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THE MARKETISATION OF UK  
EMPLOYMENT PROGRAMMES:

THE IMPACT ON A THIRD  
SECTOR ORGANISATION

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**PhD in Social Policy**

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**2013**

## DECLARATION

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

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**Hayley Bennett**

**April 2013**

## ABSTRACT

Since 1999 UK employment programmes (known as welfare-to-work programmes) have been delivered through the procurement of services from organisations outside of the public sector. Managed by contractual arrangements and arranged in a quasi-market system controlled by the state, private and third sector organisations compete to secure contracts predominantly based on payment-by-results and competitive tendering processes. This thesis used an instrumental case study to analyse the impact of the welfare-to-work quasi-market on a third sector organisation based in Scotland. Using a qualitative mixed-methods research strategy including 20 in-depth interviews, 150 documents, an ethnographic study and financial analysis of the organisation's accounts, the thesis presents an in-depth insight into the development of the welfare-to-work market and its changes over time and the impact this had on instigating organisational change in a third sector organisation. Drawing on transaction cost theory, neoinstitutional theory and resource dependency theory the study found that activities, structure, and management processes changed in line with changes in its organisational field in order to attract and maintain resources and gain legitimacy. Furthermore, the organisation under investigation faced financial management tensions as it sought to balance its involvement in service delivery with transaction costs associated with market participation. The thesis found that the dependence on resources from complex quasi-markets relations creates new power asymmetries between delivery organisations and the state.

## ACKNOWLEDGEMENTS

I would like to acknowledge all those who have helped and supported the development of this thesis. In particular, I would like to thank my supervisors, Professor Jochen Clasen and Dr Alison Koslowski at the University of Edinburgh. I would also like to thank Dr Gemma Donnelly-Cox at TCD for her support during my time as a visiting scholar in Dublin. Thanks also to Abigail Howard who helped establish the PhD and guided me through the first year, and similarly Dr Katherine Trebeck for her support and guidance. I would have been unable to produce this thesis without these individuals and all those who kindly took part in interviews and collected archived documents and information during the fieldwork. The employees of Albise have been supportive and accommodating during the research period and I would like to acknowledge their importance in producing this thesis.

A number of individuals from the University of Edinburgh provided much valued assistance. In particular I'd like to thank Dr Alexander Goerne, Dr Elke Heins, Dr Martin Pullinger, Stephan Koeppel, and Catherine-Rose Stockton-Rankin for their feedback on draft chapters and for helping me through the difficult final weeks of the thesis writing process. I'd like to also thank the SSPS doctoral students at the University of Edinburgh for their support, particularly my past and present office mates in 3.15.

In honesty the thesis would not exist without the support of John Fitzpatrick. I would like to thank him for his continual financial and moral support, as well as much needed encouragement.

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## LIST OF ABBREVIATIONS

ALMP	Active Labour Market Policy
ATFJ	Action Team for Jobs
CBC	Community Benefit Clause
CEO	Chief Executive Officer
CP	Community Programme
CMF	Contract Management Framework
CRM	Customer Relationship Management
CSF	Critical Success Factor
CWEP	Community Work Experience Programme
DoE	Department of Employment
DSS	Department for Social Security
DWP	Department of Work and Pensions
ES	Employment Service
ET	Employment Training
EU	European Union
ESF	European Social Fund
ERSA	Employment Related Services Association
ERSS	Employment Related Services Framework
EZ	Employment Zone
FCR	Full Cost Recovery
FND	Flexible New Deal
FTET	Full-time Education or Training
HA	Housing Association
HR	Human Resource
IB	Incapacity Benefit
ILM	Intermediate Labour Market
ICT	Information Communication Technology
IT	Information Technology
ITT	Invitation to Tender
JCP	Jobcentre Plus
JSA	Jobseekers Allowance
KPI	Key Performance Indicator
LA	Local Authority
LTU	Long Term Unemployed
MP	Member of Parliament
MPEZ	Multiple Provider Employment Zone
NAO	National Audit Office
NCVO	National Council for Voluntary Organisations
ND	New Deal
NDDP	New Deal Disabled People
NDYP	New Deal Young People
NPM	New Public Management

OFTS	Office of the Third Sector
OS	Organisational Studies
PES	Public Employment Service
PtW	Pathways to Work
RDT	Resource Dependency Theory
SCVO	Scottish Council for Voluntary Organisations
SDS	Skills Development Scotland
SEU	Social Exclusion Unit
SLA	Service Level Agreement
SRS	Star Rating System
TCT	Transaction Cost Theory
TEP	Transitional Employment Programme
TfW	Training for Work
TU	Trade Union
TSO	Third Sector Organisation
UK	United Kingdom
US	United States
WP	Work Programme
VSO	Voluntary Sector Organisation



# CHAPTER 1 - INTRODUCTION

Since 1997 consecutive UK governments have introduced and administered employment programmes aimed at moving individuals into the labour market through a series of welfare reforms and a range of “welfare-to-work” programmes (Bredgaard and Larsen, 2008; Finn, 2008). In most cases welfare-to-work programmes involved the provision of government funded support services to benefit claimants and jobseekers delivered by non-public sector organisations that competed to secure service delivery contracts and outcome payments (Finn, 2005a; Finn, 2010). This approach to welfare service administration created a welfare-to-work quasi-market based on programme tendering and competitive bidding processes between a range of organisations which differed in size, history, sector and legal arrangement. Due to the use of competitive contracting process the quantity and the size of private sector organisations, (which viewed public services as a commercial opportunity with profit-making possibilities) involved in the delivery of front-line employment services and in newly created supply chain management positions rapidly increased between 2000 and 2010. At the same time a range of non-distribution organisations (which are referred to throughout this thesis as third sector organisations), became involved in these tender competitions to secure public service contracts for the provision of employment services to citizens in receipt of out of work benefits.

Prior to the introduction of the quasi-market, employment services were delivered predominately by the public employment service (PES), or through a myriad of organisations commissioned to provide specialist support or training (Finn, 2005b; Bredgaard and Larsen, 2008). The creation of the welfare-to-work quasi-market and the use of competitive tendering, which replaced the previous policy and

programme delivery arrangements, were described by the UK government at the time as innovative and efficient (DWP, 2007a; DWP 2008a). By 2010 the quasi-market dominated the administration of welfare services and was heralded by the incoming Conservative led coalition government as an example of best practice for other areas of public service delivery (HM Government, 2012).

This thesis explores the impact of the introduction of the welfare-to-work quasi-market on a Third Sector Organisation (TSO) based in Scotland. It explores issues of organisational change within the shifting policy context of the delivery of employment programmes during the late 1990s and 2000s. For ethical reasons (relating to commercial confidentiality), the organisation which is the subject of this research is known throughout the thesis under the pseudonym 'Albase.' The organisational history and background of Albase is covered in detail in chapter five but briefly introduced here.

Albase was established in 1983 in central Scotland and delivered employment programmes aimed at providing temporary employment for long term unemployed people. Albase was involved in regeneration and local employment programmes since the 1980s, although over time it diversified its activities into other policy areas including the environment and sustainability agendas. Whilst it continued to operate its traditional activities, and diversified into other related policy areas from the late 1990s, Albase also became involved in the delivery of welfare-to-work programmes and competed for contracts against private and public sector organisations.

At the time of writing this thesis Albase is a registered charity limited by guarantee and as such, it does not have shareholders, pay dividends or generate private and

personal profits. Since the mid-2000s it considered itself a social enterprise. To provide some indication of the size of the organisation studied in this thesis, in the first recorded accounts Albase registered ten employees and a turnover of approximately £600,000 per year. In the accounts for 2010 Albase recorded an income of over £32million and employed 871 people in the delivery of employment, regeneration and environmental programmes<sup>1</sup>.

Whilst the thesis traces the development of the organisation over its life course (from 1983 to 2010), the focus of this research is on the interaction between Albase and their organisational field, in particular the introduction of the welfare-to-work quasi-market in 1999. Using a longitudinal qualitative case study of Albase the aim of the thesis is to explore how the organisation changed over time, and how this was affected by the changes occurring in their organisational field. As such, the thesis provides a descriptive account of changes in the policy field and the welfare-to-work quasi-market, and analyses Albase's organisational change in this context. The remainder of this chapter provides the policy context and background information for the thesis and outlines the thesis structure. It concludes by discussing the key findings from this research, and the implications of these findings.

## 1.1 Research context

Service delivery arrangements and the relationship between the state and delivery organisations (from both the third sector and the private sector) experienced considerable reform during the 1990s. Successive government policies led to an increase in the use of contracting and service purchasing from non-public sector organisations. Whilst this was prominent in welfare-to-work and employment

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<sup>1</sup> Anon Doc 60, 2010



support provision, it was also a dominant policy in a number of other public service areas. As such, TSOs became increasingly involved in the delivery of a range of public services in the UK over the 1990s and 2000's.

A number of commentators (Carmel and Harlock, 2008; Alcock 2010b; Billis, 2010; Macmillan, 2010) noted that the increased role for TSOs in public service delivery was associated with the Labour government's agenda to 'modernize' public services in the UK (Cabinet Office, 1999). According to this literature the consecutive Labour governments (from 1997-2010) focussed on the development of the sector's role in shaping and delivering public services as part of their broader public service reform programme (Billis, 2010). As such, the government's approach to reform incorporated an emphasis on the role of TSOs in the delivery of public services and included an endorsement of TSOs across a wide range of policy areas.

As part of the agenda to increase contracting out and the role of TSOs in this context the UK government researched, promoted and published a number of policy papers and programmes. This included the publication of a major review (HM Treasury, 2002) to explore the "value added" aspects of the third sector. According to Osbourne and McLaughlin (2003, p. 577) the review stated that the third sector may have comparative advantage in terms of, "specialist skills/ knowledge, the ability to involve people in service delivery; their independence and ability to innovate; their lack of institutional baggage; and their flexibility, responsiveness and (again) their ability to innovate". The government also sought to increase partnership working (across government and within the sector) and published a Third Sector Action plan in 2006 which called for departments to consider investing in the capacity of the sector and facilitate the involvement of the broadest possible range of suppliers in

commissioning exercises (McDonald *et al.*, 2007). Notably, the government also formed The Office of the Third Sector (OFTS<sup>2</sup>) in 2006 to ensure that the increase in public service out-sourcing across policy areas was underpinned by TSO involvement (Macmillan, 2010).

With the increase in public service contracting to organisations outside of the public sector the Labour government developed policies and programmes aimed specifically at developing and funding TSOs to organisationally adapt to the requirements of public service markets, service delivery programmes and competitive contracting systems. According to Carmel and Harlock (2008) and Macmillan (2010) the availability of financial resources and support (including small grants and capacity building funds) was an attempt by the government to ensure that TSOs were able to compete against private sector contractors to secure the contracts to deliver public services. For example the Capacity Building Programme was introduced (Home Office, 2004) to encourage TSOs to become more organisationally capable of delivering services and to adopt specific business-derived quality systems; to set up and then achieve performance targets; to replace volunteers with paid staff; and to ensure that both staff and board members were trained to standards acceptable to government and other funders (Cairns *et al.*, 2005; Kelly, 2007; Carmel and Harlock, 2008).

As part of the OFTS and the drive to support organisational adaptation to the new contracting environment there was also a policy emphasis on a relatively new term and organisational form- the 'social enterprise'. The government actively promoted the 'social enterprise' term and concept to both policy makers and delivery partners

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<sup>2</sup> The OFTS was replaced in May 2011 by the coalition government by the Office for Civil Society

(see Brown, 2003; Teasdale, 2010a). According to Alcock (2012) through a concerted effort between 1997 and 2010 the UK Labour government and the devolved administrations managed to instil the key concepts of the third sector and social enterprise into the discourse of both public policy contexts and wider society. Government policy stressed that, “social enterprises are part of the “third sector”, which encompasses all organisations which are nongovernmental, principally reinvest surpluses in the community or organisation and seek to deliver social or environmental benefits” (OTS, 2006, p. 10).

## 1.2 New Public Management reforms

Whilst the focus on the role of TSOs covered a number of policy areas and government departments, the delivery of employment and welfare services was one policy area where the government introduced New Public Management (NPM) delivery reforms (based predominately on contractualism) alongside an emphasis on the third sector (Finn, 2005; 2007). Contracting-out employment services to non-public agents was a popular NPM approach pursued by a number of countries (see Considine, 2001; Bredgaard and Larsen, 2006; Sol and Westerveld, 2005) with some proclaiming that its advantage as an administrative method was because it puts competitive market forces directly at the service of government (Metcalf and Richards, 1990).

At the same time as the introduction of contracting approaches to service delivery, employment and labour market policy was experiencing ideological and political reforms. ‘Activation’ policies were introduced in a number of countries, but particularly in the UK, based on the belief that individuals are better off in work and that support programmes would help the long term unemployed re-enter the labour market (DWP, 2002). In this context reforms carried out under the Labour

government between 1997 and 2010 were underpinned by the rationale that the welfare state should offer, “work for those who can; security for those who cannot” (HMSO, 1998 p. iii) and based on the ideological belief that “the best welfare policy of all is work” (DWP, 2006a, p.iv).

Part of the activation reforms involved the introduction of ideas of reciprocation welfare reform through “matching rights with responsibilities” (DWP, 2006a, p.iv). Some have argued that the link between rights and responsibilities was part of a larger agenda to transform the conception of citizenship, which focused on activation, self-responsibility and labour market participation (Betram, 2010; Prabhaker, 2002). Similarly, it has been noted that the rise of ‘contractualism’ led to radical changes in the relationship between the unemployed person and the state. This was because part of the design of activation and conditionality measures involved jobseekers entering into ‘welfare contracts’ with the state to receive benefit payments and services (Finn, 2005). Furthermore, it has been argued that the use of contractual relationships in the provision of welfare services ensured that rights and obligations were legally imposed on both parties involved in the agreement (Sol and Westrveld, 2005) and as Carney and Ramia (2002) contend, this reflected the emergence not merely of the use of contractual ideas as policy tools, but the ascent of broader social organisation principles based on reciprocity. Whilst the introduction of contractualism affected a number of aspects of the delivery of employment and welfare services, it is the reform of the administration of services and the use of competitive processes for external organisations which is the focus of this research.

### 1.3 The UK welfare-to-work quasi-market

This thesis adopts Le Grand and Bartlett's (1993) definition of a quasi-market which distinguishes it from a pure market by three characteristics. First, in a quasi-market competition need not necessarily be driven by the profit motive, because non-profit and public organisations may also be competing. Second, a quasi-market for social services is based on public funds which are made available by the government. Third, the purchasing power in a quasi-market does not lie with the individual client, but with an organisation that acts as a client on behalf of the ultimate client, in this case the Department of Work and Pensions.

According to Struyven and Steurs (2005, p.212) in a context such as welfare-to-work, "contracting-out means that the former public-sector function is subject to private-sector competition, where the public provider can continue to act as one of the competing actors – in this sense contracting-out stands for a quasi-market arrangement." Furthermore, the introduction of NPM reforms and the quasi-market arrangement led to a change in the purpose and management of the public employment service in the UK. Not only did the quasi-market create a new institutional arrangement for the design and delivery of employment programmes but due to the inclusion of market principles it also involved the introduction of new ways of monitoring and managing service delivery. As Finn (2010, p.289) argues, "reforms have involved radical change in the bureaucracies and institutions that deliver employment services and in unemployment and social assistance benefits. Many national governments have decoupled agencies from central Ministries, with policy makers now steering their systems through performance targets and agreements."

#### 1.4 The Department of Work and Pensions

Since 1997 the Employment Service (which was replaced by the Department for Work and Pensions in 2000) has acted as the commissioning body and managed and monitored the delivery of welfare-to-work programmes across the UK (DWP, 2008a). It promoted a NPM inspired contracting process involving the introduction and delivery of welfare-to-work programmes which not only developed the activation agenda, but provided resources to build the capacity and number of providers in the market (Wright *et al*, 2011). It also favoured the growing use of both private sector and third sector organisations based upon the rhetoric of superior client knowledge and innovative delivery methods, claiming that, ‘these organisations can bring a distinctive approach to service delivery, based on their specialist knowledge, experience and skills’ (DWP, 2006a, p.74) and ‘they [the independent sector] can also offer more scope for innovation, developing new and creative ways of working with customers’ (DWP 2008a, p.7).

Often considered as ‘independent providers,’ (DWP 2008a) private and third sector organisations competed to deliver short-term employment programmes ranging from two to five years in length in specified localities and to particular claimant groups throughout the UK. Contracts included specified targets and outcomes and providers often competed on lowest cost in tendering processes (Finn, 2011a). In this arrangement the government agreed to provide financial resources and the transfer of unemployed claimants, whilst the delivery organisations agreed to provide services which moved a target number of individuals into the labour market. Contracts emphasised and were underpinned by the requirement to fulfil performance measurements and be reimbursed through a targets for results approach (see Struyven and Steurs, 2005).

Involvement in the quasi-market offered TSOs access to large financial resources. Between 2000 and 2005, the DWP spent on average £1.1 billion annually on employment programmes, including annual spending of about £400 million on New Deal programmes alone (DWP, 2006b). In the DWP's accounting for 2010-2011 the DWP recorded expenditure of £2.3 billion on employment programmes alone, the majority of which is spent through the welfare-to-work quasi-market (DWP, 2011d). This market-based approach for the delivery of employment programmes played a key part in the UK welfare reform agenda of both the previous Labour administrations, and continued to operate under the Conservative-led coalition Government which took over and continued with the welfare-to-work quasi-market policy in 2010 (see Davies, 2008; DWP 2010).

The existing literature suggests a number of reasons why welfare-to-work policies were favoured by consecutive governments and all three major political parties in the UK. Both Domberger (1998) and Finn (2011d) outlined a number of reasons why public agencies subcontract with external providers and why the delivery of employment services was transferred to non-public sector organisations. According to Domberger (1998), the benefits of contracting are: specialization (the government concentrates on specifying and controlling performance measures), market discipline (transactions take place under contracts), flexibility (the governments can use a wide range of public and private providers), and cost savings (the government can purchase service at the same level of quality, but at a lower price).

Finn (2011d) contends that contracted employment services may complement public employment services and utilise specialist skills and/or additional capacity by expanding the pool of potential providers, and that subcontracting also enables public authorities to expand or reduce service delivery capacity without assuming the long term commitments involved in public sector employment. Finn also

contends that contracting out allows governments to introduce and terminate policies and programmes with providers by redesigning tenders and entering a new bidding phase when they feel necessary. Despite the literature by these authors there remains relatively little information and empirical research on the welfare-to-work quasi-market in terms of the organisations involved, how cost savings were made at the organisational level and the impact of contractualism on policy administration and organisational delivery.

### 1.5 Research aim and main research questions

This thesis is based on a single case study and adopts a qualitative mixed-methods approach including unstructured interviews, documents analysis, accounts analysis and a short ethnographic study period. As previously discussed the 'case' for the research is an organisation referred to throughout as 'Albase'. This research is a case study of third sector organisational change, with particular consideration of the introduction of the welfare-to-work quasi-market into their organisational field.

*Research question one: How and why has Albase's core activity (the delivery of ILM programmes) changed and adapted to the introduction of competitive contracting into the organisational field?*

*Research question two: To what extent has the introduction of a competitive contracting environment affected organisational change (structure, culture, ways of organizing) in Albase?*



## 1.6 Thesis structure

There are nine chapters in this thesis inclusive of this introduction chapter. The remaining eight are outlined below.

Chapter two provides a critical discussion of the existing literature on the third sector in the UK welfare-to-work quasi-market. It discusses the dominant approaches to researching welfare-to-work and contends that the existing knowledge and published research on the involvement of third sector organisations is extremely limited. As such, the chapter reviews the literature on the role of third sector organisations in public service contracting and quasi-market arrangements in other policy contexts and in other countries. The purpose of casting the net wider is to identify the common themes and trends in third sector research and to gain a better understanding of the main arguments regarding the impact of public service contracting on third sector organisations. This chapter concludes with a discussion of the methodological approaches adopted in the extant literature.

Chapter three proposes a theoretical framework for exploring organisational change in Albace. It offers an ontological and epistemological discussion based on major debates from organisational studies regarding how organisations and change can be conceptualised. This chapter also presents the theoretical contributions which framed this thesis. The approach adopted explores the “adaptational mechanisms” theories; resource dependency, neoinstitutional sociology, and neoinstitutional economics (transaction cost economics). The three theories are discussed with particular attention given to how these theories explain organisational change and the outcomes of change. Whilst there are some interrelated themes in these theories there are key differences in how they explain change in quasi-market contexts. The purpose of this approach was to create a research study whereby the exploratory nature of the case study method would provide new empirical knowledge due to

the unusual access to the case study and the limited existing knowledge on welfare-to-work delivery organisations, and due to the policy context the thesis could offer exploratory theoretical too.

Chapter four provides a detailed discussion of the methodological approach. The case study strategy is presented and details of the qualitative mixed methods data collection approach are discussed. This chapter demonstrates that the case study strategy involves a range of methods including interviews, document analysis, financial analysis, and ethnographic research. The research was supported by the ESRC CASE programme based on a partnership between Albase and the Social Policy subject area at the University of Edinburgh. This chapter provides further details on this arrangement and a reflection of the ethical considerations.

Chapter five is the first of four empirical chapters. It is a descriptive chapter which traces the changes to Albase from 1983 to 2010. The chapter discusses three key aspects; the background and historical aspects of Albase; the shift in the delivery of employment support activities from the Intermediate Labour Market approach to the welfare-to-work programmes, the descriptive changes over time including the change in finances, the size and number of employees, the outcome of the financial analysis and provides a number of diagrams to help the reader visualise the organisation which is being studied. The chapter concludes by presenting a diagram in which the change process of Albase between 1983 and 2010 has been grouped into three change phases. The first, consolidation, the second, transformation, and the third, growth. The purpose of this chapter is to provide detail to the following three empirical chapters which have more of a theoretical consideration. The remaining chapters focus predominately on the transformation and growth phases.

Chapter six focuses on research question one. It traces and discusses the traditional activities of Albase (ILM) programme and through the theoretical framework considers the reason for their decline and the rise of welfare-to-work programmes in Albase. These discussions are situated within the concept of the organisational field and as such they go further than the descriptive outline of change presented in chapter five, and the chapter contends that there have been four interrelated shifts in the field which impacted on the delivery of traditional activities. The chapter concludes that ILMs became less well supported in the political (and consequently) funding environment for a number of reasons and this led Albase to secure alternative funding sources, which was welfare-to-work.

Chapter seven concentrates on research question two and focuses on how welfare-to-work involvement has led to a number of organisational changes in terms of structure and management practice. It is argued in this chapter that the welfare-to-work quasi-market that developed post-1997 became increasingly divergent from the organisational field which Albase had previously operated in. In particular, the DWP's expectations of their delivery partners created a set of new rules and regulations which Albase had to comply with to continue to gain resources from this policy area and funding source.

This chapter focuses on how, between 1999 and 2010, key organisational characteristics of Albase (structure, activities, management style and financial management) changed to become more 'business-like.' It is argued throughout this chapter that due to the administration of resources via the welfare-to-work quasi-market Albase experienced this type of organisational change. Whilst the

organisation remained a charity limited by guarantee<sup>3</sup>, operationally core activities and behaviours shifted towards the required characteristics of the welfare-to-work quasi-market.

Chapter eight highlights the problems and difficulties experienced in some of the aspects of the change process, and suggests that these difficulties can help our theoretical understanding of the change processes. The chapter contends that the exchange relationships became less favourable for Albase but despite this Albase continued to adapt and invest in becoming the desired organisation to win contracts. It is argued that this occurred because Albase was both committed and dependent on the DWP contracts, and because they had become less powerful in the exchange relationship and the control of their external resources. Whilst there were some efforts at a resource diversification strategy, drawing on neoinstitutional economic theory it appears that diversification was restricted as resources were consumed in welfare-to-work participation. The resource diversification that did occur was Scottish Government reliant which offers an interesting aspect to this case study and is discussed in more detail in the conclusion chapter.

The conclusion is presented in chapter nine. This chapter provides a recap of the findings and considers the main contributions of this thesis. It offers a number of possible future research projects based on this finding.

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<sup>3</sup> Anon Doc 60, 2010

## 1.7 Limitations

The limitations to the findings from this research are acknowledged here and discussed in more detail in the final chapter. This research is based on a single case study of a TSO in Scotland. Whilst efforts have been made to position this research in the wider policy and theoretical contexts, the findings cannot be generalized or aggregated to represent other TSOs in the policy context or geographical locality. It was not the intention to produce generalizable findings from a single case study. Instead it was always the intention that a well executed case study could provide much knowledge to a relatively unexplored area of public sector contracting and the impact of the complexities of the welfare-to-work quasi-market on a third sector organisation.

There are also methodological limitations. As discussed in more detail in chapter four the data collection process was complex, messy and due to the nature of data storage in Albase, there will be documents, individuals and change processes which may have been missed. As with all longitudinal organisational research that is based on qualitative research there is a danger that the stories, voices, records and experiences collected during the fieldwork may be contested by some employees who possessed a different view. Efforts to minimise this impact were taken through triangulating data sources and this is discussed in more detail in chapter four.

## 1.8 Contribution

This thesis explores organisational change in Albase using the concept of the organisational field. It seeks to understand the impact that changes to the administration of employment programmes and the introduction of the quasi-market approach had on Albase's activities, structure and ways of organizing. Using a novel theoretical framework, and a qualitative mixed methods data collection

strategy, this research is able to contribute to the wider discussion on the impact of public service markets on TSOs and in the welfare-to-work context more specifically.



## CHAPTER 2 - LITERATURE REVIEW

This chapter has two aims. The first is to critically review the existing literature on the UK welfare-to-work quasi-market. The second is to provide an overview of the existing literature which examines the role of Third Sector Organisations (TSOs) in public service contracting. The purpose of this chapter is to identify gaps in the extant literature and to locate this study within the wider public policy debates. The chapter demonstrates that there is very little existing literature on the role of TSOs in the UK welfare-to-work context, and the impact of contracts and quasi-market on TSOs is unexplored.

Due to the limitations in the existing literature this chapter is structured as if to answer three questions. First, what do we already know about TSOs in welfare-to-work contracting in the UK? This section demonstrates that there is little existing literature on TSOs in welfare-to-work contracting, and this has recently been identified by some commentators as an empirical weakness in terms of academic knowledge on this policy context. As such, the second question asks - what do we know about the involvement of all types of delivery organisations in welfare-to-work contracting? This section identifies that issues of provider behaviour and perverse incentives are recurrent themes in welfare-to-work and quasi-market literature more broadly. Whilst this literature is large, it is argued that there is little differentiation between types of delivery organisations, or the way that organisations create and operate processes in response to the quasi-market structure. The following section turns to the broader literature on the role of TSOs in a range of public contracting contexts to explore the impact that public service contracting has on TSOs. This literature has been segregated into three groups based on the approaches used by researchers. The first group is concerned with the impact



of contracting on the third sector landscape, the second group emphasises the impact on the relationship between TSOs and the state, and finally the third group is concerned with the impact of policy reforms on the structure, activities and management of TSOs. Collectively there are a number of existing studies (some based on welfare reform in the US or Australia) which highlight third sector issues such as mission-drift; the professionalization of organisations; and the marketisation of TSO activities.

However, whilst all of the literature covered in this section has provided information on sector-level issues or a snap-shot of issues at a particular point in time, there are very few in-depth studies of how TSOs experience organisational change in relation to public service markets. During the literature review search it was not possible to find a longitudinal case study exploring the organisational change processes in a TSO in a public-contracting environment. Instead, much of the third sector literature is based on large-n surveys or interview based comparative studies which focus on a small number of organisations in a particular policy context. The final section of this literature review briefly looks at the existing literature on organisational change in third sector organisations in relation to their involvement in public service markets from a management perspective. It contends that in the US there is a growth in managerial texts and literature from a management perspective for implementing organisational change in TSOs. Drawing on Parsons (1960) conceptualisation of an organisation, it is argued that these texts focus on the technical or managerial level rather than the institutional. Therefore in both 'camps' of literature (public policy and management) there is a lack of detailed case studies focussing on how TSOs change in response to their institutional environment.

