting their organizational mission or by terminating work altogether. The TSOs that adapted most successfully had the best prospects of organizational sustainability, either by growing or by developing a unique selling point for the organization. Furthermore, many TSOs applied strategies to reduce supply and increase the density of work. Strategic adjustment in many cases included organizational innovation that helped TSOs to reorient themselves and flourish despite difficult circumstances.

These developments could fundamentally transform the structure of the third sector in countries such as France and Spain, where it is still mainly comprised of small organizations. In turn, this may raise questions over participation and democratic governance. While it is too early to tell, the period following the global financial crisis has seen the emergence of large third sector groups and hybrid organizations developing partnerships with private businesses, in particular in the fields of work integration and social services. Many have started to think about self-sustainability and have been considering forming new types of organizations that provide economic support to their social mission, such as social enterprises and social cooperatives.

However, the long-term significance of these developments is hard to gauge at this point. It is hard to say whether they constitute a fundamental shift towards market-based TSOs, such as social enterprises and cooperatives. In some countries, such as France and Spain, these organizational types have a longer history. Common to both countries is that the positions of the SSE and the cooperative

movement are strong in terms of staff, economic activity and support by national umbrella organizations (Petrella et al., 2014; Monzon and Chaves, 2017). In other countries, by contrast, such concepts are relatively new. In Germany, the “entrepreneurial company” (Unternehmergesellschaft) was introduced in 2008 in order to facilitate the establishment of social enterprise start-ups (Weitemeyer 2014: 49). Additionally, the auditing requirements for small cooperatives were simplified in 2017. In the Netherlands, social enterprises are gaining ground, and without a specific legal status. As of 2017, more than 350 social enterprises had joined their umbrella organisation in the Netherlands (Social Enterprise NL, s.a.). However, it is hard to gauge the significance of this, as they are still marginal and there has been little pickup in national policy debates. At best, this is a transitional phase (Witkamp et al., 2011), but it could be just a passing fad. In Poland and Croatia, there was still a limited understanding of what social enterprises are, as well as a lack of finance, human resource capacity and expertise (Vincetić et al., 2013).

## **Discussion and Conclusion**

Despite increasing difficulties in the regulatory and financial environment, the third sector in Europe has generally proved remarkably resilient and adaptable to changing policy environments. Although the European financial crisis has dented the growth of the third sector in some countries, there has been no dramatic drop or displacement. Overall, the number of social TSOs has been stable or even growing. The majority of TSOs have proved to be resilient in dealing with the changes in the policy environment.

Within this general trend, there are noticeable differences between countries. In France and Germany, the numbers of social TSOs are again growing, while in Austria and The Netherlands the numbers remain stable. In Spain, traditional TSOs have come under pressure in the aftermath of the economic crisis, whereas new activist organizations have become stronger. In Central and Eastern Europe, the third sector only emerged at the end of Communist rule and collaboration between the state and the third is still less stable, which has left the latter more vulnerable.

Overall, the European financial crisis and subsequent austerity policies have not unbalanced the third sector in Europe. With respect to state – third sector relations, what we have observed is basically

the continuation of trends that had set in well before the crisis: the gradual unravelling of traditional modes of partnership and, under the influence of New Public Management, a greater emphasis on contracting-out and managerialism, which is particularly visible in the welfare domain.

The resilience of the sector derives from its adaptability in the face of such trends, which means that the major changes in social TSOs are less quantitative than qualitative. Our findings confirm earlier studies that observed a qualitative change in the nature of TSOs (Evers, 2005). Hybrid organisations, once an obscure phenomenon, have now become more common, which is reflected in third sector research (Henriksen e.a., 2015; Schnurbein e.a., 2018). Social TSOs have adopted business-like methods and business-like organizational forms, not only to diversify resources, but also to gain legitimacy in the eyes of existing funders. This has led to further professionalization, but also to further commercialization. Those organizations that have been able to scale up activities have generally been better equipped to survive and grow.

Academically, this development had led to a convergence of debates on the third sector and social enterprises. Whereas these were formerly to a large extent separated, they are increasingly dealing with similar issues and organisations (Baglioni, 2017). This was symbolically reflected in the revised third sector definition published in this journal (Salamon & Sokolowski, 2016) which relaxed the non-profit criterion that was previously so contentious.

Another qualitative shift has been the renewed localisation of the third sector. In France, Spain and The Netherlands, decentralization has led to a growing relevance of local TSOs vis-à-vis national umbrella organizations. Due to an increase of funding opportunities at the municipal level, social TSOs in these countries have increasingly shifted their activities to the local level. Potentially, that makes it worthwhile for third sector research to engage more fully with discussions on service innovation and collaborative innovation.

Although we have emphasized the basic stability of the third sector, it is worth noting some important developments that could change the picture. There may be existential threats to the third sector, but they are less economic than political, and (so far) they mostly affect TSOs outside the welfare domain. In certain European countries, most visibly in Hungary and Poland, the third sector has again

become the subject of political controversy and repression. It remains to be seen whether this constitutes a blip in the historical pattern of growth or a turning-point.

Another, more hopeful development is that there is a growth of new third sector organisations. There is a notable rise in the visibility of activist groups (within cities, for instance, see Domaradzka, 2018). In the area of social services, grassroots organisations have emerged to fill the gap between a rising market and a retreating state (for example, tenant cooperatives in overheated housing markets, see Brandsen & Helderman, 2012; Suter and Gmür, 2018). Given the scarcity of reliable statistics, it is hard to assess the overall impact of such initiatives.

In other words, future third sector research has several worthwhile ideals to pursue. The first is to improve our quantitative measurement of the third sector, which is still constrained by inadequate or missing statistics. The second is to better understanding the effects of the qualitative change that social TSOs have been going through, as hybridisation has been spurred by shifts in governance. The third is to document and map the rise of new kinds of third sector organisations underneath or at the edges of our current frame.

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