## 2.1 Third Sector Organisations in the welfare-to-work quasi-market

The literature on the role of TSOs in the UK's welfare-to-work quasi-market is extremely limited. At the start of this research project in 2008 there was very little written about the third sector in welfare-to-work programme delivery. As the research has progressed the issue has begun to gain attention from academics and research institutes. A recent evidence review by Damm (2012) for the Third Sector Research Centre (TSRC) specifically focussed on the role of the third sector in the delivery of employment services. Damm (2012) managed to bring together a number of articles outlining the involvement of the third sector in the welfare-to-work quasi-market and he focussed on providing an overview of the involvement of TSOs in welfare-to-work contracting between 1997 and 2012. The aim of this review was to pull together some knowledge on this relatively unexplored aspect of the UK's welfare reform process and identify where there were gaps. Echoing the point made at the start of this section, it found that, "the third sector's involvement in employment services has been neglected both in academia and policy circles" (Damm, 2012, p.2). As such, the review relied mainly on 'grey literature' such as Department of Work and Pensions (DWP) reports and evaluations, and material from a range of organisations (such as interest groups or associations) involved in the welfare-to-work quasi-market. Some of these documents are also discussed later in this chapter.

As outlined in chapter one, the DWP manages, monitors and organises the contracting of welfare-to-work programmes. Before discussing the academic publications on this policy area, consideration is given first to the publications by the DWP on the involvement of TSOs in the quasi-market arrangement. By searching DWP publications for specific references to the role of TSOs in programme delivery, it appeared that DWP research and publications rarely focus on or mention TSOs. Whilst there have been many DWP publications since the initiation of the quasi-market in 1997, the majority of DWP evaluations have

focussed on the performance of specific programmes or initiatives, such as the Employment Zone evaluation by Hales *et al* (2003); the evaluation of Pathways to Work by Bewley, Dorsett and Haile (2007); the New Deal Young People Evaluation by Beale *et al* (2008); and the Flexible New Deal Evaluation by Vegeris *et al* (2011). These studies employed surveys of jobseekers in order to provide an estimate of the impact of each programme in terms of additional employment.

In all cases there is no differentiation between public, private, and third sector organisations. In these studies the 'impact' of specific programmes was defined purely in terms of employment outcomes, and the cost of generating these outcomes. Between the late 1990s and 2010 the focus of DWP research was on the content and delivery of welfare-to-work programmes in terms of efficiency, service quality, and often labour market outcomes. As such, whilst the welfare reform agenda of the Labour Government involved both new policy measures for jobseekers and new administrative systems to deliver welfare-to-work programmes (the introduction of the quasi-market), arguably DWP evaluations were primarily concerned with the former. What we know about TSOs in welfare-to-work programmes from the majority of DWP welfare-to-work evaluations is therefore extremely limited.

Although there was little information published by the DWP when this research project began, the DWP has published information on the organisations involved in the quasi-market more recently. The only DWP report which provides any information on the involvement of TSOs was published in 2010. The study by Armstrong *et al* (2010) was commissioned by the DWP to explore the administration of welfare-to-work programmes in order to gain knowledge on the organisations involved in the quasi-market. It is the only DWP publication which researches the quasi-market and the arrangement and relationship of organisations delivering

welfare-to-work programmes. Armstrong *et al's* (2010) research, which was focussed on the contracting process for the Flexible New Deal (FND) programme, sought to identify the market structure in terms of sector composition (split between public, private and third sector); size and number of employees in bidding and contract winning organisations; and the value of the contracts won in each sector. The research was based on two 'provider surveys' sent to bidding organisations for the FND, although the authors note that as there was no collective DWP database covering all programmes and dating back to the introduction of welfare-to-work programmes, there was no way of generating exact numbers. Arguably, this also meant that the authors could not generate a longitudinal understanding of previous organisational involvement and the quasi-market structure prior to the survey (which commenced in 2009). From this report it emerges that prior to 2010 there had been no systematic efforts within the DWP to record and better understand the arrangement and involvement of contracted delivery organisations in the delivery of welfare-to-work programmes.

Armstrong *et al's* (2010) evaluation was the only report published by the DWP which attempted to map, measure and gain knowledge on the number and type of organisations involved in the welfare-to-work quasi-market. The authors found that whilst they considered the market 'mature' with low levels of market entrance, there was a high level of market exit by third sector providers. The authors stated that the reason for the market exit figures were contractual in nature, that is: "either the size of contract areas were too large or the contractual requirements themselves were too demanding" (p.3). The report does provide some indication of the size of the welfare-to-work quasi-market and the numbers of TSOs involved in this institutional arrangement. The evaluation estimated that in 2009 there was approximately 447 organisations involved in delivering welfare-to-work services for the DWP, but estimated that the quasi-market involved in the region of 556-677 organisations. The researchers estimated that approximately 46 per cent of delivery

organisations were from the third sector, although it is shown in the data that only 30 per cent of welfare-to-work organisations defined the nature of their business as charitable and only 4 per cent as social enterprise. It is unclear from the study how the remaining 12 per cent of TSOs defined their activities and this was not explored any further in the report.

The report demonstrates that there was much variation in the financial position of TSOs involved in DWP contracting. Of those which were classified as TSOs the research found that 50 per cent recorded their 2009 revenue as over £1million. Furthermore, the top 22 per cent (40 organisations) stated that their 2009 revenue was more than £5million, whilst 29 per cent of TSOs recorded revenue of less than £500,000 for the same period. As such, whilst the report demonstrates that organisations from the third sector were operating in the quasi-market, there was much disparity between the activities, size, and revenue levels of the TSOs surveyed.

Data from the report suggests that many of the TSOs involved in welfare-to-work contracting operated in other policy and funding environments as 74 per cent of TSOs felt that DWP contracts represented less than 50 per cent of their 2009 revenue. Some TSOs appeared to be more reliant on DWP funding - 17 per cent felt it made up 51-75 per cent of their revenue and 9 per cent identified it as comprising over 75 per cent of their 2009 revenue. These findings suggest that some TSOs operated welfare-to-work programmes as part of a larger portfolio of activities, whilst a sizeable number of TSOs stated that the majority of their revenue was DWP contract dependent. The findings suggest that in 2009 in the welfare-to-work quasi-market there was much variation in the role and experience of the TSOs involved in the delivery of DWP programmes, and the research provides some indication of the composition of the welfare-to-work quasi-market at this time. However the nature

of the activities, the types of TSOs involved, and the way in which they are structured or managed are not discussed in this research. Excluding this report, there has been no DWP commissioned research into the involvement or behaviour of TSOs in welfare-to-work contracting.

## 2.2 Academic approaches in welfare-to-work research

If we turn to the academic literature to fill this knowledge gap we are arguably left disappointed. There is little published work to draw on which specifically examines the role of TSOs in the welfare-to-work quasi-market in the UK. In some discussions in the UK and beyond, it is possible to identify issues and activities which may affect TSOs, or which TSOs may be involved in. Whilst this only provides a partial understanding of the topic, these are discussed here. Much of the literature on welfare-to-work contracting in the UK is by Finn (2000; 2005a; 2005b; 2008; 2010), and in an Australian context by Considine (1999; 2001; 2003; Considine and Lewis, 1999). The literature published from these two authors is well-cited and both authors provide detailed accounts of policy changes and contracting procedures in welfare-to-work quasi-markets. To date, the approach adopted by these authors and those working within the same framework has tended to consider changes and developments at the policy level or the content of welfare-to-work programmes, such as the type of jobseekers targeted or the specific locations of new programmes. It has also tended to examine the quasi-market using a national comparative methodology whereby the programmes and policies in the UK are discussed in regards to welfare reforms in other countries.

This is a strong trend in welfare-to-work research and a number of studies outline the welfare reforms in the UK alongside countries which also use welfare-to-work quasi-markets such as the Netherlands and Australia (see Bredgaard and Larsen,

2007; Bredgaard and Larsen, 2008; Finn, 2008; Mabbett, 2009 ). These studies focus on the implementation or process design for the delivery of welfare services, including the role of quasi-market mechanisms. However, whilst they provide some information on the way in which public administration systems have changed, there are also some limitations to understanding the involvement of TSOs. In these studies the delivery organisation is often conceptualised as a fixed-entity (an object that does not change over time) or a collection of equivalent organisations which are simply a unit through which policies are enacted but which do not get affected by the policy itself. Arguably, this approach can be attributed to how these researchers consider the administrative reforms processes. For them the focus is not on the delivery organisation per se, but on how the contracting systems represent broader changes to governance structures and processes in different countries or policy settings.

Building on Finn's work in particular, many authors have researched and written about particular UK welfare-to-work programmes with some, although limited, reference to a broader welfare-to-work quasi-market and context. To date this research into welfare-to-work contracting in the UK can be divided into two principle types: those taking a public policy perspective; and those that focus on the underlying economics. According to Domberger (1999) public policy questions include a consideration of the proper role of the state; the problems of accountability when non-public organisations deliver public services; and issues concerning citizens' rights in a contracting framework. The economic perspective has tended to focus on the behaviour of agents and organisations within the market, in particular the 'agent-principal' relationship and the reduction of transaction costs involved in the contracting process. For example, Bredgaard and Larsen (2007) in their research on contracting employment services to non-public organisations concentrated on whether the quasi-market model delivers on the promises of higher efficiency, cost reductions, and innovation. Those academics taking an economic perspective have

tended to focus on the composition and arrangement of government quasi-markets, focussing their attention on issues such as contracting processes, the transfer of risk, and the costs associated with quasi-market management. From this perspective Bredgaard and Larsen (2007, p.289) contend that, “the general objective of the employment policy is to find the quickest possible way back to ordinary employment, thus easing the pressure on social security spending.”

### 2.3 Gaming behaviour

Studies from both approaches have criticised the way in which the administration of public services through quasi-market systems may facilitate organisational behaviour that conflicts with the traditional welfare state ethos of: “the entitlement of service users to equitable treatment” (Finn, 2010, p.291). Many have argued that the use of contracts as public policy administration tools in the quasi-market structure has induced ‘gaming behaviour’ (Courty and Marchke, 1997; Bredgaard and Larsen, 2008; Finn, 2011), whereby contracted service providers reduce services for individuals considered less likely to enter the labour market due to the design of the quasi-market and the focus on economic incentives. In regards to ‘gaming behaviour’ the literature demonstrates that due to the need for contracted providers to meet contract performance targets, they may operate a business model in which resources are targeted at those service users most likely to meet their required targets (Finn, 2010). This, the literature contends, is an outcome of the quasi-market system based on targets and performance related payments. As Bredgaard and Larsen (2008, p.346) note: “increased performance pay carries the inherent risk of more open and generally accepted classification of target groups into investment worthy and investment-unworthy jobseekers”. Critics argue that this leads to an increasing inequality in the provision of public services as market-type mechanisms produce market niche-seeking behaviour which can create conditions of social exclusion (Mackintosh, 1997; Larbi, 1999).



Studies which have focussed on provider behaviour in quasi-market systems have predominately identified 'creaming,' 'parking' and 'churning' (see Bredgaard *et al*, 2005, Grub, 2006; Jahn and Ochel, 2007; Struyven and Steurs, 2004) as the main outcomes of gaming behaviour. 'Creaming' is defined by Le Grand and Bartlett (1993, p.32) as discrimination against more 'expensive users' and occurs when contracted delivery organisations favour those closest to the labour market over those which require more support and would prove more costly (see Considine, 2003). The term 'parking' derives from the idea that these individuals would have their paper work 'parked' in the system and therefore receive little support (Davies, 2008). The issue of 'churning' dominated the early evaluations and critical discussions of welfare-to-work programmes which sought to move a large number of individuals into the labour market as quickly as possible, without regard to the employment positions jobseekers were accepting (Finn, 2009; Finn, 2010).

Some research on the outcome of jobseekers has identified that many individuals moved from the benefit register into unstable and insecure employment for short periods before returning swiftly to the benefit register. For example, papers by Theodore and Peck (2001) and Finn (2000) contend that in some cases welfare-to-work programmes rewarded delivery organisations for job outcomes for moving individuals into employment. However, these papers suggest that the programmes did not ultimately reduce the unemployment figures as individuals regularly returned to the register. Some also maintain that: "creaming and parking of jobseekers is almost unavoidable within a framework of a market-economic logic, as outcomes of activities are uncertain and these jobseekers have a host of complex problems requiring long term and cost heavy initiatives" (Bredgaard and Larsen, 2008, p.350). Whilst there is limited research where the delivery organisation is the object of the study, there is an implicit assumption within this area of welfare-to-work research which acknowledges that due to the use of market mechanisms

delivery organisations may impact on the way policies are delivered through participation in gaming behaviour. Again, however, there is no differentiation of the organisations involved in these market based discussions.

The concerns regarding the gaming behaviour of contracted delivery organisations have led researchers and commentators to criticise the government's championing of the contracting-out system for welfare-to-work programmes more generally (Bredgaard and Larsen, 2007). This is a separate area of welfare-to-work research which gives slightly more attention to TSOs than the previously mentioned literature. TSOs and private sector organisations are given more consideration by these authors because they have tended to focus on the distinction between public sector delivery and contracting-out to non-public sector organisations. For example, Davies (2008) argues that the premise of contracting out (that it is more efficient and will save costs) does not hold up to examination, and that the assumptions of improved service provision standards in contracted delivery organisations does not hold true. Through a critical review of the government's evaluation documents and evaluations of welfare-to-work programmes delivered by contracted organisations, Davies claims that there is no evidence that: "either the private or third sector has a consistently better record in the provision of employment services than in-house public sector staff" (2008, p.158).

In Davies' (2008) review of the role of contracted non-public sector providers in the delivery of welfare-to-work programmes he also refers to the work by Casebourne *et al*, (2006) who reviewed a welfare-to-work programme called Action Team for Jobs (ATFJ). The ATFJ programme was delivered in 64 locations in the UK, led predominately by Job Centre Plus with 20 of the ATFJ teams being private sector led. Their study into the delivery of the programme found that those users who had been unemployed for a relatively short period, "are likely to be relatively easier and

quicker to help place into work, and under the funding arrangements more “cost effective” to work with (p.65). Due to the payment structure whereby providers received the same outcome payment for each jobseeker regardless of their needs, Casebourne *et al* (2006, p.67) noted that “the longer a client has been out of work, the less likely they were to be helped into work by the private sector led teams.” The outcome related funding system was identified as the reason for this behaviour as it incentivized, “working with easier-to-help clients” (p.94), and the authors noted that this worked against the purpose of the programme which was to work with those most in need of support to enter the labour market.

Davies (2008) used this research to strengthen his argument that not only is there no evidence that private and third sector organisations perform better than public sector organisations in moving individuals into employment, but also that the market structure and the associated incentive structures support gaming behaviour. It appears therefore, that the idea that contracted delivery organisations in a quasi-market setting may succumb to ‘gaming’ behaviour, and that the government’s efficiency claims are incorrect, are ideas which have been well voiced in academic research of the welfare-to-work context (Theodore and Peck, 2001; Bredgaard and Larsen, 2007; Thornton and Marsden, 2009; Finn, 2010).

These themes have become the dominant discussions in welfare-to-work research. As mentioned previously, the accepted view from most commentators is that the major problem resulting from the welfare-to-work incentive structure is creaming and parking (Bruttel, 2004, p.13). Whilst there is some support from the existing literature to suspect that this gaming behaviour is occurring in welfare-to-work contracting, excluding the work of Casebourne *et al* (2006) and Considine (2003), there are relatively few empirical studies which have identified the extent to which this occurs and in which situations or by which type of delivery organisations in the

UK context. In fact, the study by Griffiths and Durkin (2007) found no evidence of creaming and parking in the delivery of the Employment Zone programme. Part of the reason for this lack of empirically grounded evidence may be that there is no research within delivery organisations which specifically shows these processes in action. Instead, most of the literature which identified creaming and parking as an outcome of payment and target structures in welfare-to-work contracting have arguably drawn on economic actor models to explain this. From this perspective it appears that there is an assumption that the policy and welfare-to-work quasi-market system cannot be differently interpreted by providers, which all (regardless of history, experience and background), will act in this economic rational actor way due to the incentive structure of the contracting process (Considine, 2003).

#### 2.4 The advantage of Third Sector Organisations

Whilst this body of research does provide some acknowledgment of the role of providers in the administration of welfare-to-work policy, it rarely differentiates between private and third sector organisations (for example Davies, 2008, Armstrong *et al.*, 2011, Hudson *et al.*, 2010). Despite this, there are a number of discussions in similar contexts that contend that delivery organisations from the third sector are preferential to those from the private sector. This research tends to be based on the assumption that TSOs with social service missions and experience would provide a better service to their users as they would not possess the same perverse behaviours as private sector organisations. For example, according to O'Regan and Oster, (2000) there are two main advantages that TSOs possess over private organisations. First, as a consequence of the non-distribution constraint (the fact that TSOs do not have profit targets and a requirement to primarily satisfy share-holders), TSOs are thought more trustworthy by consumers and thus are better able to supply the market with complex, hard-to-judge goods and services (Hansmann, 1980). Although for-profit organisations can and do provide some

complex goods (e.g., legal and consulting services), in these cases, some commentators argue that these organisations typically must expend resources to prove their trustworthiness to the commissioning body and wider society.

Drawing on economic perspectives this literature argues that in contracting situations where information is imperfect, for-profit organisations may have to provide incremental monitoring and/or guarantees to demonstrate that they are not exploiting their positions and are in fact trustworthy. In this sense, it is argued that TSOs have a natural advantage in competition with for-profit organisations as the principal in the exchange relationship may favour a relationship that involves lower transaction costs. Second, some commentators contend that TSOs possess organisational advantages for competitive situations. For example, Young (1981, p.230) contends that the, “ideological charter of the nonprofit allows them to attract mission-driven workers” who, according to Preston (1989) will often accept lower wages. O’Regan and Oster (2000, p.122) argue that this is particularly the case when “the ability to sharply reward managers is less important than the ability of those managers to keep focused on matters of long-term reputation and goals and to balance the interests of various constituents who have a stake in the operation”.

Hogg and Baines (2011, p.346) note that TSOs claim to have a “greater ability to engage with and understand the needs of individual service users and communities than statutory or private sector providers”. This claim is also present in some of the grey literature in the welfare-to-work quasi-market. For example, the Third Sector Task Force conducted a survey of members of the interest group ACEVO (the Association of Chief Executives in Voluntary Organisations). The aim was to set out the contribution that the third sector makes to welfare-to-work programmes and outline how TSOs could participate in future welfare-to-work contracting. Evidence was gathered from over 50 TSOs, “and supplemented by an ACEVO survey of 430

members delivering a variety of services” (Third Sector Task Force, 2009, p.3). The report argued that TSOs possess a number of characteristics beneficial in welfare-to-work contracting, such as the ability: “to build up trusting relationships with communities, to utilise excellent local knowledge and links, to deliver innovative approaches in reaching those furthest from the labour market and those with complex needs, to contribute to policy development through an independent voice and advocacy are all strong indicators of the role it can play in meeting the growing challenges of welfare-to-work” (Third Sector Task Force, 2009, p.3). Whilst the report makes a number of claims regarding the advantages of TSOs in welfare-to-work contracting there is no reference to empirical research to substantiate these normative assertions.

There is little academic research in the UK context which focuses on the added benefit of TSOs compared to public or private sector organisations in public service quasi-markets. More is however known about TSOs in the quasi-market and contracting systems in the countries that are often the comparative case in the group of literature mentioned earlier. Considine’s (2003) study on nonprofits in the Australian system produced the most detailed evidence to date on whether TSOs are affected by the quasi-market system. Considine used survey data at two points during the 1990s of nonprofit organisations involved in the delivery of welfare-to-work programmes in Australia. The purpose of the research was to find out whether TSOs made a distinctive contribution to the services delivered, and whether their role changed as the sector underwent policy-driven structural changes.

Considine aimed to understand what effect programme involvement had on how TSOs behaved. His research found a number of interesting results. Firstly, over time nonprofit organisations became increasingly similar to their competitors from other sectors. This he argued was due to a decline in the TSO service delivery

characteristics, such as an ethical mission to provide a service for all. In fact Considine identified that over time the nonprofits surveyed had become involved in creaming activities in order to deliver their contracts. He also noted an increase in workloads for front-line advisors, a shift in how these employees viewed service support and jobseekers goals, a reduction in time spent with jobseekers, and an increase in sanctioning. He concluded that: “the increased level of competition among different contractor types results in the distinctive role of the non-profits being eroded over this time period. This appears to be because the incentive system created by the quasi-market requires that they take on the financial strategies and service-delivery methods used by their competitors” (Considine, 2003, p.74-75).

In the US, Riccucci and Meyers (2008) examined the differences in the quality of service provision amongst public, third sector, and for-profit organisations in the delivery of work-based welfare reform services. The authors surveyed employees in a range of welfare delivery organisations in US states. The surveyed sought the opinions of employees on jobseekers, and these responses were conceptualised as a measure of service quality. They considered whether front-line workers delivering employment services to welfare clients in public, third sector, and for-profit agencies differed systematically in their attitudes about welfare reform and welfare clients. This research shows that there are some differences in worker attitudes toward welfare across public, nonprofit or private organisations.

Although it is not clear from this research if these views impacted on job support or attainment, it does highlight that the delivery organisation in welfare-to-work programmes can impact on service provision, even in a tightly controlled contracting system. Nevertheless, Riccucci and Meyers (2008, p.1451) claim that: “there is a paucity of research examining whether welfare clients fare better in public, nonprofit or for-profit agencies”. Similarly, Seddon (1999, p.30) observed

that regarding guarantors of 'quality' with contracted social services, "this aspect of the contract tends to be neglected because rigorous monitoring of the way in which case managers deal with job seekers - the human element - is practically impossible or else prohibitively expensive to monitor, let alone enforce."

Others have argued that it has proven difficult (even after the service has been provided) to determine the quality of service and what the contractor has contributed as welfare services may not lend themselves easily to performance standards because key measures of quality tend to be qualitative rather than quantitative in nature (Sainsbury and Kennedy, 1996, p.117-118). Davies (2008), through a review of policy documents and publications from welfare-to-work organisations, contends that there was little empirical evidence to back-up the claims within these documents that private or third sector delivery organisations achieve higher outcomes or provide better services than the public sector. On completion of a detailed literature review of existing research into the delivery of UK public services by the third sector Macmillan (2010, p.3) also noted that, "whether third sector services lead to better outcomes and impact for service users has been the source of some debate and controversy." It appears that it is difficult to demonstrate from the existing literature that front-line services delivered by TSOs differ from those delivered by private sector organisations, particularly if this issue is considered alongside the earlier literature which emphasises the rational economic actor in quasi-market systems and the findings by Considine (2003).

In sum, it is evident that the existing research, comment and criticism on the marketisation of welfare-to-work services has predominately centred on the impact of welfare reforms and the quasi-market system on job seekers and services users. Very little is known about the involvement of TSOs, their behaviour in the quasi-market system, and how they adapt to the contracting processes. Commentators



have continually noted the limitations in the research evidence on the UK third sector's role and experiences in the welfare-to-work context (Aiken, 2007; Third Sector Task Force, 2009; WPC, 2011). Furthermore, after the completion of a detailed review into TSOs in the UK welfare-to-work quasi-market, Damm (2012, p.21) also stated that the lack of TSO research is an 'empirical blind-spot.' As yet the extent to which this interest in TSO involvement has transferred into academic and research literature has been limited. How TSOs operate in, adapt to and manage the contracting process and their interaction with private sector organisations in quasi-market systems is absent from the academic literature.

## 2.5 Third sector organisations in public service markets

In order to understand the possible issues affecting TSOs in welfare-to-work contracting the following section draws on other policy areas of public service contracting. As third sector research is substantial, the literature covered in this review is limited to those studies associated with public service quasi-markets. In the process of sifting through this literature it has been possible to identify three approaches in third sector research. The first type of research approach aims to try and map the involvement of TSOs and understand 'the landscape of the third sector'. This has involved for some authors an attempt to create categories for TSOs involved in public service delivery. The second group of research has tended to focus on the impact of NPM reforms in public service delivery on the relationship between the state and the third sector. In the UK context much of this research centres on the relationship between the state and the third sector as a whole, focussing particularly on the concept of 'governance' (Carmel and Harlock, 2008). The third approach to TSO research considers the impact of public service markets and contexts on individual TSOs or small numbers of cases. To date, this is the area with the least literature and research, yet as outlined above, part of the missing

empirical data which would enable further insight into the impact and experience of TSOs in public service contracting. Each of these categories are discussed below.

## 2.6 Landscape of the third sector

One research approach for exploring the role of TSOs in public service delivery focuses on the 'landscape' of TSOs (Macmillan, 2010). By this term authors are referring to the composition of the macro-level (or sector level) in particular contexts by identifying the number, size, and type of TSOs involved. Researchers have tended to be concerned with defining and mapping the sector in order to ask questions about the dynamics of TSO participation in service markets, including how to measure the sector, and how to identify broad changes to the sector as a whole (Evers and Laville 2004; Alcock and Kendall, 2011).

In the UK this research is arguably driven by the fact that there are a number of different types of organisations which are not traditionally considered part of either the public sector or private sector, and which have been grouped under the 'third sector' term although little is known about their collective activities and similarities. According to Billis (2010) organisations differ in their legal structures, organisational design, purpose and activities, and over time they have come to be grouped under a number of terms such as: non-profit, not-for-profit, or collectively as the Voluntary and Community sector (VCO). Many commentators have noted that the various terms have tended to ignore the diversity of the organisations they are used to describe, or that they exclude those which do not fit under their narrow definitions. For example, Salamon and Anheier (1997, p. 17) stated that, "defined in legal terms, the UK nonprofit sector is a bewilderingly confused set of institutions with poorly defined boundaries," and Whitelaw (1995, p.45) described the voluntary sector as "a wild garden, a rampant display of plants of all shapes and

size". As such there are a number of research studies which simply try to map or describe the types of organisations involved in the sector.

There are a number of differences regarding the key definitions involved in third sector research and arguably this creates difficulties in terms of the generalizability and applicability of findings from separate research sources. For example, the third sector is used by some in reference to any organisation that does not have profit as its primary motive (Westall, 2009). In this context TSOs may be non-profit (of which charities are a subset) or they may be seeking to make surpluses, but use these surpluses for social goals (which could include some legally defined private sector organisations). Others such as Rifkin (1995) consider sectors based on outcome. As such, Rifkin defines the third sector as the sector that creates social capital, and in Wilson and Charlton's definition (1997) the third sector is taken to mean the community and its representatives, self-help groups, voluntary and not for profit organisations, and professional organisations. In contrast, academics who consider public service markets to have created the 'social economy', such as Evans (2002), Amin (2009) and Pearce (2003), divide the third sector in terms of economic activities that are informal and in the 'shadows' and those activities that are more formal and apparent. Teasdale (2010a) provides a detailed discussion on the divergent definitions of the third sector and social enterprise.

There are also differences in definitions used in the grey literature. For example, the Scottish Council for Voluntary Organisations (SCVO), the umbrella body for voluntary organisations in Scotland, argued that the term the 'third sector' can be used to emphasise the distinction between the sector and the private and public

sector (2001b). Conversely, Communities Scotland<sup>4</sup> (2002), the former executive agency responsible for homelessness, communities and regeneration, stated that the notion of a third sector as entirely distinct from the public and private sectors is 'too crude', and that the importance of social enterprise means that the boundaries between the private and third sectors are less distinct. Unlike UK policy discourse, Scottish policy documents have tended to emphasise the term 'social economy' rather than referring to the third sector or social enterprises as outlined above. By doing so they seem to create a further distinction within the definition of the third sector of two sub-categories: those which form part of the Social Economy (Social enterprises, social firms, social businesses, and hybrid organisations); and those which align themselves with the voluntary sector (such as charities with high levels of voluntary employees) and grassroots community groups (Dacombe and Bach, 2009; Westall, 2009).

Correspondingly, for many years there has been difficulty mapping and defining the third sector due to the complexity of policy boundaries and the variety of definitions employed by researchers. According to Clark *et al.* (2010) the most comprehensive data source is the National Council for Voluntary Organisations' (NCVO) annual *Civil Society Almanac*, which includes information about the sector across the UK, although some of the information in the Almanac comes from the Charity Commission register and applies only to England and Wales. According to Clark *et al.* (2010, p.43) the Almanac reveals that the size of the sector has been growing across the UK over the last decade, "and that this has been fuelled to a significant extent by a growth in public funding for third sector organisations, which grew from £8 billion in 2000 to £12.8 billion in 2008, 36 per cent of total

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<sup>4</sup> Communities Scotland was abolished on 1 April 2008. On that date, most of its non-regulatory functions were transferred to the Scottish Government's Housing and Regeneration directorate. The work of Communities Scotland's Regulation and Inspection division has been transferred to the new Scottish Housing Regulator.

income.” Focussing on Scotland, Smallbone *et al.*, (2001) note that in 1998 whilst the Department for Environment, Transport and the Regions (DETR) estimated that approximately 450 social enterprises were trading in the UK, Community Enterprise in Strathclyde (a support service for social enterprises) estimated that in lowland Scotland alone there were 3,700 community enterprises in 1997. Depending on the definition, Communities Scotland (2002) identified between 10,000 and 44,000 social enterprises active in Scotland, and shortly afterwards Dacombe and Bach (2009) suggested that there were 45,000 formally-organised organisations contributing £4.7 billion to Scotland’s GDP. It appears therefore that there is an abundance of grey material which has aimed to measure or quantify the role of TSOs in public service contracting, and the economy more broadly.

Some literature, particularly in public service market contexts, has acknowledged the vast differences between organisations grouped under the TSO title. First, according to Macmillan (2010, p.25) there is a concern regarding the third sector as a whole, “becoming polarised between those organisations who are successful in winning contracts to deliver services, and those which are not”. This body of work has highlighted the segregation amongst TSOs between those which are service delivery organisations, and those which are categorised as civil society (see Westall, 2009; Rathgeb Smith and Smyth, 2010). Some have noted that there are moral conflicts associated with creaming and parking which are more acute for some TSOs. In their study of welfare service providers in the US, Sommerfield and Reisch, (2003, p.69) contend that “community-and faith-based organisations with a commitment to service delivery based on need rather than demand are experiencing a mission conflict that is difficult to resolve. This study suggests that the capacity of these faith based and community-based nonprofits to continue as the last safety net for families in distress may be in question”. Sommerfield and Reisch (2003, p.69) also contend from their research that, “organisations of all types found their public service character threatened by the “marketization” of the public sector”. They note

that the larger, more established nonprofit organisations “continued along a trajectory of business-oriented practices while community and faith-based organisations struggled to adopt this new tack”. Community and faith-based organisations indicated that they often lacked the financial and human resources to adopt the management orientation required to meet the expectations of government contracts and which they felt were necessary to compete with private service providers.

Wright *et al's* (2011) article on the role of TSOs in employment service delivery in the UK and Australia is an example of this approach. The article contends that, “the use of non-state organisations represents limits to government’s traditional accountabilities to the public and deflects political risks inherent in human services delivery away from the state and onto civil society and non-profits in particular” (p.300). Drawing on the Australian case the authors also contend that, “the principle of competition has to some extent muted the social advocacy role of third-sector organisations and church groups” (p.314). However, the extent to which this is a valid point for TSOs more broadly, or even TSOs working in the quasi-markets discussed, is not clear. Arguably, this is because the data is limited on the third sector composition in these quasi-markets and the associated characteristics of TSOs which are delivering welfare-to-work contracts prior to and during service delivery. If TSOs involved in welfare-to-work contracting are not mission-led organisations or originally comprised of volunteer workers, ideas that they are losing the civil society and mission focus are less relevant.

More convincing is Fyfe and Milligan’s (2003) study of voluntary sector organisations in Glasgow, which found that the availability of regeneration, social exclusion and welfare funding impacted on the spatial distribution of TSOs across the city. In terms of the impact on TSOs and organisational change, the authors

argued that there were also important contrasts between, on the one hand, grass-roots groups committed to non-hierarchical structures and maximizing the decision-making inputs of service users and, on the other hand, more 'corporatist' groups characterized by processes of bureaucratization and professionalization. Their findings, based on a survey of TSOs and interviews with TSO employees, demonstrate that a distinction existed between TSOs that displayed a clear commitment to empowering citizens by allowing service users to identify their own needs, and "organisations with much sharper internal divisions of labour and asymmetrical power relations between welfare professionals, volunteers, and clients" (p.2081). The authors concluded that the policy context in which TSOs in their study operate had, over time, led some TSOs to change. They stated that, "it is clear that organisations that do work more closely with the state are under pressure to professionalize and restructure their services and that this runs the risk of disempowering citizens, both within the organisation as a result of developing a hierarchical structure with clear divisions between volunteers and paid staff, and outside the organisation, by reproducing the bureaucrat-client relationship characteristic of state organisations" (2003, p. 2083).

Similar findings were identified by Buckingham (2009) in her research on homelessness services. This research stressed that tendering processes brought about greater competition between organisations and impeded the types of informal personal collaboration which had previously helped to integrate services at the local level. Buckingham (2010) highlighted the differentiation between types of TSOs on the basis of their responses to contracting, with the biggest division being between 'comfortable contractors' and 'community based non-contractors' (p 13).

Some authors have questioned whether the 'new welfare landscape' is eroding and changing the nature of the 'third sector' by altering those organisations involved in

competitive relations with private sector organisations in order to enter contractual arrangements with the state. For example, Billis (2010) argues that “they [TSOs] have entered into a Faustian pact in which the sector gains resources, possible influence and the opportunity to deliver more services at the cost of those fundamental attributes which made it an attractive proposition in the first place: its mission, values and voluntary contribution” (p.10). Brown *et al.* (2000, p.201) also contend that whilst increasing professionalization may allow organisations to provide more complex services, it may also limit the opportunities for volunteering, and the relation between organisations and ‘clients’. What they refer to as ‘corporatist’ voluntary organisations they argue have very different implications for the development of citizenship than more traditional ‘grass-roots’ or ‘activist’ organisations.

## 2.7 Organisational types

As part of these debates academics have incorporated research on public sector contracting by identifying and creating new organisational types. For example, Billis (2010) identified ideal types based on defined sectors and suggests that all organisations have broad generic structural features or elements (such as the need for resources) but that their nature and logic or principles are distinctly different in each sector. These principles, Billis (2010, p.47) argues, have a ‘logical interdependence’ and provide a coherent explanation for meeting objectives and solving problems. Together they represent the ‘rules of the game’ or ideal type for each sector. Billis acknowledges that there will be a varying degree to which organisations fully match the ideal model and that individuals within organisations will encounter tensions between the ideal type and reality. According to Billis (2010, p.48), “notwithstanding the wide variations in structures, organisations within each sector appear to derive their strength and legitimacy (Suchman, 1995) from the characteristics and rules of the game of their own distinctive ideal type”. Similarly,



there are debates about how to analyse and categorise the new organisational types created by public service contracting. This large area of research has involved the creation of models, spectrums and categories intended to differentiate between the types of TSOs involved in public service markets (Evers and Laville, 2004; Westall, 2009).

These debates focus on whether changes to the sector are indicative of the transformation of individual organisations changing in response to the environment, or whether there are new TSOs entering the sector and affecting the established characteristics of the sector as a whole. What this has arguably led to is a range of academic research which concentrates on particular types of TSOs and the impact of contracting on specific characteristics which the authors consider fundamental to TSOs. For example, Salamon (1995) identified the need to preserve the advocacy role of nonprofit organisations, especially their strength in serving as social critics of government policies and market sector forces, as well as innovative thinking in policy development. Others have asked whether the profit-motive which underpins government's assumptions of performance in quasi-markets and the centrality of cost reduction (or containment) may marginalize mission driven TSOs (see Finn, 2009; Wright *et al*, 2011).

Drawing on these discussions it is therefore difficult to say for certain whether all TSOs are being 'squeezed out' (Damm 2012, p.3), or what type of organisations were previously and continue to be involved in public service contracting. The findings from sector level studies are inconclusive in terms of the size and nature of TSOs in general, and therefore there is a limited amount of empirical data on the impact of public sector contracting on the sector as a whole. Furthermore, it appears that some research has generalized findings across the unknown group of organisations involved in a particular contracting context, whilst others have directed their

attention towards identifying different types of TSOs based on their contracting behaviour. It is not clear as to whether there are a collection of divergent organisations which provide a service better (or even different) from the public or private sector organisations, and it is even less clear whether TSOs in public service contexts are experiencing the same, or similar, impacts from change in their environment and quasi-markets.

## 2.8 Relationships and networks

With the conceptual problems of definitions and organisational differentiation in mind, the second area which has attracted much academic attention is the need to understand the relationships (and how these change) between the state and TSOs. Whilst there is some overlap with the research themes in group one, the main difference in these studies is that the authors tend to focus on individual case studies, contexts or specific areas of contracting and use their findings in this way. Whereas the research in group one have tended to focus on mapping, understanding macro systems or sectors, and generalising amongst TSOs, it is argued here that the authors in this group focus on particular contexts or types of TSOs.

During the late 1990s and 2000's a number of academics focussed on the relationship between the third sector and the government. Particular attention has been given to the policies of New Labour in the late 1990s and 2000's ( see Fyfe, 2005; Haugh and Kitson, 2007). Carmel and Harlock (2008, p.157) contend that over the past fifteen years the 'third sector' has been 'instituted' by the New Labour government as a 'governable terrain' in order to pursue its policy goal of transferring public service delivery to TSOs. Similarly, Haugh and Kitson (2007, p973) note that "since 1997, the third sector has received significant government

support and has gradually moved from the economic periphery towards the centre such that it is now instrumental in the delivery of a range of government policies.” Carmel and Harlock (2008) argue that the shift in relationship between the state and the third sector was being used in particular to encourage third sector organisations to take over the delivery of public services.

Although only briefly discussed here, in this literature there is an occupation with understanding the process of reform as a neoliberal agenda. Those focussing on the governance arrangements have stressed that the shifting relationship has led to the re-labelling of voluntary organisations delivering public services as social enterprises (Di Domenico *et al.*, 2009) and the institutionalisation of social enterprise in England may be bound up in the privatisation of public services (Haugh & Kitson, 2007).

Young (2000), drawing on rational choice economic theory, contends that government and non-profit sector relations must be understood as a multilayered phenomenon. Young (2000) contends that there are predominantly three types of relationships between the state and the third sector. The first is ‘supplementary’, where TSOs deliver a service or are meeting a demand for a public good not met by government resources. The second relationship is referred to as ‘complementary’, where TSOs are and funded by and partners to government, helping to carry out the delivery of services. The third is the adversarial view, where nonprofit organisations lobby to effect policy and create change. In this understanding, governments can influence TSOs through regulation and responding to initiatives. However, Young’s research does not explore how or why organisations move from one type of relationship to another and whether changes are part of a broader shift in their environment.

Deakin's (1996) study of contracting with voluntary organisations in the UK's provision of social care (including health services, social care and local government services) focussed on the impact of the introduction of competitive contracting on the relationship between the public sector and voluntary sector organisations involved in service delivery. Deakin (1996, p.35) noted that voluntary organisations involved in social care contracting in the 1990s complained of the, "ever-present risk of compromising what are seen as key elements in their overall mission (campaigning, and innovation in service delivery)."

Austin (2003) explored the impact of welfare reform policies on service delivery agencies in the USA. Focussing on the relationship between the social service agency and community based nonprofit organisations involved in service delivery, he argues that the pressures for change in the nonprofit sector, "emanate from increased competition and government accountability" (p.101). He contends that the increased role for nonprofit organisations in the delivery of public services has led to these organisations, "pay[ing] more attention to marketing, changing political environments, assessing the viability of collaborative programming, and in strengthening internal operations" (p.102). His work focuses on the changes to relationships in order to identify the impact on organisational change. Likewise, other authors have argued that, "the emphasis on competition within the government-contracting process threatens nonprofit interorganisational networks" (Alexander, Nank, and Stivers, 1999, p, 462).

In the UK context the relationship between the third sector and the state received much attention during the time of the previous Labour government. The emphasis on the relationship between the state and TSOs brings attention to the way in which the expectations of TSOs and the part they play in both society and the economy

shifted during the 1990s and 2000's, particularly in terms of the provision of public services.

## 2.9 Impact of the environment on third sector organisations

In the existing research which comprises this final group, researchers have sought to better understand how contracting environments impact on the way that a TSO is organized or managed. A number of authors contend that due to the use of markets in provision of public services, delivery organisations are becoming more commercially orientated which is leading to the 'marketisation' of TSOs. According to Dart (2004, p.414) the term marketisation is used to refer to nonprofits becoming "more market driven, client driven, self-sufficient, commercial or business like" (Dart, 2004, p. 414). Drawing on this definition, McKay *et al* (2011, p.4) contend that this means that TSOs are "adopting the languages, practices and funding mechanisms of the private sector". The authors explain that this may involve the re-labelling of charitable activity as social entrepreneurship (see Dees, 2007) and a shift in TSO funding arrangements, moving from grants and donations to commercial revenue.

McKay *et al* (2011) explore the shift in funding arrangements use a large panel data set of registered charities between 2002-2007 in order to ascertain whether ideas about marketisation (explicitly the transfer from grant to commercial funding) can be empirically supported by their model. They argue that their findings reveal that "charities in England and Wales are increasingly dependent on commercial revenue, and that this is an inelastic substitute for grants and donations" (p.16). They also conclude that charities are succumbing to market forces in England and Wales. However, as their study focused exclusively on the funding arrangement, it did not

provide support for their earlier statement that TSOs are adopting the characteristics of the private sector.

In the US context, Frumkin and Galaskiewicz (2004, p.285) argue that “government action, or more generally state intervention, has consistently been conceived as playing a central function in initiating the structural transformation of other organisations...[and] as legal and regulatory pressures increase, non profit and business organisations respond with increasing levels of institutionalized rules and procedures.” Some claim that non-profit organisations are being profoundly transformed (Juillet *et al*, 2001, p.22) and some have found that “as the main provider of resources to organisations, the government forces them [independent providers] to conform to its norms of bureaucratic behaviour...In this way, these organisations may even become like governmental agencies themselves, contrary to the interests of the Government and the clients” (Schmid, 2003, p.319-320). In their study of US nonprofit organisations contracted to provide employment and related services to welfare clients, Hasenfeld and Powell (2004) found that contractors were placed in difficult task environments which ultimately weakened their autonomy. As they point out, “funding requirements, performance evaluation criteria, controls over the flow of clients and normative, coercive and mimetic pressures from their organisational network converge to limit the capability of these agencies to fully exercise their distinct set of values, organisational capabilities, and service practices”(p.109).

Juillet *et al*'s (2001) study of eight national non-profit organisations in Canada concluded that there was evidence of increased professionalization and bureaucratization but no substantial changes in the board and governance of the organisations and that there were less dramatic shifts in operations than anticipated. In this study, organisational change did not indicate that organisations were

crossing or merging sectoral boundaries. However, using 200 interviews with leaders of nonprofit organisations in the San Francisco Bay Area, Suarez (2011, p.308) argued that the implementation of standard management strategies for achieving a mission is increasingly relevant for procuring government grants and contracts. He contends that “nonprofits that rely on paid staff for service implementation and nonprofits that partner with multiple agencies are more likely to receive government funding, and nonprofits that collaborate also are likely to receive greater amounts of government funding” (p.308). Suarez’s research suggested that those organisations which acquired resources did employ behaviour more akin to the contractual environment. Therefore organisational survival in this context may have required the transformation of internal TSO processes.

However, in the UK there is little research which specifically considers how TSOs are becoming more ‘marketised’ over time and similarly even less which consider the process of organisational change in the context of welfare reforms. Some academic literature seeks to address the issues of the impact of markets on TSOs through adopting what is considered here as a ‘shallow’ approach. Aiken and Bode (2009) wrote one of the few existing articles on the role of TSOs in the UK welfare-to-work context. Through a comparative study of UK and German organisational arrangements for the delivery of employment support, they argued that “the emerging managerialist partnership structures are tending to convert third sector organisations into ‘just in time’ deliverers” (p.209). They contend that this is due to a shift in the policy context for employment support, whereby contractualist approaches to policy delivery influence and change the activities of TSOs involved in the provision of support.

Whilst Aiken and Bode predominately discuss the field-level organizing of TSOs within the welfare-to-work quasi-markets in the UK and Germany, they also present

two organisational case studies, one from each country, to illustrate their arguments. Their UK case study described how one organisation's activities had been influenced by the introduction of managerialist practices in employment support programmes. They found that the organisation had experienced a number of changes including a diversification of activities and a move towards placing individuals in the labour market in a shorter timescale than their mission and previous activities intended. Aiken and Bode (2009, p.219) argued that the organisation faced pressures to become a 'creaming organisation' as the requirement to meet contract targets reduced the services provided to those requiring long term support. Thus, they argued that the use of TSOs in contractualist modes of delivery can create tensions at the organisational level between the desire to meet contract obligations, and the organisation's mission and ethos to provide support for all who need it.

Although Aiken and Bode (2009) use a case study approach to describe the impact of reforms on a TSO, their article provides only a limited view of the processes involved in organisational change as it neglects the *how* and *why* questions. Arguably, as it does not cover an extended time frame, it only provides a superficial descriptive account of change within their case organisation. Whilst their findings provide some indication of the impact of welfare reforms on TSOs, it arguably provides only a 'shallow account' based on a limited number of interviews with employees at one point in time. As such it is not able to provide details on the extent of change within the organisation in terms of structure, culture and activities which would provide a more detailed exploratory understanding of the extent of organisational change and the relationship with the contractualist approach to welfare delivery. It does not provide much detail on the processes of organisational change over an extended period of time, and it only provides limited evidence that welfare-to-work contracting is, as they contend, "killing the golden goose" (p.220).



## 2.10 Mission drift

Critics of government contracting more broadly often express concern that TSOs compromise their original service mission in the process of responding to government priorities (see Flynn, 1996; Lewis, 1996; Scott and Russell, 2001; Macmillan, 2010). 'Mission drift' is one of the most popular concerns in the literature on how TSOs may change due to their policy context. The idea of 'mission drift' is often linked to Weisbrod (2004) who argued that if TSOs (as he termed nonprofits) were involved in commercial activities it would lead to a diversion of their time, energy, and money away from their core mission. Weisbrod (1998) also argued that TSOs guided by flexible mission statements are particularly susceptible to drifting from their core services when financially appealing projects arise. This is because TSOs may be attracted to financially stable yet politically neutral projects which deliver direct services rather than projects that deliver or advocate social change and alternative practices, as outlined in their mission statements. Even if a TSO's goals are compatible with those of government, Lipsky and Smith (1989) argued that contracting requirements may alter TSOs' approaches to services and clients: "in essence, they may be forced to conform to standards imposed by contracting policy at the expense of their home grown notions of what constitutes effective service delivery" (p.638).

Despite the popularity of the idea of 'mission drift' in TSO research, it is somewhat contested. Sommerfeld and Reisch's (2003, p.312) study of 90 US nonprofit organisations found that, "nearly all respondents remarked on how their agencies' programs have become more outcome-based, although their overall mission has not changed". Similarly, according to a study by Chavez *et al* (2004) government funding has no negative affect on non-profit political activity and organisations with government contracts do not necessarily become politically neutral and lose their commitment to a distinctive mission. Others have noted that what may be termed 'mission drift' may in fact be a resource diversification strategy (see Froelich, 1999).

Macmillan (2010, p.22) provides a comprehensive coverage of the issue in UK TSO research. After mapping the findings on 'mission drift' from the small number of academic articles on TSOs involved in public service contexts he argues that the research findings on 'mission drift' are "ambiguous and even contradictory" (p.21). He notes that whilst respondents in some studies have expressed concern about 'mission drift' (Packwood, 2007, Rees, 2008), other studies have found that a flexible mission might be desirable and more sustainable for TSOs (Bennett, 2008). Whilst Cairns *et al* (2005) contend that 'mission drift' exists, Chew and Osborne (2009) claim that TSOs may demonstrate flexibility in organisational structures and operations but missions remain essentially unchanged over time. After reviewing the limited amount of evidence Macmillan (2010, p.23) contends that, "in the absence of focused empirical research on the maintenance or elasticity of third sector organisation missions over time, we are left with some concern about the potential for mission drift, but no clear indication of its prevalence or the causes and consequences of drift." In fact, whilst the issue is the subject of much research in the US, there is very little research in a UK context which provides a detailed exploration of 'mission drift' and the relation with public sector contracting quasi-markets.

In terms of public service contracting much attention has been given to the impact on TSOs, particularly in terms of how TSOs organize their activities, manage and deliver services, and whether these shifts in organisation demonstrate mission-drift, support concepts of marketisation, and demonstrate that third sector as a whole is becoming increasingly polarised in terms of those organisations which transform in this way, and those which do not. Whilst there is much existing research on this topic, findings are varied, often contested, and conceptual definitions differ widely. As such, transferring the findings from other policy contexts and types of TSOs onto the welfare-to-work context has some limitations, although without further

empirical research into TSOs in welfare-to-work contracting in the UK, there is little other research to draw on.

### 2.11 Organisational change in third sector organisations

It is worth noting that thus far, this review has predominately drawn on literature from the public administration field. Whilst welfare reforms have predominately attracted the attention of social and political policy theorists and researchers, the *marketisation* of the third sector has also attracted business and management scholars turning their attention to analysis of how TSOs adapt to their new commercial environment (Dey and Steyaert, 2010). As Fernandez and Rainey (2006, p.168) note, “articles reporting research and theory with titles containing ‘organisational change’ and with that theme as a focal topic, appear with much less regularity in public administration journals than in research journals focusing on general management and organisation theory”. Within the context of this review undertaken here, this point remains apt in regards to public sector contracting studies. Whilst the previously discussed literature on welfare-to-work programmes and TSOs was predominately undertaken by those involved in public administration departments and published in associated journals, empirical research into organisational change and related theories and approaches to its study remain rooted in approaches more akin with business and management doctrines.

The discussion of this area of literature is framed by drawing on the work of Parsons (1960, p.105) who argued that organisations tend to become differentiated vertically into three (somewhat) distinctive levels or layers:

*“The technical level, that part of the organisation carrying on the production function that transforms inputs into outputs; the managerial level, that part of the organisation responsible for designing and controlling the production system; and the institutional level, that part of the organisation that relates*

*the organisation to its wider environment, determines its domain, establishes its boundaries, secures its legitimacy."*

This idea is used in order to further understand the way in which the existing literature conceptualises, measures and presents research findings on TSO organisational change in public service contracting. Drawing on the three distinctions by Parsons (1960) it is demonstrated below that business and management research in the context of public service contracting has tended to focus on the technical and managerial levels of TSO involvement, rather than the institutional approach. At the managerial level the literature reviewed had a tendency to advise employees of TSOs how to avoid dependence on grants and donations by increasing their share of commercial revenue and become more efficient through the imposition of market discipline (see for example Dees *et al*, 2001). At the technical level, research has focused on the implementation of management techniques in service delivery situations or the training of front-line employees. Again, there is an empirical gap in research at the institutional level and limited literature which explores the impact of public service quasi-market environments on organisational change.

In terms of the managerial level, a vast amount of literature on organisational change exists from management based academics, the majority of which appears to adopt a normative approach to understanding organisational change. The dominant approach identifies how an organisation has changed, whether this was a positive or negative change process, how this can be enacted in other organisations and what is 'best practice' (see Carnochan and Austin, 2002). The premise of these studies is to demonstrate to managers how to enact organisational change. This literature contends that managers should undertake a sequential process of change, based on 'best practice', replace the status quo with the implementation of a change programme, and complete the change process by fusing the changes into the new

organisation. Research adopting this approach often involves multi-phase models which agents within organisations can follow in order to implement change (see Kotter 1995; Galpin 1996). As such, it appears that often these studies draw on the work of Lewin (1947) and his model of change based on an idea whereby the organisation experiences unfreezing, changing, and refreezing (see Armenakis and Bedeian, 1999).

Research findings from these studies tend to present a 'how to' approach when discussing their understanding of organisational change in service delivery organisations. Arguably this approach to organisational change is viewed as a rational, linear process which can be effectively managed by following a prescribed checklist. For example, Kanter *et al* (1992), discuss organisational change in terms of leadership and planned change and provide checklists for readers to follow and implement. In terms of welfare reform this approach has been used by Carnochan and Austin (2002) who produced a 'management note', published in a journal aimed at social work managers. The piece discussed their exploratory study on the impact of US welfare reform on internal operations of delivery organisations, focussing on human resources (job redesign and expanded training); fiscal and information systems (performance-based budgeting and outcome assessment); and community partnerships (p.62). Their study focused on the experiences of ten service directors and sought to identify a set of perceptions and impressions on the implementation processes.

Their findings highlighted a number of issues. Firstly, directors identified a need to change the culture of their organisations, moving from what the authors describe as an 'insular bureaucratic organisation' to 'an open community based agency' (p.64). The respondents discussed a resistance to change from some employees and identified the tactic used by managers to reduce resistance, such as staff training

and coaching programmes. They also found that respondents noted difficulties with organisational departmental restructuring, increased community involvement in service design, and service integration. The authors put forward the 'lessons learned' by their directors in a section aimed at other managers experiencing similar change processes (see p.71). Whilst this is a useful study as it is one of the few which have sought to gain information about the implementation of change processes in delivery organisations to meet the needs of reform policies, due to this management implementation approach, the study has its limitations in understanding the institutional environment.

Instead of focussing on the institutional environment, or researching the policy process and change, these studies focus on implementing change and the way in which this occurs in public service delivery organisations. For example, adopting a 'practice-oriented' research approach, Jager and Beyes (2010) used a longitudinal case study of a cooperative bank in Switzerland to explore the interplay between mission focus and commercial activities. They focussed on the internal processes which organisations experience when enacting change, in particular the process of how strategic change is translated into organisational action. To conduct strategic management research they used a 'practice-perspective' which focuses on how people go about the process of making strategy. Their work produced a "thick description of how strategy-as practice 'works'" (Jager and Beyes, 2010, p.85). Through using this approach the research seeks to produce findings which can be used by managers and those directing internal organisational change to improve the change process. As such, over the past twenty years a notable amount of research has been published on the implementation of change and the strategic management of change in public service delivery organisations (from both the public and third sector). For example, popular topics include managers' business planning processes and change management in NHS reforms (such as Currie, 1999; Learmonth, 2003; Hoque *et al*, 2004; Carney, 2006); the changing nature of managers' jobs and

management effectiveness in the public sector (Worrall *et al*, 2000; Bamford and Daniel, 2005); and performance management in public services (Ballantine *et al*, 1998; Holloway *et al*, 1999; Butterfield *et al*, 2004).

Dominant themes have occurred in the literature which builds on this approach. In particular, ideas of the 'Learning Organisation' (Senge, 1990; Pedler, Burgoyne and Boydell, 1991) and 'strategic management' (Chew, 2006). As Ferlie (1992) argues, the reforms of the public sector have led to an increase in managerialism and an emphasis on strategies to achieve organisational change. From the perspective of strategic management, the "public sector management needs to move out of its public administration tradition to engage with quite different questions of market structure and process" (Ferlie, 1992 p.90). Echoing the earlier discussion on 'mission drift,' Austin (2003, p.107) argues that the, "strategic management in the nonprofit arena involves the challenge of maintaining 'a distinctive sense of organisational mission' that binds all stakeholders together. The internal and external tensions need to be managed in such a way as to ensure that new resources/contracts do not distort the historical values and priorities of the organisation". There is some research from the strategic management perspective that acknowledges the institutional heritage of the TSO in regards to the implementation of change processes in public service market contexts.

The underlying assumption is that managers and actors can plan and control the way an organisation changes, that planned change is good and that organisations which change in a way which is detrimental do so because of poorly planned change. Whilst this is a simplified discussion of the position of these studies, it demonstrates that due to the position of the researcher and the anticipated outcome of the findings (i.e. to provide advice on the linear process) there is little emphasis on the impact of the wider environment.

## 2.12 Methodological approach to researching TSOs in public service markets

The existing literature into the involvement of delivery organisations in public service markets has been undertaken in three main ways. First, document analysis is the dominant research strategy in the literature which provides a policy commentary on the change to TSO funding, political support, and contractualism (such as Finn, 2007; Davis 2008). Second, one of the most popular approaches is to undertake a small survey of key respondents from TSOs to explore a particular contracting issue. For example Martikki (2008, quoted in Macmillan, 2010) used the findings from 20 VSOs to investigate contract success and relationships. Cunningham's (2008) study of 24 VSOs providing social services in Scotland investigates pay and conditions in contracted services. He identified three types of organisations from his study in terms of their management of employment conditions. Sommerfeld and Reisch (2003) undertook a survey of 90 nonprofits involved in the delivery of welfare services in the USA. They analysed their changing services, staffing, and budgets over a four year period from 1996-2000. Their study sought to assess the extent to which there was a relationship between these changes and welfare reform. They found that welfare reform programmes provided opportunities for organisational growth for nonprofit organisations. However, their respondents felt that organisational change (particularly increases in staffing responsibilities and pressures) attributed to welfare reform programmes, "encouraged organisations to resemble businesses" (p.306). The third approach is to use a large survey of organisations. These studies attempt to provide data on the sector as a whole, or use their findings to create typologies of organisations operating in particular service markets. For example, Bennett (2008) conducted a survey of 246 large service providers.

Where case studies have been used in management doctrines they have focused on the internal and technical processes of implementing change without a wider



consideration of the institutional level, or the interaction with the environment (see Austin and Carnochan, 2002). Public administration research has only used cases studies as part of a comparative case study approach (see Cairns *et al*, 2005).

### 2.13 Research questions

Whilst the existing literature on the role of TSOs in public service contracting is vast, there are a number of limitations in applying this to the welfare-to-work context. First, the literature which seeks to identify and type TSOs demonstrates that there are a range of diverse organisations involved in public sector contracting. Furthermore, the exact numbers, organisational characteristics and types of relationships are not well known. This means that whilst research examining TSO involvement in public service contracting has highlighted a number of issues, such as mission-drift, contracting difficulties, and the professionalization of staff, these findings are not applicable to the whole of the third sector as many organisations did not experience these issues, nor share the same organisational qualities which have been affected in others. Furthermore, whilst the US examples do provide some information on what the impact of contracting might be on TSOs, it is limited in its transferability due to the different societal roles and types of TSOs historically in the provision of welfare services (see Smyth 1997).

Second, there is very little existing research which has focussed on the impact of quasi-markets on whole organisations over time. Instead the dominant approach has involved surveys or questionnaires of a range of organisations at a specific point in time to understand their opinion on the impact of their environment. Whilst these studies do provide some indication of the issues affecting a sample of the sector as a whole at a specific point in time, they do not provide the detail into the impact of their environment and the processes involved. In short, they do not address the

'how' questions. Finally, the largest problem with the existing literature in terms of welfare-to-work is that, as Macmillan (2010) notes, there is little research which specifically focuses on the role of TSOs in the UK welfare-to-work quasi-market and how these organisations adapt and operate within this setting.

As such, it appears from the literature review that a well-executed detailed case study of a TSO in the welfare-to-work context would provide knowledge on an area of public policy reform which is, as yet, somewhat unknown. In order to understand how the TSO has changed over time, and how these changes impacted on core aspects of the organisation, the following research questions are suggested:

*Research question one: How and why has Albase's core activity (the delivery of ILM programmes) changed and adapted to the introduction of competitive contracting into the organisational field?*

*Research question two: To what extent has the introduction of a competitive contracting environment affected organisational change (structure, culture, ways of organizing) in Albase?*

#### 2.14 Summary

This chapter has outlined the existing literature on TSOs in welfare-to-work contracting and in public sector contracting more broadly. It appears that whilst the third sector is well studied, the existing knowledge on the role of TSOs in the delivery of public services is limited, particularly in the context of the UK welfare-to-work market. From the literature reviewed there is evidence that TSOs are active in welfare-to-work contracting, but the extent to how much, and how this has

changed over time is unclear. The grey literature from this policy context suggests not only that TSOs are heavily involved in the delivery of welfare services but also that this involvement has been affected by changes to welfare-to-work contracting over time. However, out with the DWP's market evaluation documents from the FND, it is unclear as to what types of organisations are involved, in which aspects of welfare-to-work contracting, and how indeed this has changed over the past ten years. This is clearly one area which those researchers who focused on the 'landscape of the third sector' have identified and in some cases sought to address, although there are parallel debates regarding the characteristics, categories and types of organisations involved in public service contracting which increases the complexity of mapping and measuring activity.

The literature on welfare-to-work policies has also demonstrated that in terms of comparative and policy level research there is little differentiation between external providers and the impact they have, as delivery organisations, on the delivery of welfare-to-work policies. Whilst there is limited knowledge on this area of the market and the organisations involved in delivering welfare services, a large amount of welfare to work literature from this camp contends that the market mechanisms encourage providers to employ 'gaming behaviour.' This subject occupied most of the literature on welfare to work in the early 2000s and whilst the empirical evidence for this is again somewhat limited, there is a well-held assumption that market mechanisms encourage acts such as creaming and parking of jobseekers. If this is the case, further information is needed on how this process occurs within organisations and what impact such practices have on the management of contracts held by TSOs. As noted, many hold the assumption that the benefit of contracting to TSOs is that they do not have this imperative unlike private sector organisations. However this conflict with those who contend that gaming is a rational outcome of performance based outcomes, which suggest that it

is characteristic of the context, rather than the organisation. Again, this issue has not been explored in terms of the UK welfare-to-work market.

This chapter has also noted that many researchers have focussed on the relationship between the state and third sector organisations in quasi-market arrangements, and evaluated the shifting ways of communicating, working, and delivering social service programmes. This has tended to involve case studies and small-n studies in comparison to other research areas which have focussed on sector level surveying or a small number of interviews with senior employees in a range of organisations. Across the board it appears that there a number of research areas in welfare-to-work contracting that are lacking in detail and evidence, none more prevalent than the role of TSOs and the impact of welfare-to-work quasi-market rules and regulations on their activities, behaviour and organisational change. The impact of quasi-market arrangements (both positive and negative) on TSO characteristics is as yet unknown. From the research in other areas (although with the caveat that there are various types and histories to these organisations, and there are different policy and contracting contexts) there is a suggestion that TSOs may experience 'marketisation' whereby internal structures such as their HR recruiting process, the way they organize daily tasks, their priority of outcomes, and their mission led activities, could be affected by involvement in a quasi-market contracting system. Some have suggested that TSOs will experience isomorphic behaviour, leading them to look more like private or public sector organisations, whilst others have suggested that TSOs may shift to meet the needs of the market due to their reliance on these resources, and as such lose their independence, ability to advocate for their service users, and increase their vulnerability at the same time. Others have suggested that the involvement in quasi-markets provides positive outcomes for TSOs as they develop key contract and bargaining skills in market contexts which could increase their future resource opportunities and improve their innovation and productivity. These findings leave a number of questions for research into the involvement of

TSOs in the welfare-to-work context, in particular the impact of welfare-to-work contracting on organisational change.

Whilst this research provides some knowledge on understanding organisational change in TSOs, it was clear that the context of the quasi-market was not often cited. Instead there is a growing trend towards research in this setting which seeks to explain organisational change through institutional theories and ideas of isomorphism. Instead of change being associated with economic decision making, or simply resource dependency problems, this research has suggested that organisations experience normative, regulative and competitive pressures which affect the way they behave, organize, and ultimately change, depending on their context and wider environment and their organisational field. In sum, further knowledge is required on the TSOs in the welfare-to-work context, in particular there is a need for more detailed research into the involvement of TSOs in the delivery of employment services, the interaction with the environment and quasi-market setting, and the way in which this affects the change process.





# CHAPTER 3 - THEORETICAL FRAMEWORK

This chapter introduces the theoretical approach used for exploring the organisational change experienced by Albase. It was stated in the literature review that there is little known about welfare-to-work contracting and the way Third Sector Organisations (TSOs) change in response to the introduction of contracting-out approaches to public service delivery. As such it was argued that a detailed exploratory case study would be beneficial. Furthermore, it was suggested that in order to understand change and the impact of an environment on an organisation the exploratory case study would need to consider organisational change at the institutional level. In the process of understanding change over time in Albase this chapter proposes an exploratory theoretical framework and adopts an “adaptational mechanism” approach which assumes that organisations change due to their adaptive responses to changes in their environment (Barnett and Carroll, 1995, p.217). Theories typically placed in the adaptational camp include resource dependency theory (Pfeffer and Salancik, 1978, Burt, 1983), institutional theory (Meyer and Rowan 1977, DiMaggio and Powell, 1983) and transaction cost economics (Williamson 1975, 1985). Guided by the theoretical discussions the final section of this chapter provides a table outlining how the framework was put into practice.

To study organisational change in the welfare-to-work context this research adopts an “adaptational mechanism” (Barnett and Carroll, 1995, p.217) approach which explores a number of competing hypothesis to potentially explain organisational change. It is not a theory testing thesis, and it does not seek to generate theory from its findings (generalizability and the case study strategy is discussed in more detail



in chapter four). The purpose of this theoretical approach is to identify organisational change and explore the reasons for change. The aim is to better understand whether TSO organisational change can be explained by any of, or a combination of, the theories put forward in the framework. It is the intention that due to the limitations of the existing literature this approach may assist the facilitation of future research into organisational change in the welfare-to-work quasi-market.

The reason for the three theories put forward is outlined in detail later in the chapter. In short, much research into organisational change and environmental pressures adopts a neoinstitutional perspective that focuses on how organisations change due to the social framework of norms, values, and assumptions about what constitutes appropriate behaviour in their field. This is a popular theoretical approach for exploring organisational change, although there is little published research on third sector organisational change through this lens. More common in explaining change in third sector research is resource dependency theory (RDT). According to this work, organisations change in order to access and maintain resources in their environment. This theory contends that by changing to the demands of the resource provider TSOs can become dependent and lose autonomy and power in their own decision making. RDT theorists have argued that TSOs experience change due to the demands from their funders, or as part of an effort to diversify their resources to reduce dependency and increase their power in exchange relationships. Finally, as outlined in chapter two, much of the research on the welfare-to-work quasi-market has used an economic perspective to understand how delivery organisations make decisions about service provision, therefore neoinstitutional economics (in particular transaction cost theory) has been put forward alongside the other two theoretical approaches as a theoretical position for understanding organisational change in the context studied here.

Before discussing the theoretical framework employed for the analysis of the empirical findings, the following section presents the ontological position and the key concepts of this research; what is meant by organisational change and how will this be measured?

### 3.1 Organisational change

The need to understand and research organisational change has a long tradition within the social sciences (see Weick and Quinn, 1999). Debates in organisational research centre upon two main issues: how to study organisations and how to conceptualise and adopt research methods to study organisational change. These debates have tended to position organisational theorists and researchers in two distinctive groups based upon an ontological distinction about the essential nature of organisations. The distinction, according to Tsoukas (2005), reflects the two versions of the social world: one, a world made of things in which processes represent change in things (social entities); the other, a world of processes in which things are reifications of processes (social processes). The choice of research methods is directly linked to how the researcher conceptualises their understanding of both, “organisation” and “change”.

- I. What is understood by ‘organisation’?
- II. What is understood by ‘change’?
- III. How can the relationship between Albase and the welfare-to-work market be framed and conceptualised?

The research strategy is underpinned by the conceptualisation of three main areas, the first two are linked to Tsoukas two versions of the social world (organisation

and change), whilst the third question draws on a concept from institutional theory- the 'organisation field' (DiMaggio and Powell, 1983).

There is some debate in organisation studies regarding the definition of organisations. Tsoukas (2005) distinguishes between organisations as nouns, or verbs. Van de Ven and Poole (2005, p.1379) illustrate this point through the following quote:

*"Process is fundamental: The river is not an object but an ever changing flow; the sun is not a thing, but a flaming fire. Everything in nature is a matter of process, of activity, of change" (Rescher, 1996, p.10, quoted in Van de Ven and Poole, 2005, p.1379).*

However, Whetten (2006) argues that organisations should be studied as nouns (social entities), rather than as verbs (social processes) in order to focus on concepts such as identity, structure, culture, and performance. This debate is detailed and complex and whilst there are arguably two 'camps' of scholars conceptualising what an organisation is, and therefore how it should be measured, they are not mutually exclusive camps. In this thesis the view adopted is somewhat on the middle ground of these discussions. It is accepted that organisations are made of processes and constantly 'in flux.'

However, in order to discuss organisational change it is necessary to discuss organisations as tangible objects of study, as nouns. By doing so, this thesis is able to draw on the most commonly used definition for organisations used by neoinstitutional scholars provided by North (1990) who uses a social entity approach to distinguish between institutions and organisations. North considers institutions as the "rules of the game," consisting of both the formal legal rules and

the informal social norms that govern individual behaviour and structure social interactions (institutional frameworks). Organisations, are those groups of people and the governance arrangements they create to coordinate their team action against other teams performing also as organisations. As such, organisations can be conceptualised and formed into an object of study.

### 3.2 Conceptualising change

In organisational studies the distinction between viewing organisations as nouns or verbs is accompanied by an epistemological debate of organisational change. According to Poole *et al* (2000) the noun/process distinction leads to two definitions of change. The first displays observed differences over time in an organisational entity on selected dimensions (variance theory). The second produces a narrative describing a sequence of events on how development and change unfold (process theory). This distinction was originally introduced by Mohr (1982), who argued that where variance theories explain phenomena in terms of the relationship between and among dependent and independent variables, process theories provide explanations in terms of patterns of events, activities, and choices over time.

From the process theory perspective it is presupposed that an organisation is comprised of a set of processes that maintain the organisation by continuously breaking down the organisation and its boundaries. Change (or on the other hand stability) are considered not as real things, but as judgements because, “the organisation is a process that is continuously being constituted and reconstituted” (Rescher, 1996). Therefore, adopting a process theory perspective means that the researcher considers change as a basic constituent of organisations- in some way a main characteristic of all organisations. Key characteristics of process studies (see Pettigrew *et al*, 2001) have tended to incorporate several different types of effects

into their explanations, including critical events and turning points, contextual influence; formative patterns that give overall direction to the change, and causal factors that influence the sequencing of events (Van de Ven and Poole, 2005, p.1384). As a result, sequence and ordering become critical for producing outcomes such as links between an event (change action or critical juncture) at a particular time, and information and understanding on who was involved and what happened next.

Unlike the process approach, “variance methods seek explanations of continuous change driven by deterministic causation, using independent variables acting upon and causing changes in dependent variables” (Van de Ven and Poole, 2005, p.1381). As such some academics argue that variance research, with its focus on the conditions necessary to bring about an outcome, is more able to contribute to wider theory making and generality. The focus would be less on the process of change and more on the content and outcome of change and according to Van de Ven and Poole (2005) variance methods have tended to dominate studies of organisational change, particularly in studies investigating differences in innovation and entrepreneurship (see Kanter, 1984; Hosking and Anderson, 1992; Ferlie *et al*, 2005), an area which this research has some relevance. Despite its dominance in organisational research, critics of the variance approach argue that the deterministic nature has serious limitations to understanding the nuances and details of organisational change. It is argued that this is because the variance approach does not give enough consideration to the aspects of the change process and the way in which change occur (Van de Ven and Poole, 2005). However, these approaches do not have to be mutually exclusive, particularly in situations such as this where there is little known about the policy context. Whilst variance methods have been strongly associated with statistical analyses it is anticipated that the detailed exploratory findings of this research project could at a future date prove useful for researchers attempting to adopt a variance approach to understanding change within the welfare-to-work context or other public service quasi-markets.

### 3.3 A weak versus strong approach?

Within the 'process' literature debates continue regarding the ontological position of research into organisations and change. Within these debates this research could be considered as conforming to a 'weak' process view. According to Langley (2009, p.3-4) this is because emphasis is placed on the change and development of existing structures, as opposed to the 'strong' process ontology, "which is grounded in the thinking of process philosophers such as Bergson (1946) and James (1996), where things are considered to be subordinated to and constituted by process (Chia and Langley, 2004; Van de Ven and Poole, 2005)". These two views are linked to the earlier ontological debates regarding whether organisations are viewed as entities or processes. For example, while adherent of the weak process view might look at organisational change in terms of movement from one state to another, a strong view would look at change in terms of the ongoing microprocesses that contribute to constituting and reproducing the organisation as a stable entity (Tsoukas and Chia, 2002).

In practice empirical researchers often exhibit varying degrees of hybridity between variance and process research as is the case here. Researchers collect process-oriented data about temporally evolving phenomena, but end by generating variance-based theoretical formulations (Eisenhardt, 1989; Ferlie *et al*; 2005; Maitlis, 2005). Chia and Langley (2004) also state that often in organisational research, "it is very tempting to reduce them to "things" that can be described as variables (e.g. decision processes are more or less "rational", more or less "political," more or less bureaucratic"), or as static states that can be compared" (Chia and Langley, 2004). In this respect this thesis is no different. The data is qualitative and longitudinal but the theorizing derived from it may not always be processual in the sense of deriving temporally ordered explanations (Langley, 1999). Due to the complexities of data reduction and practicalities of drawing and verifying conclusions from a large quantity of qualitative data, there was a tendency to conclude by identifying or

presenting outcomes which could have developed into comparable themes. The reduction of processes to tangible variables or moments in time was also a necessary part of the writing up and presentation process and difficult to avoid in the production of the PhD thesis where the complexity of multiple policy and organisational change processes was difficult to articulate.

In sum, Van de Ven and Poole (2005) developed four approaches to studying organisational change taking into account the epistemological and ontological positions outlined above. The four approaches, visible in Table 3.1, result from the aforementioned distinctions between the ontology of organisations as consisting of things or processes, and epistemologies of variance or process methods for studying organisational change.

Table 3.1: A typology of approaches for studying organisational change.

		Ontology An organization is represented as being:	
		A noun, a social actor, a real entity ('thing')	A verb, a process of organizing, emergent flux
<b>Epistemology</b> (Method for studying change)	Variance method	<b>Approach I</b> Variance studies of change in organizational entities by causal analysis of independent variables that explain change in entity (dependent variable)?	<b>Approach IV</b> Variance studies of organizing by dynamic modeling of agent-based models or chaotic complex adaptive systems
	Process narratives	<b>Approach II</b> Process studies of change in organizational entities narrating sequence of events, stages or cycles of change in the development of an entity	<b>Approach III</b> Process studies of organizing by narrating emergent actions and activities by which collective endeavors unfold

Source: Van de Ven and Poole, 2005, p.1387

The thesis explored the process of change and the influence of the external environment. Using Tsoukas (2005) definition of strong and weak process research, this approach would fall into the weak category, placing priority on substance over process. Using this typology of understanding organisational change, the approach that is most akin to this research strategy is Approach I, although the thesis also incorporates a narrating approach based on the identification of phases of organisational change in Albase. Measuring organisational change in Albase involved the identification of a number of organisational characteristics which were considered to collectively determine that changes had occurred, although as previously mentioned there is an acceptance that all organisations are continually changing. As such, the purpose of the indicators is to demonstrate whether changes appear to be greater or more different than the established (and continual) processes which collectively make-up Albase. The indicators were determined based on studies from the literature review and from the theoretical approaches discussed in more detail later in this chapter. A measurement for change was based on: size (number of employees, financial income,); activities (types of employment support offered; range of activities and policy contexts); structure (type and size of departments, ways of organizing), and culture (mission, employment processes, image) (Barnett and Carroll, 1995).

This section has presented the ontological and epistemological position and outlined how this translated into how change was conceptualised and measured. In sum, it has outlined that the organisation, Albase, is viewed as an entity which can change over time. It is acknowledged that there are continual processes of change occurring within the entity and when changes are identified in the empirical chapters, they are discussed in a narrative way in order to explain how these changes have come about. However, the variance method is also employed in order to suggest lineages with events and variables within Albase's environment.



The theoretical framework employed draws on organisational theory and as outlined in the previous chapter, aims to fill the gap in empirical research which focuses on the institutional level of organisations and the interaction with their environment. The intention is that by using the concept of the organisational field this can be achieved.

Scott (2008, p.179) states that “organisations are major actors in modern society, but to understand their broader significance, it is necessary to see their role as players in larger networks and systems”. Drawing on DiMaggio and Powell (1983), Scott (2008, p.181), contends that the concept of the field usefully incorporates important previous levels of analysis employed in organisation studies, including individual organisations, organisation sets, and organisation populations. It includes:

- A diverse array of organisations working within a given arena or domain;
- Attention not only to producer organisations, but to their exchange partners, customers, competitors, intermediary actors, regulators, and funding agents- their *organisation set*; and
- Recognition that organisations are particularly attentive to and influenced by the existence of organisations exhibiting the same general features and competing for the same resources- their *organisation population*

According to (Scott, 2008) prior to this for many years the passive framing of “the environment” led investigators to envisage a random collection of resources and other organisations that might be of use (or a threat). Within organisation theory the concept of organisation field is associated with authors working in institutional theory that saw the interaction of units within the environment as something more

than a random collection of activities. DiMaggio and Powell (1983, p.148) defined the organisation field as, "those organisations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products." Their conception places an emphasis on "the totality of relevant actors" and not simply to competing firms or networks. As DiMaggio (1986, p.337) asserts, "the organisation field has emerged as a critical unit bridging the organisational and the societal levels in the study of social and community change." The field concept fulfils a vital role in connecting organisation studies to wider, macrostructures-sectoral, societal, and transnational.

Influential to the development of the idea of the organisation field was the work of Bourdieu (1971, 1984), who employed the concept of field to refer "to both the totality of actors and organisations involved in an arena of social or cultural production and the dynamic relationships among them" (DiMaggio, 1979, p.1463). Bourdieu suggests that, "to think in terms of field is to *think relationally*" (Bourdieu and Wacquant 1992:96; italics original), and he employs the analogy of a game with rules, players, stakes, competition, and contestation, to depict its central features (Swartz, 1998). According to Scott (2008, p.183), "for Bourdieu, fields are not settled social spaces, but arenas of conflict in which all players seek to advance their interests; some are able, for longer or shorter periods, to impose their conception of 'the rules of the game' on others".

Scott (2008) states that fields are institutionally defined and the process of institutional definition, or 'structuration', consists of four parts: an increase in the extent of interaction among organisations in the field; the emergence of sharply defined interorganisational structures of domination and patterns of coalition; an increase in the information load with which organisations in a field must contend;

and the development of a mutual awareness among participants in a set of organisations that they are involved in a common enterprise (DiMaggio, 1982).

Whilst some key factors have already been identified, the remainder of this chapter draws on the three theories outlined at the beginning of this chapter to create a framework for the case study. It draws on these three theories in order to generate a number of possible hypotheses which may explain the changes observed and documented in the empirical chapters.

### 3.4 Why do organisations change?

Research into how organisations change in response to their environment has attracted attention from a number of theoretical camps which explain the reason for organisational change of ways. As the focus of this research is to understand how Albase experienced organisational change and whether this change was associated with the introduction of the welfare-to-work quasi-market into the organisational field, three alternative (although as argued complementary) theoretical perspectives are discussed. Due to the nature of the research area and the limited existing empirical and theoretical research on the topic of organisational change in a TSO in the welfare-to-work context, the purpose of this approach is to explore how change can be interpreted and explained from these viewpoints. The explanations for organisational change differ in each of the theories, for example, whilst resource dependency theory speaks to how competitive pressures drive organisations to change depending on their resource relations, neoinstitutional theory explains that organisations change due to the influence of the social framework in which the organisation is embedded. Neoinstitutional economics (transaction cost theory)

As outlined in the literature review there is also literature which explains organisational change in public service markets by drawing on economic theories of behaviour and these are considered by drawing on neoinstitutional economics. The three theoretical approaches presented are often considered as incorporating an “adaptational mechanism” (Barnett and Carroll, 1995). The position is that organisational change involves the behaviour of actors within Albate, who respond to their environment. Researchers have used some of these theories together before, for example resource dependency theory and coercive isomorphism (from neoinstitutional sociology) were utilised by Verbuggen, Christiaens, and Milis (2011) in their research into nonprofit organisations’ compliance with reporting standards. Similarly both theories have been combined to explain differences in strategies between for-profit and nonprofit organisations (Schmid, 2001) as well as nonprofit governance (Guo, 2007) and administrative structure (Tolbert, 1985). Neoinstitutional theory and resource dependency have also been used to explain the behaviour of organisations involved in public-private partnerships (Steijn *et al*, 2011).

These three theoretical positions for understanding organisational change are discussed in this section.

### 3.5 Neoinstitutional theory- sociological approach

This section begins by discussing the sociological approach to neoinstitutional theory, in particular the work of DiMaggio and Powell (1983) who argued that organisations active within a particular field are likely to change in response to the pressures and influences from the social framework. Whilst institutional theory originally argued that organisations would homogenize, as particular formats and behaviours are deemed legitimate within their environment, recent theorists such as Scott (2002) have argued that diversification and change can also occur.

Neoinstitutional theory presents ideas that field level rules and norms can impact on the structure and behaviour of organisations operating within them.

The effect of the introduction of new environmental pressures upon independent providers is mainly discussed by commentators of organisational theory. Through this lens, it is argued that the dynamics and decisions affecting organisational change may not “stem from economic, technical or material imperatives, but rather from cultural norms, symbols, beliefs and rituals” (Suchman, 1995, p. 571). From this perspective institutional forms and procedures used by organisations were not adopted simply because they were most efficient for the tasks at hand, in line with ideas of economic ‘rationality’. Instead, the view is that many of these forms and procedures should be seen as “culturally-specific practices, akin to the myths and ceremonies devised by many societies, and assimilated into organisations, not necessarily to enhance their formal means-ends efficiency, but as a result of the kind of processes associated with the transmission of cultural practices more generally” (Hall and Taylor, 1996, p.953).

Contrary to economic theories where organisations are often conceived as ‘rational systems’ basing decisions predominately on financial transactions, neoinstitutional sociologists suggest that organisations are influenced by the dominant norms and practices in their organisational field. Organisations are subject not only economic pressures, but also to social and cultural pressures that arise from interactions between organisations in their institutional environment (Scott, 2008). As a result, organisations often act in ways that are not necessarily ‘rational’, but are consistent with the ‘rules, norms and ideologies of wider society’ (Meyer and Rowan, 1977, p.84). Organisations operate within a social framework of norms, values and assumptions about what constitutes appropriate behaviour (Oliver, 1997; Scott, 1995). Decisions are made not so much according to technical or economic criteria,

but on the basis of what is acceptable and legitimate within a particular environment or “organisation field” that typically moves toward common structures and processes due to coercive, imitative, and normative expectations (DiMaggio and Powell, 1983). Consequently, for TSOs in public service markets the change may not be attributed decision made based on the transaction costs, or in direct response to resource acquisition, cultural norms and expected behaviours which are considered legitimate may be adopted, bringing about organisational change.

According to Hall and Taylor (2006, p.953) often research by sociological institutionalists seeks explanations for why organisations take on specific sets of institutional forms, procedures or symbols. They contend that this work emphasises how such practices are diffused through organisational fields. For example, Meyer and Rowan (1977) argue that institutionalized structures and practices can be used in the accounts that managers provide to external constituencies. They observed that using econometric analysis to justify organisational projects is an institutional norm, and that “such analyses can also provide rational accountings after failures occur: managers whose plans have failed can demonstrate to investors, stockholders, and superiors that procedures were prudent and that decisions were made by rational means” (Meyer and Rowan, 1977, p.350).

DiMaggio and Powell (1983, p.149) describe isomorphism as a: “constraining process that forces one unit in a population to resemble other unit that face the same set of environmental conditions.” Following Meyer (1979) and Fennell (1980), DiMaggio (1991) maintains that there are two types of isomorphism: competitive and institutional. Correspondingly, Hatch (1997, p.91), explains how this distinction can be understood. Firstly environments “may make technical and economic demands that require organisations to produce and exchange their goods and

services in a market or a quasi-market. [And], secondly, they may make social and cultural demands that require organisations to play particular roles in society and maintain certain outward appearances.” Focussing solely on institutional isomorphism, DiMaggio and Powell (2001) identify, three mechanisms through which institutional isomorphic change occurs, each with its own circumstances: 1) coercive isomorphism that stems from political influence and the problem of legitimacy; 2) mimetic isomorphism resulting from standard responses to uncertainty; and 3) normative isomorphism, associated with professionalization<sup>5</sup>.

As Meyer and Rowan (1991) demonstrate the concept of isomorphism provides valuable concepts to studying organisational change in TSOs as, ‘isomorphism with environmental institutions has some crucial consequences for organisations: (a) they incorporate elements which are legitimated externally, rather than in terms of efficiency; (b) they employ external or ceremonial assessment criteria to define the value of structural elements; an (c) dependence on externally fixed institutions reduces turbulence and maintains stability’ (p.49). Consequently, the authors argue that institutional isomorphism in fact promotes success and survival of organisations. ‘Incorporating externally legitimated formal structures increases the commitment of internal participants and external constituents. And the use of external assessment criteria- that is, moving toward the status in society of a subunit rather than an independent system- can enable an organisation to remain successful by social definition, buffering it from failure’ (1991, p.49).

Drawing on neoinstitutional theory, organisational isomorphism (the tendency for organisations to acquire the attributes of other organisations upon which they

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<sup>5</sup> They also state that this typology is an analytic one and as such the three types are not always empirically distinct.

depend) can occur through mimetic processes in which TSOs tend to resemble their funders (DiMaggio and Powell, 1983). Neoinstitutional theory bases its arguments on the notion that organisations are socially rewarded by legitimacy, resources, and survival based on their acceptance of coercive, normative, and mimetic institutional pressures (DiMaggio and Powell, 1991; Meyer and Rowan, 1991; Fernandez-Alles and Valle-Cabrera, 2006). In regards to organisational change change, “mimetic, normative and coercive processes come into play strongly when a new organisational form is legitimated by powerful actors, leading organisations, professional associations and interest groups” (Hinings and Greenwood, 1988, p.807).

Coercive isomorphism results from political influence and legitimation (Meyer and Rowan, 1977). DiMaggio and Powell (1982, p.150) state that “coercive isomorphism results from both formal and in-formal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function. Such pressures may be felt as force, as persuasion” (p.150)

Whilst coercive isomorphism may be the result of highly formalised and structured environments, mimetic isomorphism occurs when organisations are faced with uncertainty. DiMaggio and Powell (1983, p.151) contend that, “uncertainty is also a powerful force that encourages imitation. When organisational technologies are poorly understood (March and Olsen, 1976), when goals are ambiguous, or when the environment creates symbolic uncertainty, organisations may model themselves on other organisations.”



Normative isomorphism is the third source of isomorphic pressure and according to DiMaggio and Powell (1983, p.152) it stems primarily from professionalization and the rise of formal education for professions which span across organisations. DiMaggio and Powell (1983) also contend that there are two types of isomorphic change that come about for different reasons. Competitive isomorphism is the type of change proposed by population ecologists in which optimal forms of organisation are selected out of a population (Slack and Hinings, 1994, p.804). They suggest that this view assumes, "a system rationality that emphasises market competition, niche changes and fitness measures" (1983, p.149-150). It is a view most relevant for organisations which operate in a relatively free and open competitive market. For organisations which do not operate under such conditions, but compete for 'political power and institutional legitimacy' as well as for social and economic fitness', the idea of institutional isomorphism is more relevant (Slack and Hinings, 1994, p.804).

Slack and Hinings (1994, p.805) argue that it is necessary to examine the extent to which any given organisation models itself on other 'leading' or 'legitimate' organisations in the sector (mimetic isomorphism); whether labour markets/pools of expertise are created which produce professionalized labour force (normative isomorphism); and how far there are powerful organisations which can force other organisation to adopt particular organisational forms (coercive isomorphism). Importantly, they contend that these processes are not exclusive but may all operate within an institutional sector as a 'set' (p.805).

### 3.6 Legitimacy

A major contribution of NEI for this research is the concept of legitimacy. Whilst institutional theory suggests that organisations may adopt practices and behaviour

dominant in their field, according to Suchman (1995) the concept of legitimacy helps to explain why. What do actors within organisations seek to gain from the adoption of particular practices? According to Suchman (1995, p.574) legitimacy is “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”. Acquiring legitimacy depends on meeting the expectations, often taken-for-granted, of the environment in which the organisation functions (DiMaggio and Powell, 1991). According to Pfeffer and Salancik, (1978, p.194), “legitimacy is conferred when stakeholders- that is, internal and external audiences affected by organisational outcomes- endorse and support an organisation’s goals and activities. And an organisation can be described as legitimate when it is endorsed and supported by a segment of society large enough to ensure its effectiveness and survival”.

The theory suggests that there are many different reasons why an organisation may seek legitimacy. First, legitimacy affects how people act towards and understand organisations. A legitimate organisation is seen as more worthy, meaningful, predictable and trustworthy (Suchman, 1995). Second, organisations that are perceived to be legitimate will find it easier to attract resources and support, both social and political. Third, failure to comply with the expectations of society may lead to withdrawal of support and the limiting of donations and government assistance. Organisations exist to the extent that society considers them legitimate (Deegan, 2002).

Why is the concept of legitimacy important for understanding how organisations change? Institutional theory posits that organisational change (and isomorphic behaviour in particular) is most induced where organisations see legitimacy in their environment as essential to their success. As Leiter (2008) argues, ‘isomorphism may

also arise out of the pursuit of legitimacy without regard for effectiveness and efficiency, but rather for the sake of survival, advantage, or approval' (p.67). In doing so, organisations may adopt practices and symbolic structures in order to satisfy the need for compliance in the organisational field. Many institutionalists propose that the pursuit of legitimacy would therefore promote homogenization amongst organisations within field with highly visible rules and expectations. Arguably, the welfare-to-work quasi-market is such a field as contracts, welfare reform policies, and market documents create and enforce norms, expectations and practices for organisations seeking to deliver welfare contracts.

Acquiring legitimacy involves a range of different legitimation techniques that can be employed depending on whether the organisation is attempting to gain, maintain or repair legitimacy (Pfeffer and Salancik, 1978; Neilson and Rao, 1987; McLarney, 2002). New organisations and those undergoing restructuring or launching a new product will need to gain legitimacy and will generally use a proactive approach (Suchman, 1995). Managers wishing to gain legitimacy have the benefit of advance knowledge of their plans and can assess their needs for legitimacy. An established and well regarded organisation may have already gained legitimacy and therefore maintaining legitimacy should be less problematic. However legitimacy cannot be taken for granted. Community expectations change and what was once deemed as acceptable may no longer be tolerated, or in quasi-market settings values and expectation from the Principal may shift over time. Organisations therefore need to perceive changes in society's views and their organisational field, and protect their past accomplishments (Suchman, 1995).

Drawing on neoinstitutional sociology, the organisational change experienced by Albase can be hypothesised as:

H1: Albase has adopted the dominant rules and regulations of the organisational field. This is due to the introduction of highly formalized rules and regulations of the contracting market into the organisational field.

H2: Albase, through isomorphic pressures, has adopted a structure reflective of other organisations operating in the organisational field.

### 3.7 Resource dependency theory

Research into organisational change in TSOs has tended to be dominated by resource dependency theory (RDT). Similar to NEI the advantage of this theory is the emphasis placed on understanding change through exploring the environmental context in which the organisation operates. The principal notion of the major text for this school of thoughts is Pfeffer and Salancik's *The External Control of Organisations: A Resource Dependence Perspective* (1978). In this work the authors claim that, "to understand the behaviour of an organisation, you must understand the context of that behaviour" (Pfeffer & Salancik, 1978; p.1). As the extract below demonstrates:

*"How an organisation learns about its environment, how it attends to the environment, and how it selects and processes information to give meaning to its environment are all important aspects of how the context of an organisation affects its actions" (Pfeffer and Salancik, 1978, p.14).*

Resource dependency theory explains change by focussing on the exchange relationships which the focal organisation engages in with others in the environment (Thompson, 1967; Pfeffer and Salancik, 1978). RDT focuses on a firm's need to access resources from other actors in the environment and describes how resource scarcities force organisations to pursue new innovations that use alternative resources (Pfeffer and Salancik, 1978; Sherer and Lee, 2002). The most problematic constraints affecting organisations stemmed from their relationship with resource providers.

Three central tenets underscore resource dependency theory. First, the environment is critically important for understanding what decisions get made in organisations. Second, organisational actors do something about environmental pressures and constraints – or in other words, the environment is not entirely deterministic and therefore the possibility of strategic choice (Child, 1972) exists; and third, power is critically important construct for understanding both intra- and inter-organisational behaviour (Pfeffer, 2003, p.xii).

According to resource dependency theorists' organisational survival relies on the continued exchange between the organisation and its resource providers. The general belief is that, "organisational success is based on the amount of access and control organisations had over the resources they needed to produce outputs, and consequently, on the degree of control, or power, they wielded over resource providers" (Pfeffer and Salancik, 1978, p.2). Most organisations depend on the resources traded in these exchanges for survival, and they will make the necessary accommodations to guarantee exchange relationships with other organisations. Thus, changes in organisational structure or behaviour may reflect accommodations intended to secure a stable flow of resources from the environment (Oliver, 1990)

and they are, “constrained by the environment as a consequence of their resource needs” (Froelich, 1999, p. 247).

Due to the dependency of organisations on resource providers in competitive environments, Pfeffer and Salancik argued that organisations can not only change the nature of their relationship with resource providers, they must do so, as organisational survival depends on it (Pfeffer and Salancik, 1978). They argued that organisations could reduce the power they bestow upon resource providers by being less dependent on the resource relationship in order to maintain control over their own development and decision making. They proposed possible strategies that organisations can call upon to reduce dependence:

- I. Reducing or eliminating the need for the resource question
- II. Finding a substitute for it
- III. Gaining control over the resource provider (through acquisition for example) or over a resource the resource provider needs (through competition for example), or finding ways of gaining countervailing power (Pfeffer and Salancik, 1978; Emerson, 1962)

According to (Froelich, 1999, p.248) effective organisations recognize and modify the, “locus of their dependence”. Major approaches to dependence management include complying with the demands of important resource providers, avoiding controlling demands via co-optation or acquisition of countervailing power, and avoiding dependence by maintaining alternative sources of key inputs. However, some have argued that for TSOs the danger of resource diversification is that they become prone to enacting organisational change once more, with TSOs involved in

contracting or commercial activities becoming more akin to the private sector. Froelich (1999, p.262) argues that revenue diversification can be seen as a double-edged sword as “it reduces concentrated resource dependence and preserves organisational autonomy, yet blurs the distinctions between the nonprofit and other sectors, eroding legitimacy in the process”.

Consequently, RDT facilitates a consideration of the relationship between the organisation and its environment. It questions whether changes that occur can be linked not only to the transaction processes of the market, or the rules and norms of the contracting approach, but also due to the dependency of TSOs on resource acquisition from particular relationships, and whether questions of dependency can explain how accommodating TSOs are to changing in line with the requirements of the welfare-to-work market.

Drawing on RDT, organisational change in Albase can be hypothesized as:

H3: Albase’s organisational change processes occurred as actors sought to gain control over resource providers and guarantee exchange resources.

H4: Albase adopted a diversified strategy to reduce resource dependency issues

### 3.8 Neoinstitutional Economics and Transaction Costs Economics

The contracting-out of public services has introduced new governance structures based on markets and contracting processes. Public-sector contracting, in which organisations compete to deliver services on behalf of governments, has long been

championed as a way to save costs (Savas, 1974, 1977), and the existing research on welfare-to-work delivery organisation's behaviour has specifically identified economic choices, and that providers behaviour is affected by rational-decision making. Oster (2000) suggests that the change in governance structure may offer an efficiency gain as public agencies seek to off-load tasks into the less political and more single-minded corporate sector. However, as O'Regan and Oster (2000) note, there are costs in managing a contractual relationship and in the creation of competitive markets. These issues and discussions are commonplace in the literature on public service contracting although there is little connection between these ideas and organisational change in service delivery organisations. In order to explain organisational change in Albase from an economic viewpoint, the third theoretical approach considered is that of neoinstitutional economics (NEI), in particular the transaction costs literature.

Neoinstitutional economists are concerned with the rule and governance systems that develop to regulate or manage economic exchanges. Some (such as Hall and Taylor, 1996) have also linked this approach up understanding institutional and organisational change to a related area of work titled 'rational choice institutionalism.' According to Hall and Taylor (1996, p.45), rational choice institutionalists employ a characteristic set of behavioural assumptions and they "posit that the relevant actors have a fixed set of preferences or tastes (usually conforming to more precise conditions such as the transitivity principle), behave entirely instrumentally so as to maximize the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation" (Hall and Taylor, 1996, p.945).

In terms of organisation's neoinstitutional economic theorists contend that an actor's behaviour is likely to be driven, not by impersonal historical forces, but by a



strategic decision which will be affected by the actor's expectations about how others are likely to behave as well. Their view is that the coordination of economic activity is not simply a matter of market-mediated transactions, but involves many other types of institutional structures. Before looking in detail at how NEI is used in this research study it is worth briefly looking at NEI theory more broadly.

There are three main contributors to NEI which are of relevance to this research study. According to Scott (2008) the article by Coase (1937) "The Nature of the Firm" is accredited with the underpinnings of much neoinstitutional economic thought. It asked why some economic exchanges are carried out within firms under a governance structure involving rules and hierarchical enforcement mechanisms, rather than being directly subject to the price mechanism in markets. Coase (1937, p.389) suggested that the reason must be that "there is a cost of using the price mechanism," namely "the costs of negotiating and concluding a separate contract for each exchange transaction which takes place in a market."

Since the 1970s Oliver Williamson developed Coase's ideas and argued that "transaction costs increase when individual rationality (which is bounded) is confronted by heightened complexity and uncertainty, and when opportunism-some actors propensity to lie and cheat- is coupled with the absence of alternative exchange partners" (Scott, 2007, p.30). Under such conditions, exchanges are likely to be removed from the market and brought within an organisational framework, or to stimulate the development of more elaborate controls (Williamson, 1975, 1985). Williamson (1991, p. 103) defined transaction costs as "the ex ante costs of drafting, negotiating and safeguarding an agreement and, more especially, the ex post costs of maladaptation and adjustment that arise when contract execution is misaligned as a result of gaps, errors, omissions, and unanticipated disturbances; the costs of running the economic system." According to Scott, (2008, p.28) Williamson

extended Coase's arguments by pushing them beyond the market versus firm comparison to consider a wide variety of alternative "governance systems" including markets to hybrid organisational forms (Williamson, 1985, 1991).

For Williamson (1994) organisations were institutional forms and conceptualised as governance systems devised to reduce transaction costs. However, the influential work of Douglass North adopted a slightly different approach to the study of organisations (see North, 1989, 1990; Meramveliotakis and Milonakis, 2010). North (1990, p.5) directed attention to the wider institutional frameworks, or "rules of the game." He viewed "organisations as 'players' attempting to devise strategies to win the game" (Scott, 2008, p.30). According to Scott (2008) North's approach attempted to get beyond the technical construction of the firm as production function, to consider the firm as a governance structure (an organisational construction). These authors and their work were extremely influential on the developments in NIE and studies of organisational behaviour, particularly in terms of transaction cost theories and contractual relations.

The crux of transaction cost economics is that the principal has an incentive problem in trying to ensure that an agent acts in its best interest. The solution to this problem is not costless as expenditures must be undertaken to structure, administer and enforce contracts (see Smith, 1989; Brown and Potoski, 2004). Furthermore, as O'Regan and Oster (2000, p.121) note, operating across governance boundaries may exacerbate contracting problems, "as organisations struggle to understand one another's incentives and corporate cultures" and as such incentive and transaction costs may increase.

Research from this theoretical position suggests that governance decisions depend on the interaction between two main assumptions of human behavior (bounded rationality and opportunism) and two key exchange attributes (asset specificity and uncertainty) (Williamson, 1975, 1985, 1999). Bounded rationality can be thought of as intentionally rational behavior that is limited because decision makers recognize only a limited number of alternatives and are aware of only a few consequences of these alternatives (Tsang, 2000). Opportunism on the other hand occurs when management behavior is not in the best interest of the firm (Rasheed and Geiger, 2001).

In terms of the impact of organisational change from the quasi-market arrangement it appears that neoinstitutional theorists would focus on how a firm's organisational structure is explained "by reference to the way in which it minimizes transaction, production or influence costs" (Hall and Taylor, 1996, p.456). According to Steijn *et al* (2011) the most important argument from the NEI framework is the view that the act of organizing, whether by extensive contracts or organisational structures, is costly in that it implies significant transaction costs (Williamson, 1996). As such organisational behaviour (including change) is dependent on costs. From this perspective diversification of resource inputs may be limited due to the transaction costs involved in new relationships and monitoring the behaviour of partners.

Drawing on NEI, organisational change in Albase can be hypothesized as:

H5: In efforts to become more economically efficient, decision makers in Albase changed and adapted the ILM programmes.

H6: Albase changed as the principal sought to minimise transaction costs and opportunistic behaviour. Change occurred due to opportunistic behaviour

The theoretical framework has been drawn from the competing explanations for change. It is summarised in Table 3.2.

Table 3.2: Theoretical Framework

Key Concepts	Neoinstitutional theory sociology	Resource dependency theory	Neoinstitutional economics
<i>Environmental definition</i>	Organisational Field- totality of relevant actors	Collection of exchange relationships	Transactions and players in a game
<i>Assumptions</i>	Organisations operate within a social framework of norms, values, and assumptions about what constitutes appropriate behaviour	Organisations make active choices to achieve objectives. Organisations respond to demands made by other actors in the environment.  Organisations try to minimize their dependence on resources which they are heavily dependent on	The principal has an incentive problem in trying to ensure that an agent acts in its best interest. The solution to this problem is not costless but rather expenditures must be undertaken to structure, administer and enforce contracts (Smith 1989).
<i>Forces</i>	Isomorphism	Power	Bounded rationality and opportunism

<b>Key Concepts</b>	<b>Neoinstitutional theory sociology</b>	<b>Resource dependency theory</b>	<b>Neoinstitutional economics</b>
<i>Reasons of change</i>	Organisations adopt practices that are considered acceptable and legitimate in their organisational field	Firms need to access resources in their environments. Organisations change as actors respond to pressures and constraints	Principal shifting contracts to diminish opportunistic behaviour
<i>Survival</i>	Achieving legitimacy	Continued exchange and resource diversification	Firms devise strategies in an attempt to win the game.
<i>Indicators</i>	<p>Changes mimic other organisations in the field perceived as more legitimate (mimetic).</p> <p>Increase in new organisational processes and systems which appear to be from regulatory requirements (coercive).</p> <p>Preoccupation with ideas of legitimacy.</p>	<p>Change attributed by respondents to discussion of power.</p> <p>Increase in lobbying or strategic positioning to gain power.</p> <p>Resource diversification efforts.</p>	<p>Explanation of change processes attributed to exchange relations.</p> <p>Decrease in Albase's transaction costs.</p> <p>Albase sought to adapt to the rules of the game and undertake opportunistic behaviour.</p>

Key Concepts	Neoinstitutional theory sociology	Resource dependency theory	Neoinstitutional economics
<p>Competing explanations:</p> <p><b>Research question one</b></p> <p>How and why has the organisation's core activity (the delivery of ILM programmes) changed and adapted to the introduction of competitive contracting into the organisational field?</p>	<p>Due to cultural changes, the continued provision of ILM programmes reduces legitimacy within the organisational field.</p> <p>As the competitive pressures of the organisational field increase, the organisation has adopted a mimetic strategy and reduced ILM provision.</p> <p>Neoinstitutional pressures in the organisational field do not favour ILM activities and as such they are no longer pursued</p>	<p>ILM programmes were transformed in order to attract and maintain resources from external parties.</p> <p>Albase became involved in Welfare-to-work programmes to diversify resource due to a dependence on ILMs.</p> <p>Due to resource dependence ILMs were transformed on request of the funding bodies.</p> <p>Albase diversified to reduce resource dependency</p>	<p>In efforts to become more economically efficient, decision makers in Albase changed and adapted the ILM programmes.</p> <p>Due to changes in the marketplace in which Albase operated, the delivery of ILM programmes in their former manner was considered inefficient.</p> <p>Due to the introduction of competitive contracting and alternative 'products' the transaction costs of ILMs were considered inefficient.</p> <p>The introduction of a competitive contracting environment has incurred many new transaction costs and as such ILM programmes are no longer viable.</p>

Key Concepts	Neoinstitutional theory sociology	Resource dependency theory	Neoinstitutional economics
<p><b>Research question two</b></p> <p>To what extent has the introduction of a competitive contracting environment affected organisational change (structure, culture, ways of organizing)?</p>	<p>Albase, through isomorphic pressures, has adopted a structure reflective of other organisations operating in the organisational field.</p> <p>In order to acquire resources Albase has adopted institutional practices, cultural norms, behaviour and structures obtain legitimacy within the organisational field and ensure approval from resource holding institutions</p>	<p>Changes to the structure of Albase are due to the needs of a resource supply which the organisation was dependent on.</p> <p>Changes to the structure of the Albase enabled the organisation to become less dependent on a single resource. By making a structural change the organisation could enter new markets and diversify its resource supply.</p> <p>Organisational change occurred as actors sought to gain control over resource providers and guarantee exchange resources.</p>	<p>Albase's structure has changed in an attempt to act more efficiently in the competitive environment.</p> <p>To minimise new transaction costs in the competitive contracting environment, Albase internally restructured.</p> <p>The introduction of a competitive contracting environment has incurred many new transaction costs and as such the organisation has restructured.</p> <p>Albase changed as the principal sought to minimise transaction costs and opportunistic behaviour. Change reflected the rule of the principal</p>





### 3.9 Summary

The purpose of this chapter was to outline the theoretical framework based on the use of three “adaptational mechanism” theories. The three theories were employed as part of the exploratory case study approach in order to better understand how organisational change can be understood in the quasi-market context.

This chapter has outlined the ontological and epistemological position of the research strategy. Drawing on Tsoukas (2005), and Van de Ven and Poole (2005) the chapter considered the different approaches to conceptualise both ‘change’ and ‘organisation’. Using Tsoukas (2005) definition of strong and weak process research, the approach adopted for this thesis be considered as belonging to the weak category, placing priority on substance over process. However, it was noted that the position of this research is that all organisations are comprised of processes which are always changing. As such, Albase would experience change regardless of its involvement in the welfare-to-work quasi-market. Whilst this thesis is not designed to be one which offers theory testing and it does not identify dependent and independent variables, it does seek to evaluate organisational change in Albase in terms of the effect that welfare-to-work contracting had on the change processes in Albase.

In order to evaluate the impact of the welfare-to-work quasi-market it was stated in this chapter that a number of organisational features would be considered as indicators of change. The purpose of the indicators is to demonstrate whether changes appear to be greater or differ from the established (and continual) processes which collectively make-up the organisation. The indicators were determined based on studies from the literature review and from the theoretical approaches presented. A measurement for change was based on: size (number of employees, financial

income,); activities (types of employment support offered; range of activities and policy contexts); structure (type and size of departments, ways of organizing), and culture (mission, employment processes, image), and these features directed the data collection process.

The discussion of the three theoretical perspectives for explaining organisational change introduced a number of key concepts and themes used in this thesis. The concept of the organisational field enables this thesis to look beyond the immediate exchange relationships and to consider institutional isomorphic pressures alongside the competitive isomorphic pressures from the quasi-market system. The purpose of drawing on this concept is to ensure that the change process is understood on a number of different levels; the exchange, the relationship with the environment, and the broader cultural influences of public service contracting. The inclusion of neoinstitutional economics is an experimental approach to understanding organisational change in TSOs, as it is more commonly used in relation to private sector organisations in open markets (not quasi-markets).

The following chapter discusses the methods employed to operationalize the theoretical framework.

# CHAPTER 4 - RESEARCH STRATEGY AND METHODS

This chapter discusses the methods employed to answer the research questions outlined in chapter two. This thesis is based on a single case study and adopts a qualitative mixed-methods approach including unstructured interviews, document analysis, financial accounts analysis and a short ethnographic study period. Whilst the previous chapter outlined the theoretical framework, this chapter provides a reflexive account of issues with which the researcher engaged throughout the research process. It takes into account important practical limitations and methodological issues experienced in this study. Furthermore, bearing in mind that researching in and about organisations is difficult due to commercial sensitivity, confidential work areas and restricted information (Buchanen and Bryman, 2009), this chapter also contends that there were complex social and institutional arrangements within Albase which the researcher negotiated in order to access the required information.

As previously discussed the 'case' for the research is an organisation referred to throughout as 'Albase'. Albase is a case study of third sector organisational change, with particular consideration of the introduction of the welfare-to-work quasi-market into their organisational field. Case selection was determined on the understanding that a case study is not a method but a research strategy (cf. e.g. Hartley, 2004; Titscher *et al.*, 2000,) and it cannot be defined through its research methods, but rather in terms of its theoretical orientation and interest in individual cases (Hartley, 2004; Stake, 2000). Or, put differently, "a case study is not a methodological choice but a choice of what is to be studied. By whatever methods, we choose to study the case" (Stake, 2000, p.435). Specific case selection (i.e. the

organisation which is the object of this study) was therefore determined by the research purpose and theoretical context as well as issues of accessibility and resource requirements.

The research was supported by the ESRC CASE programme based on a partnership between Albase and the Social Policy Department at the University of Edinburgh. At the beginning of the partnership a broad research topic for a PhD research project was agreed, although this changed during the studentship due to issues with the original data set. The original research project was based on an analysis of Albase's database of jobseekers it had supported into employment since the early 1980s. Unfortunately, when it was cleaned this data was not useable. This led to a reconsideration of the research project with the outcome being the research questions presented in this thesis. Positive outcomes from the CASE arrangement included access to the organisation and their data from an early stage of research design, and an additional PhD supervisor employed by the organisation with a responsibility to the project and a commitment to attend a number of supervisions during the course of the PhD programme. As such, the data collection process was agreed with the organisation early in the PhD process including access to other individuals and internal data. Documents and interview respondents were identified and agreed on before fully entering the data collection period during a research design phase.

As discussed later in this chapter Albase is an 'instrumental' (Stake, 1995) case study as the organisation was operational in the delivery of employment services over a period of time that spans both pre and post welfare-to-work contracting (this is discussed in more detail in chapter five). As such, the organisation's experience provides a large amount of complex data based on both the issues of localised

employment programme delivery, and the affects of competing in the welfare quasi-market and contracting context.

The scope of the case study is connected to the concept of the 'organisational field' (DiMaggio and Powell, 1983) outlined in the previous chapter. It is the belief that the particular significance of this type of case study approach is that it is able to cover a comparatively large period of time (25 years) exploring the shifting relationships, the introduction of new institutions and the changing organisational structure of an established organisation in this policy area. The case study is bounded by time (1983-2010) and place (only areas in which the organisation has operated) (see Miles & Huberman, 1994; Creswell, 2003).

The chapter is in four parts. It begins by outlining the case study approach. Following this, section two examines each of the methods employed, discussing both the strengths and weaknesses. Section three describes the data collection arrangement and reflects on the limitations of organisational research in this context. The chapter concludes with a section on ethical considerations.

#### 4.1 The case study approach

Whilst case studies provide the benefit of 'thick description' (Geertz, 1973), there are also numerous advantages of the case study approach to this research strategy. The approach has a number of strengths in organisational research particularly when the subject is embedded in complex contexts, and when a historical perspective can be included (Buchanan and Bryman, 2009; Langley, 2009). According to Gerring (2004) a case study can provide depth rather than breadth. Unlike some survey or qualitative research covering a number of cases, the single case study approach is

well suited to the incorporation of longitudinal data to enable the study of processes over time (Langley, 2009). As previously mentioned in chapter two, research into welfare-to-work contracting and TSOs is limited in terms of detailed description and understanding of the role of TSOs and the impact of the introduction of competitive contracting. According to Yin (1994, p.13) one notable strength of a case study is that it, “investigates a contemporary phenomena within its real life context, especially when the boundaries between phenomenon and context are not clearly evident”. As such it is anticipated that this case study research can offer useful approach to understanding organisations as the case study strategy is well suited to both the relatively uncontrolled and dynamic conditions of organisations, and relatively new policy contexts (Suddaby and Greenwood, 2009).

It is argued below that a single case study approach is the most appropriate research strategy for this work for a number of reasons. First, the marketisation of employment programmes created new relationships and institutional arrangements (Finn, 2009). However, as outlined in chapter two there is a lack of existing detailed investigations into this policy area, particularly on the effect of the contracting environment upon TSOs. According to Eisenhardt (1989) situations such as these are well suited to the introduction of case study research due to the limited existing knowledge.

*Particularly well suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, whilst the latter is useful in later stages of knowledge (pp.548-549).*

Second, according to Pettigrew, (1973) a significant strength of the case study compared to other research methods is that case studies seek to study phenomena in their contexts, rather than independent of context providing deeper insight. As such the case study approach compliments the theoretical framework presented in chapter three due to the focus on the concept of the organisational field and the interaction between an organisation and their operating or resource environment. In organisational research case studies are often used to explore an organisation and the characteristics of its context because the researcher is able to obtain a more holistic perspective as the case study can facilitate learning about the organisation's process than may otherwise be gained from different methodological approaches (see Remenyi *et al.* 1998; Fitzgerald and Dopson, 2009). An in-depth single case study also has the benefit of providing rich, complex data which is manageable in a PhD research programme. As Lijphart (1971, p.691) states, "the great advantage of the case study is that by focusing on a single case, that case can be intensively examined even when the research resources at the investigator's disposal are relatively limited."

Before exploring the strengths of the case study approach further, consideration is given in this section to address some criticisms. There are several common critiques of case studies including; "a lack of rigor, a lack of basis for generalisation, and the suggestion that they are too time consuming and unwieldy to analyse and present" (Yin, 1994, p.10-11). Others ask how studies can be designed to take history, temporality, and institutional configurations seriously, yet still be committed to the 'generation of useable knowledge' in other contexts (see also Mahoney, 1999; Abbott, 2001; Hall, 2003; Pierson, 2004, p.174).

Most criticisms do however, centre on the generalizability of case study research and whether the findings are able to add to or refute existing theories. This has led



case study researchers to adopt different views, some such as Gerring (2007) have stressed the benefit of the single case in providing evidence for (or against) a general causal proposition. In particular, Gerring draws attention to the use of the critical case study for confirming theories, on the basis that, 'the more a theory attains the status of a causal law, the easier it will be to confirm or disconfirm using a single case' (p.235). The focus of these arguments are specifically on the role of the single study case in relation to theory, disconfirming where a theory is deterministic and re-shaping or readjusting the theory where the case study provides evidence of deviation. Stake (2000) argues that, generalization is not the only purpose of research. He contends that whilst, "generalization may not be all that despicable, particularization does deserve praise. To know particulars fleetingly of course is to know next to nothing. What becomes useful understanding is a full and thorough knowledge of the particular, recognizing it also in new and foreign contexts" (Stake, 2000 p. 22). This research does not attempt to generalize nor test theory. As previously mentioned due to the limited existing research into TSOs in welfare-to-work contracting the purpose of this research is to explore the change process of Albace, and to correspondingly explore the theoretical approaches that may explain organisational change.

Whilst a single case study research may be vulnerable to concerns regarding its theoretical contribution, it can provide the necessary knowledge and influence other research strategies. It is clear that, "sometimes we simply have to keep our eyes open and look carefully at individual cases - not in the hope of proving anything, but rather in the hope of learning something" (Eysenck, 1976, p.9 *quoted in* Flyvbjerg, 2006, p.224) as insights gleaned from case studies can directly influence policy, practice, and future research (Merriam, 1998). Furthermore, as Flyvbjerg (2006) argues, 'a scientific discipline without a large number of thoroughly executed case studies is a discipline without systematic production of exemplars, and a discipline

without exemplars is an ineffective one. Social science may be strengthened by the execution of a greater number of good case studies' (p.219).

Stake identifies case studies as intrinsic, instrumental or collective. This research uses an instrumental case study approach (Stake, 1995). According to Cousins (2005) in instrumental case study research, the researcher explores a case as an instance of a class in order to shed light on an issue concerning the class. In this thesis, the aim is to explore the organisational change process of a third sector organisation delivering welfare-to-work programmes. What is happening to this TSO that could tell us something about TSOs and welfare-to-work contracting more generally? Baxter and Jack (2008) contend that the instrumental case study is used to accomplish something other than understanding a particular situation. It provides insight into an issue or helps to refine a theory. Drawing on (Stake, 1995), these authors contend that, "the case is often looked at in depth, its contexts scrutinized, its ordinary activities detailed, and because it helps the researcher pursue the external interest. The case may or may not be seen as typical of other cases" (2008, p.549).

Due to the CASE studentship arrangement the researcher spent a total of five years accessing and communicating with individuals within the organisation. The first year involved a reconnaissance process including an extensive period of time within the organisation to ensure a better understanding of their structure and activities. This assisted the research design process by providing a detailed insight into the structure and culture of the organisation. The findings from the first year are not directly referenced in this research, and no formal recorded interviews took place during this time. This element of the fieldwork included informal conversations, a work induction, job shadowing of some individuals, meetings with employees, and attending work events. It also involved a period of searching through documents

and filing systems. The recorded fieldwork took place over two years period and involved interviews with twenty employees, the collection of 150 internal documents and external-facing documents, and 20 years worth of accounting texts.

The approach is a qualitative mixed-methods strategy as it does not involve a statistical/quantitative analysis. The mixed-methods approach adopted has many advantages for organisational and case study research (Bryman, 2009). First, it allows the complex interactions and relationships which occur within organisations to be investigated. Second, by adopting a qualitative mixed-methods approach some of these limitations associated with each of the data collection methods can be reduced. Third, the approach is a pragmatic one, acknowledging and manoeuvring around the access and data restriction problems. These points are elaborated upon during the discussion of the multiple sources and methods employed in the following section.

## 4.2 Methods

The study draws on extensive and multiple sources of data collection in order to provide a detailed, in-depth understanding of the case and the relationship with the organisational field. There are a number of reasons for this. Methodologically, the use of a number of data sources strengthens the case study and enables it to achieve its purpose of detailing the relationships and effects of the environment (Yin, 2003). Ontologically, the diversity of data reflects the concept of the 'organisational field' and the complex institutions, rules and regulations which create this field.

This section discusses each method in turn. The first data collection method discussed is the use of interviews. It begins with a discussion of how respondents

were identified and follows with a consideration of the advantages of interviewing for this research strategy. After interviewing, the section outlines the role of documents and document analysis, followed by financial accounts, and finally, ethnography as a data collection method.

### 4.3 Interviews

This research relied on identifying and interviewing individuals associated with Albase. The respondents were required to provide necessary information on particular periods and events in the organisation's history. Interview respondents were identified in a number of ways. First, key positions within the organisations (at different time periods) such as the CEO and Director of Operations/Development were identified as possible respondents and were interviewed first. In most cases these individuals were contacted and interviewed. Working through the organisation starting at the current time and working backwards it was also possible to identify and interview individuals from key decision making and delivery positions, such as the directors and deputy directors of delivery and development. These individuals were also interviewed. The anonymised list of respondents is available in Appendix One.

A difficulty with this approach was the lack of an organisational structure chart at the time and, for identifying those respondents who had left the organisation, a lack of structure charts for previous periods. This would have made the identification of the relevant individuals much easier. However, the researcher moved between individuals in the senior management roles and asked them to identify which employees were relevant. The associated document analysis discussed later in this chapter unearthed authors of strategies, business plans and financial accounts whose authors were then considered as key respondents from the respective time

periods. These were added to the interview schedule. Another practical tool for identifying respondents was through the official financial records that every TSO is legally obliged to submit to Companies House each year. The annual returns listed the board members, and the CEO and Director of Operations. This approach worked well as respondents could be identified through their responsibilities as well as their position within the organisation.

Starting from the present team and working backwards in time was the only way to identify and locate respondents from previous years. This was more difficult as the organisation had experienced a number of restructuring processes and, as such, a clear line between individuals with the same responsibilities at a previous stage was not possible (i.e. the development team is a mutation of the funding and contracting team but with more diverse responsibilities and without contract management duties). Furthermore, an element of compromise had to be worked into the research design for the interview schedule as key individuals were unavailable. For example, for one key period it was not possible to gain an interview with the CEO from that time. A concession was accepted that the interviews from the key financial manager and the operation manager from that period would suffice, albeit breaking the desired linear decision-making opinions from the CEOs.

Two respondents were also identified and utilised as they had been with the organisation for the longest duration of time. One had been with the organisation for over 25 years and the other over 20 after originally partaking in a job-seekers programme themselves. These individuals provided useful insight and understanding into the descriptive operational and organisational changes as well as details on other respondents and the roles they played. Their interviews were very informal and their responses are not directly presented in the later chapters.

However, their descriptive input was extremely useful in framing other data sources and triangulating information from other respondents.

Whilst this approach worked well for this research there are limitations to the method in that an individual respondent cannot fully represent a particular time period or department's views. The respondent's subjectivity of the previous events and issues is obviously influenced by their role, personal views and experiences with the organisation and knowledge of the organisational environment. This is an accepted limitation which could not be avoided as conducting interviews with all previous employees would still present issues of memory bias (Schacter *et al.*, 2003) and there would clearly be analytical difficulties with data overload (Dubois and Gadde, 2002). The research acknowledges that this is a limitation - albeit one that is minimised by using other research methods alongside the in-depth interviews.

The use of selected respondents in this research adds to the conceptual understanding of the organisation and the organisational field as one which will be defined from within, as the fluid natures of the boundaries and activities of the organisation are understood and defined by those creating and recreating the organisation at different points in time. Interviews were included within the research design for a number of reasons; first to supply information that was not available through document analysis, second to learn about the experiences and decision-making strategies of those respondents within the organisation and across time. Finally, interviews ensured that the organisational field was defined by the organisation's actors and activities.

The interviews utilised in this research were primarily aimed at gathering in-depth data and understanding processes of change. Each interview schedule was uniquely

designed. That is, not all respondents were asked the same and their responses cannot be directly compared. Instead, interview schedules reflected the respondent's area of work, time period with the organisation, job role and responsibilities, and experiences. As such, some interviews lasted little over an hour whilst others lasted up to three hours. All of the interviews were conducted face-to-face and in total over 25 hours of data were collected through interviews from ten respondents. All interviews were transcribed, but where quotes have been used through the text, the responses have been anonymised. Each respondent was provided with information on the research project including the research question, and they were able to ask questions about the purpose of the research and how their responses would be used prior and after the interview. A number of respondents discussed broader political views on employment programme policies and afterwards asked for these to be stricken from the record, which was executed post-transcription.

An interview schedule was designed prior to the interview and used as a simple prompt in most cases to ensure that discussion flowed. This approach encouraged interviewees to talk (sometimes at length) about the topic or issue put before them. Interviewees took an active role in constructing the nature of the interview, albeit somewhat bounded by the broad areas of discussion listed in the schedule. Most of the interviews included key questions that each respondent was asked relating to their views of pressures and change from the environment onto the organisation; their understanding of external relationships and how that impacts on the running of the organisation; factual information about their role and activities; and, an open question regarding what they felt the biggest threat to the organisation's activities were. In this sense the interview schedules loosely followed a life-history approach (see Musson, 2004) for the opening part, allowing respondents to talk about their role and experience over time within the organisation, moving onto key areas of concern in the second half of the interview.

In some interviews respondents were also asked how they managed the threats and processes they had identified. This approach proved beneficial in a number of ways. First, the life-history approach provided useful background information about the organisation for the researcher's general understanding of the processes and people involved. It also allowed respondents to become at ease within the interview itself. The second half allowed the main topics to be covered whilst the inclusion of an open ended question provided information for reflection on the identification of issues and the processes and impacts of change (Langley, 2009). During the reconnaissance phase and latterly the ethnographic research fifteen interviews were conducted although these were informal and not transcribed. The purpose of these interviews was to gain context, relevant knowledge regarding specific employment programmes and relationships with other organisations within the field. Collectively, the respondents built a picture of their role in the organisation, and their view of the organisation in the field, as well as how they understood changes to the organisational field and the policy contexts.

Mason (2002, p.64) contends that the interview method is heavily dependent on people's capacities to verbalise, interact, conceptualise and remember. These are important factors for understanding the quality and reliability of the evidence presented and drawn upon in the findings chapters of this thesis. Where most of the interviews began with a short 'fact-finding' session involving specific details of job roles, project delivery and views of the employment policy at that time, the rest of the interview was dedicated to asking explicitly how the organisation negotiated their organisational field. As such, many of the respondents could only talk for the areas of work they were involved in, but for those who had left the organisation a number of years ago, their responses were also limited as they could only talk about the areas *they remembered* they were involved in. The impact of this limitation was



reduced through the use of document and financial analysis which could prompt or redirect the memory of the respondent based on the facts presented.

The main advantage of using interviews as a data collection method in this research project was the detailed views that could be gathered from respondents. Where documents allowed the researcher to understand the events at particular times and the structure of activities, interviews provided an insight into what impact these events actually had on individuals within the organisation. Interview responses have been interwoven with findings from other data sources in the analysis and findings chapters, and have been treated as a component of a complex research context (Cassell, 2009).

#### 4.4 Documents

When researching the behaviour of the organisation prior to the introduction of the welfare-to-work policy context, documents were a key source of information used to reduce memory bias of interview respondents, and as a way of gaining information about the decision making process of actors within the organisation in previous years.

According to Dunkerley (1988, p.88) the problem with historical interpretation from documentary evidence is that often, “there is no way of the researcher knowing the meanings that the producer of the documents attached to them.” While the use of documents is always limited by the fact that the documents have been produced for another purpose (Bryman, 2009), this was moderated by being able to follow up on issues in interviews. In terms of identifying the organisational field, secondary sources were a key resource. These included documents and analyses published by

government departments, academics, research institutes, policy organisations, and the media. In total 150 documents were analysed. The anonymised list of documents is available in Appendix One. The different categories of documents are discussed in more detail. They have been groups into four categories; policy, market, internal, external.

- I. Policy documents: House of Commons (HOC) reports, policy publications, committee minutes and evidence
- II. Market documents: Invitation to Tender (ITT) issued by DWP, Bidding and procurement guidance issued by the DWP,
- III. Albase<sup>6</sup> Internal facing documents: business plans, strategy documents, reports, programme management reports, management and HR policies,
- IV. Albase External facing documents: consultation responses to government policy, media and press releases, website information, presentation at external conferences and meetings,

Each is discussed in detail below.

#### I. Policy Documents

All policy documents were accessed via Government websites, namely the DWP, House of Commons Library and House of Commons legislative minutes (Hoc

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<sup>6</sup>All of the internal facing and external facing Albase documents utilised in the course of this research are listed in the anonymised database.

reports) and the Scottish Government website (including the archives from previous administrations).

## II. Market Documents:

The title 'market documents' is used to refer to all texts relating to the commissioning and procurement of welfare-to-work programmes, EU programmes, and Local Authority commissioned projects. These were mainly sourced on-line through the DWP portal, search engines, Local Authority and Scottish Government websites, and in some cases through contact with the relevant Government Departments. Some guidance documents which were provided from the commissioning body to Albase were acquired during the fieldwork phase. However, this information would have been available through contact with the relevant department (i.e. it was not commercially restricted). As a number of the programmes covered in this thesis are no longer operating in the UK, some market documents were not readily available from government agencies and as such there was a reliance on the documents held by individuals within Albase to gather this information.

## III. Internal facing documents:

'Internal facing documents' is a term used here to refer to documents produced by Albase intended for employees and which formed part of the everyday processes of the organisation and the delivery of their activities. For example internal documents registered in the data collection database included strategies and board papers. There are also documents aimed at front line staff such as guides to services, and organisational processes for jobseekers registered onto specific welfare-to-work programmes. Most of these documents were acquired through discussions with employees and the CASE studentship contact at Albase. As previously noted, it was

not possible to gain internal documents for every year, or every programme and as such their contribution is at times sporadic, depending on the documents which had been maintained for each programme or project, and whether I could gain access to them.

#### IV. External-facing documents:

'External-facing documents' is a term used here to refer to documents produced by Albase intended for an external audience. For example, policy consultation responses submitted to government departments, tender and bidding documents for specific programmes, the website and other publicity material provided at events or to jobseekers. Some of these documents were sourced within the organisation, however the majority were sourced from government websites (responses to consultations); search engines (media responses and press releases), and Companies House (for accounting and board membership texts).

#### 4.5 Document and interview analysis process

Document analysis followed a qualitative content-based analysis, defined by Bryman (2001, p.180) as an approach where there is an emphasis on allowing categories to emerge out of the data and on recognising the significance for understanding meaning in the context in which an item is being analysed (and the categories derived from it) appeared. The process for the analysis of documents was undertaken through the use of Nvivo, the qualitative analysis software program. This allowed for the multitude of documents and transcripts from the interviews to be collected and stored in one place, arranged and assessed more easily, and a number of themes to be identified.

#### 4.6 Financial analysis

Accounts analysis was an important method as it allowed a consideration of factors associated with resource dependency and the impact of financial decision-making on organisational change. Financial analysis was also included as part of triangulation efforts. In contrast to both document and activity recording, the registering of financial information is a legal requirement throughout the organisation's existence and as such is the only dependable recorded medium through which consistent annual longitudinal change could be evidenced. It was also easily accessible through Companies House, the on-line database where the annual financial statements of all limited companies in England, Wales, Northern Ireland and Scotland are registered. The analysis of financial accounts was guided by accountancy information, procedures and guidelines provided by the Accounting Standards Board in their publication, "Accounting and Reporting by Charities: Statement of Recommended Practice" (2005).

Before discussing the benefits and methods employed in analysing the accounts, it is worth acknowledging that financial accounts cannot reveal everything about an organisation's management or activities, and in this case provided only a limited view of organisational effectiveness or change. The researcher is aware that many aspects of a social enterprise's activities will not be visible from account analysis alone, as only those events to which a monetary value can be easily attached appear in accounts (i.e. the money measurement concept). It is also acknowledged that due to the matching and periodicity concepts employed in the accountancy profession, the profit and loss of each year does not always reflect the true cost of operations in that year (Banerjee, 2010). This made it more difficult to always identify which accounting period benefited or was negatively affected by certain types of expenses and situations. Nevertheless, the accounts analysis proved beneficial to the phasic analysis where they were considered alongside other sources to identify periods of change (see chapter five).

Financial analysis identified key financial changes, and also informed the document collection processes and interview questions. The analysis of the accounts revealed changes to the organisation's sustainability, liquidity and ability to continue its operations at particular times in its existence. Such research methods and analyses are advantageous to understanding the extent and impact of resource dependency discussed in chapter eight and the broader questions regarding the pressures for organisational change. Three strategies presented below were used in the analysis of the accounts.

The information gleaned from the financial accounts revealed changing patterns and trends within the organisation's financial activities. Using the financial accounts from 1986 to 2008, an excel spreadsheet was created covering each available year. Figures were inputted from the associated costs in the financial accounts, and adjusted for inflation for ease of comparison. First, by using common size or horizontal analysis (Banerjee, 2010) the accounts were compared, line by line with those of previous years. This allowed for trends to become visible in the resulting line diagrams. Second, the analysis also considered more complex financial ratios regarding how the organisation was coping financially over the time period. This approach draws on vertical analysis where each item in the balance sheet is expressed as a percentage of the total. This provided an indication of structural changes to the financing of the organisation i.e. whether there has been an increase in borrowing to finance new investment or whether the trading operations in each year were viable. Third, the analysis focussed on four indicators: change to total income; current ratio analysis; trading cost ratio; and asset turnover ratio.

The guidance for this part of the data collection and analysis came from financial accounting texts (Shim and Siegel, 2008; The Institute of Financial Accountants

[IFA], 2007). The 'total income' figure for each year time periods were identified where there was a noticeable increase or decrease in total income for Albase. The 'total income' figure is comprised of money generated through 'sales' and other income generated through grants and contracts, or through donations and gift aid. This provided a simple depiction of the financial history of the organisation. However, this is not the whole story and the ratio analyses assisted in understanding the more complex picture of company/charity finances. Knowing the annual current ratio helped identify time periods when the organisation had difficulty with its liquidity and ability to pay short term debts. The current ratio is a way of knowing whether a company can meet its day to day payments and as such, was able to provide information on whether the organisation's liquidity management had changed due to or during the changes to their environment. The current ratio evaluates the current assets against the current liabilities and although there is no ideal number that companies must score, it is generally understood that an organisations assets should outweigh their liabilities by 2:1 (IFA, 2007). If the figure is above one it means that short term debts can be paid. Ideally figures should also not exceed three which would mean that the company can cover its debts three times over and may be an indication that they are not using their assets as effectively as they might.

Albase's trading cost ratio provided an indication of whether their activities were more costly to run in particular time periods than others, providing a richer picture of the financial situation during changes to the resourcing of their activities in the organisational field. The trading cost ratio identified the costs associated with trading and compares the profitability of trading. For commercial purposes, the ratio score should be greater than 1 (IFA, 2007). Finally, the asset turnover ratio identified the relationship between turnover and assets. In short, a higher number

shows that the company is performing better<sup>7</sup>. This ratio is generally used to measure the performance of a company in generating sales from the assets available, and along with the other ratios used, this proved useful in this research for gaining an understanding of the organisation's financial situation over time<sup>8</sup>.

The purpose of including financial analysis was to ensure that the study of the organisation and the complexities of the interplay within the organisational field were fully understood. In particular, it is one way in which the impact of changes in the field can be clearly seen and where possible explanations for changes in organisational behaviour could be based drawing on the theoretical position outlined in chapter three. The following section outlines the final method employed, ethnography. Whilst accounts analysis helped to define or describe phases of change within the organisation, ethnographic methods helped to provide answers for the 'how' and 'why' questions.

#### 4.7 Ethnography

Despite part of the original research design including a prolonged period of time in the organisation (3 months), agreed with the original supervisor from Albase (termed here as the 'access agent') this proved unachievable once this individual had left the organisation and the department was restructured. After a period of 6-8 months (during the second year of the PhD) without formal access into the current organisation at that time, through perseverance the researcher was able to interview a new senior manager who subsequently offered the researcher a part-time employment position with the organisation in their development and research team.

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<sup>7</sup> Although the number needs to be understood alongside the sector or industry that the organisation is operating in.

<sup>8</sup> The descriptive charts from the financial analysis can be found in chapter five



This proved to be extremely beneficial to the data collection strategy and within a number of weeks all internal interviews had been completed and all accessible internal documents gathered. There are however a number of ethical and methodological concerns discussed later in this chapter.

This period of employment (6 months from August 2010-March 2011), also added a new dimension to the research, that of organisational ethnography. Adopting an ethnographic approach to studying organisational behaviour is not new. There is also a trend in organisational research to adopt an under-cover or concealed participant observation approach. As Beynon (1973) discusses, this is particularly the case in research projects investigating working behaviour on the factory floor. He notes that difficulties in accessing data and the problems with the control and restriction of research data have encouraged a number of academic researchers into adopting research strategies based on concealed participant observation (see Pfeffer, 1979 and Westwood, 1985 during their research on factory workers). However, the researcher's role within the organisation as the Research Executive was not a concealed participant observation role, all colleagues were made aware of the PhD research and all interview respondents during this time were recorded and transcribed in the same manner as those prior to the employment position. Furthermore, due to the previous arrangement and reconnaissance period, many employees within the organisation were already aware of the dual roles (of researcher and employee).

This period of 'in-house' research enabled data to be collected without the need for gate keepers and re-interpreters of the research process. For example, the researcher witnessed which individuals had responsibility for what data and could see first hand what activities were involved in contract bidding and management, and what documents were produced. On reflection this was an important part of the data

collection process, although the direct employment of the researcher within the organisation was unintended in the original design. Along with the reduction of practical access issues, the main benefit of this approach was that the organisational field could be widened as the impacts of the welfare-to-work environment could be witnessed firsthand and the partnerships, relationships and knowledge by employees of other actors within the field was clear to see.

After undertaking the ethnographic research it became evident that there were a number of limitations to the original research strategy which sought to *look into* the organisation. There appeared to be a lack of adequate recording systems that logged what day-to-day and longer term activities individuals did. This became visible during the ethnographic research and meant that some items on the original data collection plan did not exist. For example, one of the intentions was to create lists of the contracts which Albase bid for, won, and delivered each year over the 28-year period. The intention was to create the basis for the discussions of organisational change and resource reliance. Where the researcher originally believed that perhaps gatekeepers refused access to this information or that it had unknowingly been destroyed it was possible to see that for a number of years this data was unavailable due to a number of reasons. First, it appeared that there was a culture of independent working by staff which meant that there was no central data recording system. Second, for many of the years covered, an organisational culture which supported activities such as organisation-wide data recording was lacking. Third, as discussed in greater detail in chapter five, for a number of years Albase was fragmented as individual contracts and projects recorded their work tasks separately from other departments. Finally, there was a lack of human resource management processes where individuals recorded their own activity and behaviour.

In terms of the ethnographic data collection processes when in the field the researcher (deliberately) did not collect some ethnographic sources such as post-its, staff board notices or make descriptions of places or the mannerisms of individuals (See Schwartzman, 1992). However memos, meeting notes and minutes, formal written discussions and circulated material were collected and the researcher made minutes and notes in team meetings, took bid and contracting details from recorded systems, and made informal notes of day to day discussions 'at the desks' between staff members working on welfare-to-work contracts. These were collected in notebooks and used to increase the researcher's knowledge of both the welfare-to-work industry and the organisation, as well as improve the contextual understanding of the organisation and provide supporting evidence for some of the findings from documents and interviews. If explicitly referenced in the thesis these notes and documents have also been anonymised.

So far this chapter has outlined and discussed the research strategy and the methods employed in the data collection. It has argued that the case study strategy is suited to understanding organisational change and for providing detailed information on a somewhat unknown aspect of welfare reform. It has described the method which have been utilised to ensure that the case study possessed depth, and was based on a number of cross-referenced data sources. It is now appropriate to move to the next section which presents reflexive comments on the data collection and fieldwork experience.

#### 4.8 Collecting data on organisational change: some reflections

A number of context-specific issues were experienced during the course of the data collection process. These predominately centred on gaining access to texts and

individuals, negotiating gatekeepers and locating historical records. Each is discussed in turn below.

Securing research access to organisations and data is a frequent issue in organisational research (Fine, Morrill and Surianarain, 2009). In this research study the data collection process was occasionally problematic as access to information and research data required regular (re)negotiations involving both formal and informal control agreements with Albase. However, unlike most of the research undertaken *within* organisations (see Prabha Unnithan, 1986; Langley, 2009), access to individuals, documents and the activities of the organisation was agreed prior to the identification of research questions and the formation of the research design template. The arrangement was unusual for both PhD research and organisational research projects more generally yet it has been an essential factor in the provision of the rich and complex quantity of data collected during the PhD process. The arrangement was made possible by the ESRC CASE programme. The organisation originally provided a desk, work I.D, intranet and email access and an induction programme to ensure independent navigation of the company and employees in 2008. Had those in supervisory roles been less accommodating and helpful at this stage, it is likely that the data would have been less rich and the findings less beneficial to the welfare-to-work literature.

Whilst this agreement and sponsorship by the organisation removed some of the early access issues faced by many researchers, some issues persisted and other ethical complexities arose. It is also worth noting that this access arrangement was not consistent and changed when the original supervisor and part-instigator of the PhD project left the company in 2009. It also became more difficult in the following year when the policy and research department was restructured and the PhD arrangement was not identified and maintained within the work-streams of relevant

managers. Although this had a negative impact on the speed and ability to collect the agreed data, it highlights the multitude of complexities in organisational research regardless of the original access and support negotiations and agreed arrangements. Consequently, whilst the original access agreement was beneficial to the instigation of the research project, in practical terms researchers require, "more than simple access alone; you require some kind of commitment to the project from management, employee associations and respondents themselves" (Crompton and Jones, 1988, p.70). As outlined above this level of commitment to the project was difficult to maintain as is an important practical consideration for researchers undertaking organisational research over an extended period of time.

The second major issue in terms of data collection for organisational research is the role of gatekeepers. In most organisations gatekeepers play an important role in accessing data, particularly company information that could be considered as commercially sensitive. In this research, the gatekeeper role was complex and involved a range of individuals with different interests or agendas and the use of contracts and control mechanisms. The experience seems to reflect what Lee (1999), has previously noted that, "gatekeepers often allow researchers into a setting, but use formal agreements and procedures in order to control their activities" (p.124). Furthermore, although the company had few formal, and accessible data recording systems, there were informal processes about how to access information which, at each stage, needed renegotiating with different individuals, and involved navigating new procedures. For example, each department employed their own recording systems (spreadsheets, paper systems, electronic filing systems, etc.) and the responsibility for maintaining and sharing these systems was not consistent across departments. Some departments included an individual (such as an administrator) who had broad knowledge and responsibility across the department, whilst in other work areas each individual established and maintained their own records. The range of, and various types of gatekeepers alongside the complex

procedures for accessing information both hampered the data collection process and increased the time involved in the fieldwork stage.

A further issue regarding gatekeepers was based on how gatekeepers sought to redefine research requirements. In some occasions when gatekeepers were approached about accessing documents or files and discussing particular projects, instead of providing them, they attempted to figure out and select documents based on what they thought the researcher wanted. By doing this they provided data that differed from that requested or prioritised what they believed was more important. This type of behaviour has been the focus of much organisational research (Hartley, 2004) and in this research it occurred more frequently than expected. At times, despite explaining what documents were required, gatekeepers chose to 're-cast the net' when attempting to find them. This hindered the data collection process on a number of occasions; whilst trying to access the archive, whilst looking for internal organisational documents and bid or tender documents, whilst locating interview respondents both past and present, and in the responses from some of the interviews.

Collectively, these main issues experienced by the researcher briefly outlined above, highlight the need for organisational researchers to possess a number of fieldwork skills. Researchers need to not only learn the methodological and analytical processes of particular methods, but also develop negotiation, communication and social skills in order to navigate gatekeepers who re-interpret what it is the researcher is actually looking for and understand complex social arrangements within organisations. Despite the fortunate set-up of the PhD research which allowed the essential access arrangement, two 'types' of gate-keepers can be identified which impacted on this research project:

- 1) The 'access agent' or 'outer gatekeeper'- these individuals provide basic entry to the data collection site but do not hold the information required to form part of the substantive data collection. They are vital contacts to ensure access is gained to the wider organisation and to improve the chances of gaining the sought-after information from the appropriate people or departments. For example, the original supervisor based within the organisation could be considered an access agent, helping to facilitate the research but not able to provide the information required for analysis.
- 2) The 'power gatekeeper'. These are individuals within the organisation who have responsibility for an area of the data required (such as a specific programme or contract manager); as such the researcher has been signposted to them through the access agent to acquire the necessary data. However, receiving the information requires time for a relationship to be established as this individual may limit the amount of information they provide. From the experience here, there appeared to be a lack of understanding as to what was required, a mismatch in information as to what was recorded in the first place, and an unwillingness to relinquish information from within their control.

The third complexity of the gatekeeper role centres on the limited number of well-informed power gatekeepers. This proved time consuming and problematic throughout the collection process. One of the main problems was that the overall contact for the organisation (the original access agent), 'signed-off' on the original data collection process, assured that the texts, documents, accounts and individuals existed and the data was accessible. In practice, this was not always the case and after a little digging within departments or with individuals it was clear that there was the 'appearance of empires'. That is, many departments and gatekeepers publicised their ability to control and manage certain areas of work. Any problems or shortfalls they experienced were somewhat hidden from those outside of their

department and as such, many documents or data sets were simply assumed to exist and operate in a particular way, when in practice this was not the case (unless they were required by the funders and auditors). Whilst some programme information was therefore well collected and recorded, organisation documents, management files, and internal processes were not.

Finally, whilst there were issues for the researcher in developing relationships with each type of gatekeeper, for process-based research there was a further difficulty as individuals fulfilling these roles also change over time. Data collection processes were affected as gatekeepers entered or left the organisation recording processes changed. In organisations such as the one studied in this research one of the main problems was that the restructuring of processes and departments meant that new gatekeepers (and access) had to be constantly renegotiated or discovered. With regard to the longitudinal aspect of this research there were difficulties in accessing formal documents and reports from restructured departments as it was unclear who would now have responsibility for them and how or when data would have previously been recorded.

Although gathering information from individuals and the organisation as a whole was a largely positive experience (and without the original consent none would have been possible) there were a number of hindrances to the ideal research design process initially developed during the planning stage. Whilst the PhD arrangement and commitment was outlined by the organisation at an early stage (which is considered to be best practice in organisational research-see Clegg and Hardy, 1996), undertaking process-based research in organisations continued to present difficulties during the fieldwork, which were particularly time-consuming and involved a continual refining of the research plan. Due to such pragmatic access, regulation and data storage issues (alongside the conceptual approach to studying



organisational change), the research strategy employed a number of data collection methods. The intention was to not only 'fill in the gaps' but to also provide comprehensive evidence and triangulating the information gathered from documents and interviews. This was particularly important when consistent sources of data (such as a full set of board reports, or access to all of the previous CEO's) were not available.

#### 4.9 Ethical considerations

The remaining part of the chapter evaluates and discusses relevant ethical issues. Although ethical considerations are only discussed here in a sub-section of this chapter, ethical considerations underpinned both the data collection process, and the handling and presentation of findings as, "ethics encompass a set of empirically and theoretically driven issues that permeate the entire research process" (Bell and Wray-Bliss, 2009, 83). This was deemed particularly necessary due to the unusual relationship of this study where the researcher and the organisation (subject of the study) had both formal and informal relations during the research period. Consequently, this relationship required ethical considerations to be continually (re)considered throughout the research process.

The research was broadly guided by the ESRC Research Ethics Framework (ESRC, 2006), although with an acknowledgment of the concerns from some organisational researchers regarding the potential of the Ethics Framework to restrict the ability of researchers to critically examine organisations. Bell and Bryman (2007) argue that under this framework organisations are constituted as participants, or individuals, and as such, should be the subject of ethical considerations. However, Bell and Wray-bliss (2009, p.87) claim that the framework provides protection to organisations from critique, and collectively organisational researchers should be

wary of the impact of ethics requirements on research questions and findings. Nevertheless, in practical terms the Ethics Framework provided a useful guidance for initiating the basic ethics process and legitimating the research process employed. This research adheres to the University of Edinburgh's Research Ethics Framework and the Research Ethics Checklist was completed during the research design stage. This research complies with all the ethical considerations suggested in the Frameworks, in particular in terms of the anonymisation of respondents and data.

Ethical concerns were not restricted to the completion of standard ethics reports (i.e. adhering to the formal bureaucratic rules governing the ethical relationship), but drawing on Bell and Wray-Bliss, (2011, p.89), throughout the research "ethics were viewed as a matter of beliefs, thoughts and values as well as actions". As such, alongside well-known issues of anonymisation and the confidentiality of respondents, the approach adopted in this study included a consideration of the position of the researcher and the interrelationship with existing organisational power structures, including between the organisation and control of the research project as discussed below. There are three main ethical considerations for this research project which are provided with further coverage below. The first centres on the issue of informed consent, the second on the anonymisation process, and the third on the role and dynamics of researcher and subject relationship.

First, in order to ensure that the interviewees participated voluntarily in the research, free from any pressure and threat, it was vital to gain their consent throughout their involvement in the project (David and Sutton, 2004). Respondents were provided with an informed choice about their participation which included an option to withdraw from the research at any point (ESRC, 2006, Marvasti, 2004). The original research design agreement included consent by the organisation to access

documents, individuals and records. Consent was also provided by all respondents on an individual basis. Information on the purpose of the research was provided during interview arrangements and at the beginning of each interview. Informed consent did however become more complex when the researcher became part of the daily participation and the routine appearance in the lives of those in the organisation. The position of the researcher could have encouraged participants to forget that their interactions and conversations are the subject of study (Bell and Wray-Bliss, 2011, p.85). Employees within the organisation were fully informed of the research prior to and during the ethnographic period to reduce the effect of the relationship.

Second, while in organisational research there are many instances where organisations that authorize research access are not anonymised in publication (Bell and Wray-Bliss, 2011), ethical considerations in this research study also included a commitment to maintain the privacy of research subjects, ensuring confidentiality and anonymity of data where appropriate. Bulmer (1988, p.156) argues there is, "an obligation in any material that is published to safeguard the organisation from revelations that could be harmful to its commercial activities or its reputation." Bulmer suggests the use of anonymity in naming the organisation and, "possibly not too closely identifying the locality in which it is situated" (ibid). This advice was accepted and the organisation was given a pseudonym. This was viewed as a requirement due to both the commercial aspects of the data sources and the detailed examination of the actions and behaviour of the organisation. Documents were anonymised to ensure that the name of the organisation or department was not compromised during the referencing procedure. Both internal and external documents were renamed within a source database based in an Excel spreadsheet. The existence of the database ensures that the references used in the findings are traceable and verifiable. Those documents and texts which have been referenced exclusively at specific points in the thesis are included in the database along with

other sources which were necessary for background information and research framing. In order to improve the readability of the thesis, all anonymised sources are noted in the footnotes throughout the chapters.

#### 4.10 Summary

This chapter has presented the research strategy and outlined the methods employed in the data collection process. It has outlined that a case study strategy based on a mixed methods approach involving interviewing, document analysis, accounts analysis and ethnography, was utilised to operationalize the theoretical framework presented in chapter three.

Each research method employed has been discussed in this chapter, with particular attention given to the contribution of a qualitative mixed methods approach. Furthermore, detailed reflections on the data collection process and how these contribute to wider discussions of organisational research methods have been included. The chapter concluded with a discussion of research ethics and particular attention was given to the rare funding situation which created this PhD arrangement.



# CHAPTER 5 - THREE PHASES OF CHANGE

## ALBASE 1983-2010

This chapter provides a description of Albase's activities and its involvement in the delivery of employment services from 1983-2010. It also discusses Albase's main activities, their organisational structure and their resource profile to demonstrate how it changed over the time period studied. The purpose of this chapter is to describe the detail and context to the organisation and provide the required background knowledge for the discussions in the following chapters. The following three chapters focus on particular aspects of change in more detail and connect to the theoretical discussions presented earlier.

The chapter begins with a detailed discussion of the traditional activities of Albase and how these were financed and delivered. Following this, there is a detailed discussion of the welfare-to-work quasi-market and the introduction of market mechanisms and programmes between 1999 and 2010. Whilst much background detail is provided in order to demonstrate the policy changes within the organisational field, the quasi-market development is discussed from the perspective of Albase and the ways in which it interacted with the introduction of and delivery of welfare-to-work programmes. Following these organisational field discussions there is a short section which outlines briefly how Albase changed in terms of their resources and the number of employees to provide some illustration of the basic development of the organisation. It also outlines the other areas of work outside of employment support that Albase were involved in. The final section of this chapter pulls together the narrative of how the organisation changed over time and contends that three phases can be identified based on the data gathered.

The purpose of this chapter is not to argue that these changes are the sole or direct outcome of Albase's involvement in welfare-to-work quasi-market. This chapter is for description and illustration purposes as issues of association and the theoretical explanations are considered in the following three chapters.

### 5.1 A brief background to Albase

According to the information gathered during the course of this ESRC research project, Albase has a distinctive history and association with its policy context and locality. The organisation was established in the 1980s in central Scotland, originally as a small location based regeneration and employment project. In its early days Albase was comprised of only two or three employees (one of which was a previous city council employee who gained the role as the founding CEO). Albase spent most of its early years linked to and supported by the city council. Many of the board members were also council representatives, and much of the early support from 1983 to 1990 (both financial and organisational) came from council employees, council members and local resident and community groups. As discussed in more detail throughout this chapter and chapter six, the origins and development of the organisation are intrinsically linked to the availability of European funding, the increase in male unemployment in certain parts of the region, and a drive from the then Labour led city council to create temporary employment opportunities in the local area<sup>9</sup>.

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<sup>9</sup> Anon Doc 10; Anon Doc 57; Respondent Hamilton

From the interviews with some of the early employees in Albase there appears to have been two main drivers for the creation and development of the organisation: the desire of local representatives and community members, and the drive from those original employees to create and design an organisation that could effectively negotiate the funding and community opportunities. Whilst it appears that there was an interest by and link to Labour Party members and the local branches of the party during the 1980s and early 1990s, Albase was founded as a charity and as an organisation which was not specifically politically affiliated. Over time there was a range of actors from other political parties involved in the management of the organisation including board membership and many of the original actors were not affiliated or associated with any existing political groups<sup>10</sup>.

As Albase grew and changed the charity's mission and values continued to centre on poverty reduction, environmental improvement and community development, albeit as discussed throughout the thesis the ways in which Albase has achieved these goals has shifted over time. Unlike many charities which are often the focus of change research, Albase's activities were not focussed on lobbying the government departments in line with its missions and goals. However, there is some evidence that it has previously been involved in consultation responses, feedback responses to both local and central government departments, and employees have previously attended policy committee meetings and advocated for or against particular policy changes.

It is important to note these aspects of the organisation in order to establish the boundaries for change and the possible impact that contracting had on change in

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<sup>10</sup> Anon Doc 58; Respondent Stein; Respondent McMahon; Respondent Sutton; Respondent Dalglish



Albase as much of the existing research on third sector change has drawn on ideas of mission drift and the loss of accountability or flexibility for criticism from third sector organisations involved in public service contracting. In the case of Albase whilst there was clearly some link to individuals and organisations more critical of government policy in the 1980s and 1990s (and it was arguably borne out of this alternative political view during this time), as an organisation its activities have been directed towards the delivery and creation of projects and programmes to achieve its goals rather than lobbying and criticising at the policy level. In chapter six there is a detailed discussion of the political context in which Albase was established and in chapters seven and eight there is further discussion of the shifting culture of the organisation in terms of the provision of employment support and the convergence with government and policy ideas.

## 5.2 Albase's traditional activities – ILM Programmes

The first organisational characteristic discussed is Albase's main activity. By this I refer to the work which occupied the majority of Albase's time and resources, and which provided the majority of income for the organisation. It is worth noting that Albase's changing activities and resources over the time period covered here were extremely complex and some simplification has taken place in order to discuss and describe the organisational change which occurred.

Between 1983 and 2001 Albase's main activities involved the delivery of Intermediate Labour Market programmes (ILMs). In the 1980s and 1990s ILM programmes were popular with some policy makers, Local Authorities (LAs) and third sector organisations (TSOs) as local actors sought to reduce unemployment in post-industrial areas in the UK. The ILM approach was used in areas of high unemployment where long term unemployed (LTU) people in receipt of

employment benefit (predominately those claiming out for work benefits for over 12 months), were offered, often through a programme managed by a TSO, temporary employment positions in order to gain training and work experience (Finn and Simmonds, 2003; Aiken and Bode, 2009).

ILM programmes were not part of a national employment programme (Finn, 2003). Instead local-level organisations (typically TSOs established by or supported by public sector organisations) across the UK developed individual ILM projects through drawing on a number of available resources. Whilst this ILM approach was often associated with employment policy, due to the nature of the funding and the emphasis on participants undertaking paid work, many ILM projects also involved regeneration, environmental and community development work (Dench *et al*, 2006). According to Finn (2003, p.5) organisations delivering ILM projects, “typically rely on a combination of funding streams and most stress the importance of the contribution they make to physical and social regeneration. Their primary focus is, however, on improving employability through also providing training and personal support”.

In terms of creating employment the aim of the ILM programme was to improve the likelihood of labour market entry for jobseekers that had been out of work for a prolonged period of time<sup>11</sup>. Marshall and Macfarlane (2000, p.5) argued that the ILM concept was, “based on the premise that there are people so far removed from the mainstream labour market that they do not participate in it and have little influence on it”. As outlined in Figure 5.1 below, they argued that employers draw labour from the shorter term unemployed, and as such, “the objective of an ILM

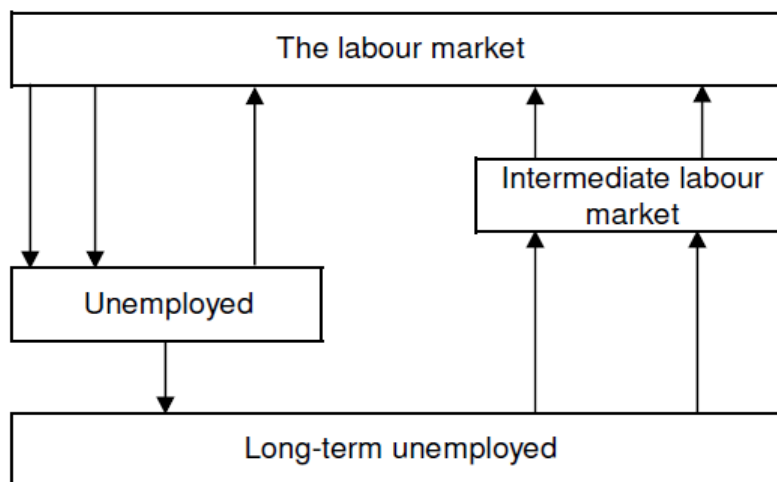
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<sup>11</sup> Anon Doc 5

programme is to provide a parallel (intermediate) labour market, within which the long term unemployed can gain enough 'employability skills' to compete effectively in the mainstream labour market" (ibid). This was the same view adopted by Albase throughout most of the 1980s and early 1990s.<sup>12</sup>

*"The rationale behind the adoption of the ILM approach is to engage with those individuals who are so far removed from the mainstream labour market that they play no role within it."<sup>13</sup>*

Figure 5.1: Marshall and MacFarlane's perception of the ILM in relation to the labour market



Source: Marshall and Macfarlane (2000, p.5)

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<sup>12</sup> Anon Doc 20

<sup>13</sup> Anon Doc 19

Through Albases' ILM projects job-seekers developed work-based skills, undertook job-training and gained work experience in order to move nearer to the labour market<sup>14</sup>. Albases' approach to ILM project design supposed that the LTU needed an extended period of real work experience in a real job setting and some sort of training and qualifications to access jobs in the labour market<sup>15</sup>. In many ILM projects, participants (who may have also been tenants where work was undertaken) were trained and supervised to deliver services to other job seekers and were hired on a temporary basis as employees for Albases<sup>16</sup>. From the evidence collected it appears that ILMs operated by Albases emphasised training and human development as requisite to ensuring longer term labour market attachment<sup>17</sup>. Furthermore, the ILM model replicated normal workplace discipline, including support with induction and training and most ILMs involved the option of working towards a vocational qualification dependent on the level of job<sup>18</sup>. The intention was to instil work place behaviour into ILM trainees, and at the same time improve the housing and shared spaces in deprived neighbourhoods. As such, whilst employment support was a key part of the ILM model, Albases also recorded and promoted the social and environmental benefit of the ILM programmes. For example,

*“Draught proofing and loft insulation have been the core business of Albases since the organisation began. A total of 110,000 houses were insulated (with draught proofing, loft insulation, pipes and tank jackets) between 1983 and 1997.”<sup>19</sup>*

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<sup>14</sup> Anon Doc 20; Anon Doc 29

<sup>15</sup> Respondent Hamilton

<sup>16</sup> Respondent McMahon; Anon Doc 21

<sup>17</sup> Anon Doc 18

<sup>18</sup> Respondent: Stein

<sup>19</sup> Anon Doc 22, 2000

### 5.3 The Community Programme

Albase was established in 1983 and its first activities began in 1984 insulating homes in deprived areas with poor housing, using funding from the Local Authority and the national employment programme of the day, the Community Programme (CP), which is discussed in more detail in the next chapter. Albase's ILM programmes initially focussed on combining issues such as fuel poverty, poor housing and deprived neighbourhood spaces, with policy aims of reducing unemployment and improving community development. As such, their operations straddled a number of policy contexts such as housing, poverty, public space, environment, and employment<sup>20</sup>.

Most ILM programmes operated by Albase in the 1980s provided temporary employment for male job seekers from the immediate localities of the neighbourhood project, employed for 52 weeks on projects simulating real workplace conditions<sup>21</sup>. Whilst these early ILM projects focused on a narrow range of work areas (home insulation and environmental upgrading associated with housing renewal), later versions of the ILM model in the 1990s included call centre and childcare training which attracted a number of female participants<sup>22</sup>. The ILM model was Albase's main approach to employment support and organisational activities for the first ten years of operation and, despite much organisational change, it remained one work stream in the organisation's larger work portfolio in the 2000's.

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<sup>20</sup> Anon Doc 20; Anon Doc 22; Anon Doc 27

<sup>21</sup> Anon Doc 28

<sup>22</sup> Respondent: Quinn; Anon Doc 35

The organisation's original activities were limited to the areas in which ILM agreements and projects had been designed. Finn (2003) found that this was also true of most ILM programmes which are not only region specific (due to the availability of funding sources) but also local authority or neighbourhood specific. As such, the number of participants involved in an ILM project was often limited to relatively small groups (compared to the figures associated with national employment programmes). For example, the major UK survey of ILMs carried out by Finn and Simmonds (2003, p.I) estimated that there were only 14,000 ILM places in 2001/2. For Albase many individual ILM projects involved only between 12 and 30 participants, although collectively there were years (such as 1995) where there were 793 ILM participants across a range of ILMs<sup>23</sup>. As such, the ILM model cannot be compared directly with national programmes and ILM projects did not always feature in national employment programme statistics (Finn and Simmonds, 2003; SEU, 1999). Nevertheless, the ILM approach was funded in part by national employment programmes and (as discussed in chapter six) was ubiquitous in the political ideology of the time.

#### 5.4 ILM funding design

For the delivery of ILMs, Albase drew funding from a range of policy fields and funding bodies. Collectively, this funding was structured into 'project-based' ILMs delivered in local neighbourhoods and public spaces. Government funded employment support programmes (such as the CP) only paid amounts to Albase similar to weekly benefit rates of the claimant. In order to provide training and undertake the work involved in the ILM, Albase 'match-funded' (McGregor *et al*, 1997) with other resources to cover the cost of providing training, equipment, and

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<sup>23</sup> Anon Doc 10

supervision. For example, the funding for equipment came from an environmental source as the outcome of the work in some ILMs was environmental improvements (see Figure 5.2). Albase applied to EU sources such as the European Social Fund (ESF) which sought to fund projects which improved green spaces in cities. The funding to cover training costs and supervisors was sourced from specific training pots such as the Scottish Government's Training for Work (TfW) fund. Further funding to cover project costs was gained through agreements with the project location's landlord, which in most cases was the Local Authority or a Housing Association (McGregor *et al*, 1997; Finn, 2003;). A Service Level Agreement (SLA) was often made between the landlord and Albase agreeing to pay for the outcome of the project, such as insulation improvements to their properties. Finally project costs would be completed with funding from employment support sources linked to programme participants (the 'trainees'), and as such the temporary position on the programme (lasting from 6 to 12 months) attracted funding from national and regional government employment support/job creation funds. Collectively, this approach created temporary employment, paid benefit recipients a wage, provided training and work experience (McGregor *et al*, 1997).

The original ILM programmes delivered by Albase were supported in Scotland by a range of organisations, including local authorities, European Structural Funds, Scottish Enterprise and the UK employment service through programmes such as the CP. Later versions in the 1990s and 2000's were funded by similar sources but the CP was replaced by the Employment Training programme, and then in the late 1990s by the New Deals (Finn, 2003). From the data gathered it appears that the role of TSOs in the delivery of ILMs was predominately the outcome of funding eligibility rules from EU funding<sup>24</sup>. It was also due to the regulations attached to

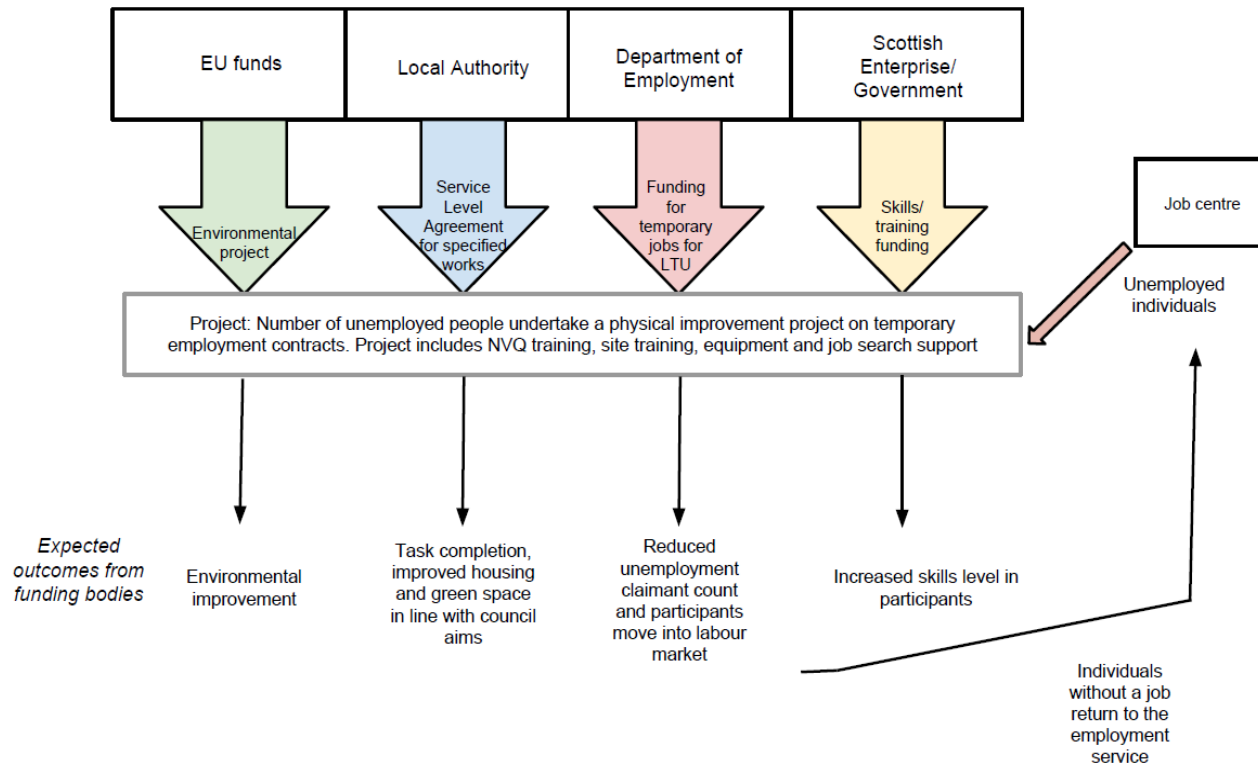
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<sup>24</sup> Respondent: Sutton

public sector funding pots which would not support job creation in industries that may lead to job displacement. As such, attached to most ILM funding was a requirement that the work undertaken provided community or environmental benefit (Maxwell, 1989).



Figure 5.2: A simplified diagram of a typical environmental ILM project



Source: Author's own

(Based on information compiled from Finn, 2003; McGregor *et al*, 1997; anon doc 10; anon doc 19; anon doc 20).

Albase's ILM model was originally designed in alliance with the local City Council in 1983<sup>25</sup>. Whilst the first few years for Albase centred on developing ILM projects in specific city neighbourhoods, once the design and funding sources was identified and understood, employees in Albase replicated the model in a number of other locations that had access to EU funding, the national CP funds and support and funding from the Local Authority<sup>26</sup>. Over the past thirty years, Albase operated the ILM model by predominantly replicating it across neighbourhoods in Scotland and the North East of England. Each ILM programme (or regeneration project) operated by Albase was relatively small in scale and operated within specified neighbourhoods involving the physical regeneration of shared public spaces in residential areas. Further amendments to the model included home insulation and heat improvement projects in Local Authority owned housing<sup>27</sup>.

Example A provides an example of an ILM project funding structure. In this example, Albase created an ILM project in a residential location working in partnership with the Housing Association (a third sector organisation which provided social housing and acted as the site landlord). The project sought to create 12 jobs each lasting 52 weeks. Due to the turnover of participants the project provided employment for 27 people over this time period; 19 were funded through TfW (an employment support programme funded by the Scottish Government) whilst 8 were funded by the New Deal (a UK employment programme discussed in more detail later in this chapter). The project sought to improve the shared outdoor space in the residential area by upgrading the fencing and landscaping, and by

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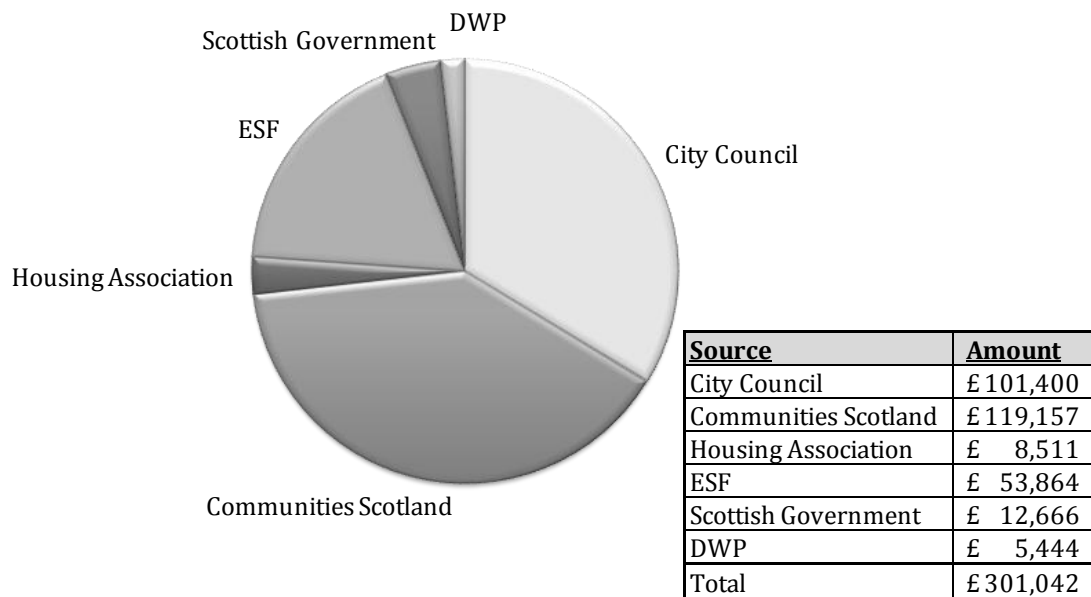
<sup>25</sup> Respondent: Hamilton

<sup>26</sup> Respondent: McMahon; Respondent: Hamilton

<sup>27</sup> Anon Doc 5; Anon Doc 11

improving the rubbish storage area. The participants received training and support towards gaining relevant qualifications associated with the work involved. Figure 5.3 below displays the funding arrangement for this project.

Figure 5.3: An example of an ILM funding arrangement 2006



Source: Author's own adapted from Anon Doc 11<sup>28</sup>

The organisation grew by replicating the ILM model in a number of locations<sup>29</sup>. Consequently, Albase grew over time from single localised projects into one organisation with a small number of core (permanent) staff<sup>30</sup>. By 1999 a report by the University of Glasgow for the European Commission described Albase as, "the largest Intermediate Labour Market organisation in Europe<sup>31</sup>." Between 1983 and

<sup>28</sup> This information is not commercially sensitive and the source document is publicly available

<sup>29</sup> Respondent: McMahon

<sup>30</sup> Respondent: Sutton

<sup>31</sup> Anon Doc 26, 1999, p. 172

2010 Albase continued to deliver ILM projects. However, since the early 2000's Albase's main activity shifted from the delivery of ILMs to the delivery of welfare-to-work programmes. The ILM activity gradually reduced during this time, in terms of the proportion of its activities, but also the number of ILM participants in real terms. A discussion of the reasons for the decline of ILM activities is the focus of chapter six. The introduction of welfare-to-work programmes in the late 1990s is discussed in the following section.

### 5.5 Welfare-to-work activities 1997-2010

Albase became involved in welfare-to-work programme delivery in the late 1990's. As discussed in more detail in chapter six, this involved a move towards providing jobseekers with other types of support than previously included in the ILM approach. Instead of temporary employment and training, the welfare-to-work programmes focussed on the role of personal advisors in assisting jobseekers into employment through a range of job search and support options (Millar, 2000). Albase's involvement in welfare-to-work contracting is integrated into the following section which describes the development of the welfare-to-work quasi-market over four phases. It is demonstrated in the next section that each phase represents a new step in the development of the quasi-market based on the contracting system, the payment structure and third sector involvement. Where the details could be found during data collection, Albase's involvement in programme delivery in each phases is also included.

## 5.6 Phase One: Partnerships, the New Deals and competitive contracting.

Whilst Albase was delivering a large number of ILM activities in the late 1990s, the Labour Party were elected into power and introduced a number of new employment programmes (Finn, 2003). This led to the initiation of a competitive quasi-market for employment services at a national level, which began with the introduction of the New Deal employment programmes in 1998 (Harari, 2010). The six New Deal programmes focused on population groups which were considered more difficult to help, including lone parents, young people, the long term unemployed (18 months or longer), the disabled and older workers (Nickson *et al*, 2003). According to Webb (2003) the purpose of these programmes was to provide job seekers with guaranteed intensive employment assistance after a period of unemployment<sup>32</sup>. At the time, the use of independent providers was promoted as an innovative approach for the delivery of public services (DWP, 2006). In order to achieve local flexibility, it was decided not to deliver the New Deal programmes exclusively through the national employment service, but rather to develop a collection of provider partners from the public, private and third sector (White and Riley, 2002). As there was only a limited history of contracting such services to non-public sector organisations, the government did not have a large number of possible delivery organisations to select from for these early welfare-to-work programmes. The government worked with local authorities, established new delivery organisations and created partnerships to form a new delivery system (Finn, 2007).

Over a period of approximately 6 years Albase was involved in the delivery of a number of the New Deal Programmes. The New Deal Young People (NDYP) was

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<sup>32</sup> Prior to the New Deal employment programmes were either administered through the job centre or benefit claimants could access localised employment programmes funded through local authorities or regional funding sources.

the largest of the six New Deal programmes, both in terms of numbers of participants and in terms of the programme budget (Millar, 2000; White and Riley, 2002;). Across the UK there were 144 local programmes, with design and delivery entrusted to partnerships of agencies, companies and organisations. In each local 'unit of delivery' the managers of the local offices of the public employment service had responsibility for forming a partnership with interested and appropriate agencies (Martin and Sunley, 2001). As part of a consortium Albase was awarded a contract for the delivery of the NDYP in a large Scottish city. Through the New Deal contracts, Albase was introduced to a new way of receiving resources as all providers were paid a weekly 'on programme' fee for each jobseeker referred from the Job centre, and some of the New Deals involved out-put based payment schedules (Beale, 2005).

At this point, Albase did not compete with private sector organisations as only a small number of private sector organisations were exclusively involved in the early delivery stages, and many of the localities established public-private-third sector partnerships, involving input from the local public employment service, local authorities and in many cases established TSOs delivering small scale employment support programmes (DWP, 2006). The delivery of these programmes gradually involved competition with private sector organisations. In 2002 the early New Deal contracts were renewed and more districts were added which meant that about 10 per cent of New Deal provision for the unemployed was delivered through the independent providers (Finn, 2003).

Albase was also granted a contract to deliver the New Deal Disabled People (NDDP) programme which the Government introduced in 1998. When it was introduced, there were two main elements to NDDP: a personal adviser service and a series of pilot schemes to help sick or disabled people return to work. A system of

Job Brokers was introduced in July 2001 and rolled out nationally in October 2001 (Webb, 2003; Hills *et al.*, 2001). The first six pilots of the personal adviser service launched in 1998 were run by the Employment Service. A further six, managed by private sector, local authority and voluntary sector led consortia, started operating in April 1999. The Personal Adviser Service (PAS) Pilots were replaced by a national NDDP programme in 2001. In a synthesis evaluation of the programme published in 2007, 42% of contract holders were identified as being from the third sector (Stafford *et al.*, 2007).

One of the first contracts which Albase received as part of the new welfare-to-work system was the contract for the operation of a Programme Centre for a region in Scotland. Programme Centres were introduced by the Labour Government to replace Jobclubs and Jobplan Workshops which were job search initiatives operated by the Employment Service under the previous government (see Gregg, 1991; Jones, 1998). According to Webb (2003, p.72) Programme Centres were piloted in eight locations throughout Great Britain during 1997/98 and operated nationally from mid-1998 when "around 85% of ES [Employment Service] districts decided to move to Programme Centre provision." External organisations were contracted to the Employment Service to run the Programme Centres which provided training and individual guidance in job search techniques, including telephone and interview skills and preparation of a CV and Jobseekers were obliged to agree a set of modules with personal advisers. Some of these modules were provided directly by Albase, whilst others were provided by partner or specialist organisations. As part of the Programme Centre contract Albase were also obliged to provide participants with access to facilities to support job search such as telephones, word processors and stationery (Webb, 2003).

An evaluation of New Deal Programmes by the DWP emphasised the importance of the flexibility afforded to organisations to design their services. As part of the push towards creating a market and encouraging organisations to develop innovative ideas, successful providers received additional payments for initial and sustained job outcomes amongst their clients (Hills *et al.*, 2001). This phase allowed the government to gain information and knowledge about the capacity and success of external providers, whilst at the same time the range of programmes initiated provided a financial injection to develop or attract future delivery organisations. The importance of this phase for the development of the welfare-to-work quasi-market (and for Albase) cannot be downplayed. Not only did the earlier programmes provide finance and guidance to help develop external providers such as Albase, it laid the foundations for a number of organisations to become involved as delivery partners and was a key period of change with the development of the DWP into a commissioning body (DWP, 2006).

This period arguably represented something of a gear change in contracting policy with the initial development of a process for large-scale commissioning of employment programmes. Through the New Deal Programmes and the introduction of some contracted job support advice services, such as the Programme Centre and the New Deal Gateway the government was gradually creating delivery organisations for their future quasi-market. These programmes shifted the change process in Albase (discussed further in chapter seven). For Albase the New Deal contracts and the Programme Centre contract were their first experience of contracted job search and support delivery. As outlined in chapter six, whilst Albase delivered these contracts it also continued to deliver ILMs in its traditional way, running somewhat separate activities (although they incorporated some ILMs into the early New Deal contracts). At this point Albase's involvement was predominately through partnership arrangements with local government agencies.



## 5.7 Phase Two: Increasing capacity, competition and financial reward

In this phase new welfare-to-work programmes were introduced and the institutional environment experienced a number of reforms. The creation of Jobcentre Plus in 2001 brought together the Employment Service and the non-pension parts of the Benefits Agency to create a single point of delivery for benefits and welfare-to-work support (Finn, 2005). The creation of Jobcentre Plus (JCP) enabled the DWP to further extend welfare-to-work activity and the New Deal approach to other groups of benefit claimants apart from just JSA claimants (DWP, 2006). Whilst the New Deal programmes were being delivered nationally, in 2000 the government introduced the Employment Zone (EZ) programme in 15 areas of particularly high unemployment (Bruttel, 2005; Finn 2005). The prototype schemes emphasised a partnership approach and localized decision making. However, the Prototype Employment Zones also sought to increase the capacity of the market by providing experience and finance to established organisations and networks, with the explicit intention of enacting and attracting future providers to increase competition levels in the market (Haughton *et al*, 2000; Wiggan, 2009). This approach was also evident in the later EZs which were strongly influenced by a desire for more competition and outcome-related payment regimes.

Griffiths and Durkin, (2007) contend that the government set about creating this quasi-market by introducing a tough funding regime, which rewarded providers for early employment results and resulted in a financial loss if a customer did not achieve a job outcome. The EZ contracts were the first to introduce the idea of a flexible job outcome payment with increased financial reward for quicker target achievement if they moved individuals into employment during the first 26 weeks. In terms of delivery structure this meant that these contracts varied from the New Deal programmes as the 'on programme fee' was removed and replaced with four staged payments, rewarding providers for a number of milestones (Finn, 2011). EZs were a vital milestone in the development of the contracting paradigm as a whole,

as government command papers often cite the superior job outcome results and provider flexibility identified in the EZ evaluations as evidence in favour of contracting (DWP 2006a, DWP 2009a, DWP 2007a). However, Griffiths and Durkin's (2007, p. 72) evaluation concluded that any performance benefits from Employment Zones "appears to be due to a highly incentivised funding regime in combination with their operation and financial flexibilities," rather than the fact that delivery was through non-public sector organisations.

Albase was not involved in the EZ pilots. However the EZ programme was expanded by the DWP in part to provide further employment services in areas of high unemployment, but arguably also to continue to develop the quasi-market system. A further addition to the contracting system at this stage was the introduction of new aspects of competition during the delivery of the contract by awarding two providers contracts in the same localities and introducing the possibility for jobseeker volumes to be switched to higher performing organisations (Hirst *et al*, 2006). The Multiple Provider EZs (MPEZs) were created in a number of urban areas with high unemployment, including in the locality of Albase. The introduction of the MPEZ contracts involved the use of increased competition as more than one contract was awarded per locality (Finn, 2005). Whilst in some areas there were limited moves to incorporate a level of choice for the user by awarding competing contracts in particular geographical areas such as in the MPEZ contracts where jobseekers originally had a choice between service providers (Griffiths *et al*, 2006; Wiggan, 2009), in practice 'user choice' was on the periphery of welfare-to-work contracting, and not central to the development of the practice. The contracts which Albase were involved in did not allow delivery organisations to advertise for jobseekers at the jobcentre and individuals were allocated randomly to each of the competing MPEZ providers. Aspects of choice, service content, delivery manner, location, and 'product' were not user choices as the DWP was the purchaser of

services not the jobseeker (DWP 2006a; DWP 2009a; DWP 2007a; Policy Research Institute, 2006; Hasluck and Green, 2007).

In terms of market development, the financial arrangements for the EZ and the MPEZ initiated a noticeable development in the delivery of welfare-to-work programmes as a number of non-public sector organisations successfully won the contracts on offer (Hirst *et al*, 2006; Wiggan, 2009). The market also began to open up and attracted a number of new entrants outside of established partner arrangements, particularly from the private sector. The contracts for the MPEZ ran from 2004-2009 and Albase competed against Working Links, (a public/private partnership between the Employment Service, Manpower and Ernest and Young), and Reed in Partnership, an arm of the private sector Reed Recruitment company (Beale, 2005).

Whilst the funding regime became outcome focussed, respondents stated that the payments received were relatively generous (compared to later programmes as discussed in chapters seven and eight). For the MPEZ, contractors received a number of payments. Firstly, Albase received a payment £300 for every mandatory claimant enrolled onto the programme with them. For each jobseeker between the age of 18-24 Albase received a payment of between £896 and £969. This amount increased to £1,288 and £1,738 if the jobseeker was aged 25 year or older. For each mandatory participant in multiple provider Employment Zones who stayed in employment for at least 13 weeks, Albase received a payment of £3,000 if the client entered employment at the end of stage 1, £2,000 if the participant entered employment out of a stage of the Employment Zone cycle other than stage 1, and for each lone parent voluntary participant who stayed in employment for at least 13 weeks, Albase receive £1,200. As providers were also responsible for managing the benefit payments to jobseekers enrolled onto their service provision in the EZ, once

an individual entered employment, Albase received payments based on the equivalent of 21 weeks of JSA entitlement. If contractors achieve pre-set contractor-specific yearly targets they are entitled to a share of a yearly £1 million bonus in each Zone (Beale, 2005).

Compared to previous location based employment programmes, the EZ programmes offered the potential for delivery organisations to access large amounts of financial resources. For example, it was estimated that in 2004/2005 alone the EZ received a total of £101million of funding (Beale, 2005, p.31). Beale (2005, p.32) also notes that the estimated the gross cost per job of EZ was £3,115 without benefit payments and £6,027 with benefit payments in 2005. Drawing on dominant ideas of NPM the distinctive features of EZs – payment by results, minimum regulation, operational and financial flexibilities, and provider competition– were, over time, intended by the DWP to drive through improvements in performance and service delivery in the quasi-market system it was developing (Davies, 2008). In order to understand the impact of the welfare-to-work contracts on Albase’s resources it is worth having a simplified snapshot look at Albase’s funding at the end of 2008. In the accounts for this year Albase recorded an income of approximately £9.2million from DWP contracts (NDDP, EZ and New Deal programmes) compared to only £245,000 from ESF, and including this figure, approximately £2 million in total from ILM related activities<sup>33</sup>.

The MPEZ contracts ran concurrently with the New Deal Programmes throughout the UK, and other programmes introduced by the government such as Pathways to Work (PtW) a programme aimed specifically at health benefit claimants (see Barnes

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<sup>33</sup> Anon Doc 56

and Hudson, 2006), which Albase did not tender for nor deliver. Arguably, phase one and phase two involved the introduction of welfare-to-work programmes which not only moved individuals into employment, but which also included funding and administration processes which developed the capacity of delivery organisations (including TSOs) so that a functioning quasi-market was developed that future welfare-to-work programmes could be competitively contracted-out in.

### 5.8 Phase Three: Competition, large contracts and quasi-market reform

With the introduction the Flexible New Deal (FND) programme in 2008 the quasi-market entered a new contracting phase. Officially the FND replaced the existing New Deals and EZ provision, although in Albase's experience there was some overlap as the FND commenced before the contracts for the EZ and NDDP were completed<sup>34</sup>. However, this phase of welfare-to-work contracting reflected a shift in the DWP's approach to contracting welfare services. This was because the FND involved the introduction of prime-contractors, large contract regions and a growing emphasis on job outcome related funding (DWP 2008a; DWP 2009a).

The DWP stated that overseeing only a limited number of contracts would save costs and allow organisations to invest in long term improvements to delivery (DWP, 2008a; Finn, 2010). These considerable changes to the administration of welfare-to-work contracts reflected the recommendations of the report by Freud *'Reducing Dependency, Increasing Opportunity: options for the future of welfare to work'* (2007). The report proposed a major restructuring of employment programmes and called for even greater private and third sector involvement in employment

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<sup>34</sup> Respondent: Evans

services, financed by savings to the tax payer from any job outcomes created (Freud, 2007).

The DWP envisioned a quasi-market in which 80% of its contracts were with a limited core of large prime organisations, with subcontractors ensuring local presence and specialist provision (Finn, 2010). According to Damm (2012, p.8) the reforms outlined in the report led to the introduction of, “a new lexicon based around the concept of ‘supply chains’, and in each district, ‘prime providers’ were commissioned to either provide services themselves, or subcontract delivery to other organisations”. The then Secretary of State for Employment, James Purnell MP, emphasised that the Government was “creating a market for the long term” that would “free” providers “from central control and allow them to innovate.” These performance based contracts represented “a major milestone in [the] welfare reform programme,” where “the rewards will be high, with longer contracts and a growing market” (Purnell, 2008) for successful providers.

Arguably, the ‘multi-billion pound’ FND contracts encouraged larger for-profit and non-profit organisations to borrow and invest in service provision, based on an expectation of future income streams from outcome fees over an extended period (Finn, 2009; Vegeris *et al*, 2010; WPC, 2010). The contracting process for the FND also increased the amount of competition and customer choice beyond that seen previously by allowing prime contractors to secure a higher market share if they performed well. Arguably, as the contracts no longer sought to assist the organisational development of delivery organisations and develop the capacity of the quasi-market, some of the risks and expenditure associated with investment in employment assistance were shifted from the state to the contracted delivery organisations (Vegeris *et al*, 2010).

Albase competed for and secured a FND contract in 2008. It no longer applied for welfare-to-work contracts in partnership with other local agencies, although in the delivery plan for a number of welfare-to-work bids other third sector organisations were involved<sup>35</sup>. Albase's experience reflected a larger trend in the quasi-market as by 2009 only 18% of 410 organisations in the evaluation by Armstrong *et al* (2010) delivered welfare-to-work programmes in partnership.

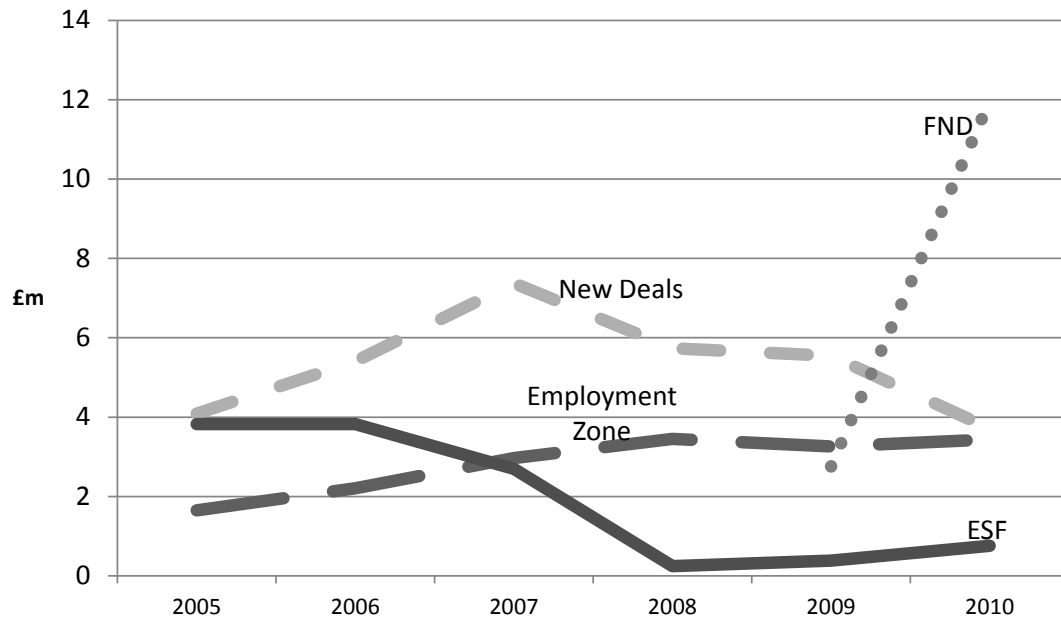
Albase's business model to secure the FND contract included a business loan from the bank to finance the first two years of service delivery.<sup>36</sup> In 2009 they recorded a turnover of £2.8million from the FND contract; this figure grew to £12million for 2010. Between 2005 and 2010 Albase received over £75.3 million in DWP contracts (Employment Zone, New Deals and Flexible New Deal). Figure 5.4 below outlines Albase's income from these programmes between 2005 and 2010.

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<sup>35</sup> Anon Doc 15

<sup>36</sup> Respondent: Sutton

Figure 5.4: Income from DWP contracts 2005-2010



Source: Own working based on published annual accounts (the underlying data is included in Appendix Two).

The delivery of the FND and the development of the FND phase two was halted by the election of the new Conservative-led Coalition government in 2010. The new government replaced the FND with the Work Programme and cancelled the second round of FND procurement scheduled for 2011 (Harari, 2010; DWP, 2011a). Given the amount that prime-contractors for the FND had reportedly invested in setting up the FND programme delivery and their supply chains, there was some disruption to existing contractors (including Albase) who had expected longer and larger contracts and more stability in the quasi-market (Mulheirn and Menne, 2008; Armstrong *et al.*, 2011).



## 5.9 Phase Four: Increasing risk and the role of private sector

In 2010 the introduction of the tendering round for the coalition government's new employment programme signalled the arrival of phase four in the welfare-to-work quasi-market. The Work Programme incorporated all previous employment and welfare-to-work contracts<sup>37</sup>, including Albase's contracts for the EZ, NDDP, and the FND. The contract size and value reflected the increased volume changes (as health benefit claimants are also subsumed into the programme) allowing providers to deliver larger contracts covering a 'lot' (equivalent to a UK region), and manage a series of sub-contractors across the region (DWP, 2011a; NAO, 2012). Prime contractors were expected to provide or subcontract individual, tailored support for eligible individuals requiring contractors to be both flexible in their approach and capable of managing the financial risk of investing in a payment by results model (Freud, 2010; DWP 2010d).

Building on the reforms in the FND programme and the Commissioning Strategy (2008a), this phase further reduced the state's financial responsibility and up-front contribution to the delivery of welfare-to-work programmes (Finn, 2011b). In 2010 the new government claimed that the Work Programme, "represents a massive expansion of the payments by results principle, removing flat rate service fees and ensuring that we move to 100% outcome based contracts as soon as possible. For the first time, we will also be paying providers using the benefits savings that they help to generate, building value for money into these programmes in a way that hasn't been possible in the past" (Grayling, 2011). Instead of funding programmes from the DWP's own budget, known as the Department Expenditure Limit (DEL), funds came from the treasury managed benefits budget, called Annually Managed

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<sup>37</sup> Previous programmes had catered mainly for JSA with some separate programmes, such as Pathways to Work, focussing on health benefit claimants. The Work Programme includes JSA claimants, and a number of categories within the Employment Support Allowance benefit group.

Expenditure (AME) (WPC, 2012; Freud, 2010). This change centred on the idea that payments to providers for moving individuals into employment were made in lieu of savings to the treasury for the payment of out of work benefits. The details of the funding model are discussed in chapters seven and eight.

One of the most noticeable changes to the quasi-market structure was the introduction of a Preferred Suppliers Framework, commonly known as the ERSS Framework. The framework was designed to create a list of providers able to bid for the Work Programme as 'Prime Providers', taking the responsibility of managing supply chains in a given area (DWP, 2011b). The organisations on the ERSS Framework would have the option to bid for future welfare-to-work contracts and other public service contracts. Only organisations on the list could tender for future contracts in the prime provider role. The framework introduced a minimum turnover threshold for competing bidders of £20 million per annum, assessed at a pre-qualification stage (DWP, 2010b). Arguably, this aspect of the quasi-market reforms created higher entry barriers for delivery organisations as financial capital and specific organisational experience became necessary for market participation (see chapter seven and chapter eight).

In 2010 Albase applied for and was accepted onto the ERSS in the two regions within the UK that it applied to be considered for. This meant that for future welfare-to-work programmes such as the Work Programme, Albase could tender to be a 'prime provider' (DWP, 2010c). Albase also applied to be a prime provider for the Work Programme in 2011 but was not successful in its bid. It was not part of the supply chain for the Work Programme and at the end of the research period covered the only welfare-to-work contracts it delivered were those which were coming to an end, such as the FND and the EZ contract that it still held at that point.

Despite the diversity of the size, structure and activities of TSOs involved in the delivery of previous welfare-to-work programmes, arguably TSOs became pigeonholed into the subcontractor role. The supply chain format encouraged private sector organisations with contract management experience (rather than employment support experience) into the prime contractor role and TSOs and delivery organisations further down the supply chain. In 2009 (during the FND programme), a survey of DWP providers found that 44 per cent were from the third sector, compared to 25 per cent from the private sector and 31 per cent from the public sector (Armstrong *et al*, 2010, p.22). However, recent developments with the Work Programme saw a decline in the number of third sector organisations securing welfare to work contracts. In the Work Programme contract awards, approximately 72 per cent of prime and subcontracting arrangements were awarded to the private sector, with the third sector acquiring only 19.4 per cent, despite many of the bidding TSOs in possession of welfare-to-work experience gained over the past decade (DWP, 2011c). In fact, 35 out of 40 (87 per cent) available prime contracts within the Work Programme were won by private sector organisations, with only three awarded to TSOs organisations<sup>38</sup>. Based on DWP volume predictions published in the tendering information for the contract, this equates to only 7 per cent of market share in prime contracting. It represents a significant decrease in the role of TSOs as contractual delivery partners with the DWP.

In response to these contracting results, Chris Grayling the Minister for Employment stated that the third sector remained involved in welfare to work programme delivery, even if they were not represented at the new prime contractor level.

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<sup>38</sup> The remaining two were awarded to a public sector education organisation.

*“The Work Programme will also mean a multi-million pound investment in the voluntary and community sector over the next five years. Our list of preferred bidders includes impressive third sector involvement with nearly 300 third sector organisations involved in delivery of the Work Programme as sub-contractors, and two as prime contractors” (Grayling, 2011).*

This information from the DWP suggests that, although the proportion of third sector prime contractors declined, TSOs would still be involved in providing services through sub-contractor arrangements underneath the successful private sector prime providers. However, a further examination of the contracting awards revealed that only two private sector prime providers involved the third sector in 50 per cent or more of their delivery strategy. In fact, of the 37 contracts awarded to private providers, 30 involve the voluntary sector in less than a third of sub-contracting arrangements. Furthermore, 16 of these involve the third sector in 10 per cent or less. Subsequently, in this phase of welfare to work market development, the contracts were unequally distributed amongst private sector and third sector providers, suggesting that there has been a shift of resources within the market towards the private sector organisations. This is particularly noticeable in comparison to the higher level of involvement of the third sector in earlier phases on welfare-to work contracting (see Armstrong *et al*, 2010).

Even for those organisations outlined in winning bids there were concerns that both the financial pressures of the programme, and the frequent position of third sector subcontractors as specialist providers, would only receive referrals for the individuals furthest from employment and who are least likely to trigger an outcome payment (Hudson *et al.*, 2010, WPC, 2010). Furthermore, whilst the DWP created a financial structure to provide some funding to prime contractors at the referral stage (a one off small referral payment to the prime contractor), this was not always replicated in prime contractor supply chains. In 2010, the NAO reported that only three quarters of primes passed on the flat rate of payment even to specialist

contractors and over half of subcontractors were not in a position to cover all of their costs, especially small third sector organisations (NAO, 2010a). Although some relationships were rated as positive overall, only 38% of subcontractors claimed they would sign up to the same terms again.

Between 1999 and 2010 the policy context and 'rules' of the market were constantly shifting. Through the four phases there was, arguably, a clear and intended development of the welfare-to-work market by the DWP as visible in Table 5.1 below. Through the early phases this involved the creation of funding and support policies and programmes to develop TSOs and involved public-third sector partnerships (see Wiggan, 2009). It also involved the design of contracts which would attract organisations operating in other markets and service delivery areas, this was most noticeable during the EZ contract which allowed the possibility for delivery organisations to generate a sizeable income<sup>39</sup>. The early phases sought to feed and grow the market to increase competition, and in the latter phases the market settled somewhat as providers become more established and experienced (Finn, 2011). The changes outlined in phase four reflected a move towards simplifying the market and reducing the transaction costs for the DWP of managing and monitoring a large number of complex contracting arrangements (see NAO, 2011). Table 5.1 below summarises this information from this section of the chapter to show the development of the market, and the involvement of Albase in welfare-to-work contracting throughout the period studied.

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<sup>39</sup> Respondent Madden

Table 5.1: Four phases on welfare to work contracting: the creation of a competitive market

Phase	Programme	Institutional arrangement	Quasi-market arrangement	Albase's involvement
1: 1997- 2002	New Deal Programmes; Programme Centre	Employment Service, Local Partnerships	Public partnerships with TSOs, Small number of invited bidders and private sector organisations	Programme Centre; New Deal Gateway; New Deal Young People; NDDP; NDLP;
2: 2002- 2010	EZ; MPEZ; Pathways to Work	DWP contractor, Jobcentre Plus involvement	Partnerships remain, but increasing competition between providers; increase in private sector organisations	MPEZ; New Deal FTET; Continued with NDDP; Continued with NDLP;
3: 2008- 2010	Flexible New Deal	DWP Multiple contractor (bypasses JCP)	Medium sized sub-regional contracts; Private and Third Sector bidders	FND1 (contracted until 2013) (continued EZ, NDDP)
4: 2010-	Work Programme	Prime Contractor (independent provider)	Large contracts; Selected prime contractors and preferred bidders predominately private sector managing complex supply chains	ERSS Framework; Failed WP bid; FND contract terminated; (end of previous contracts)

### 5.10 Identifying organisational change

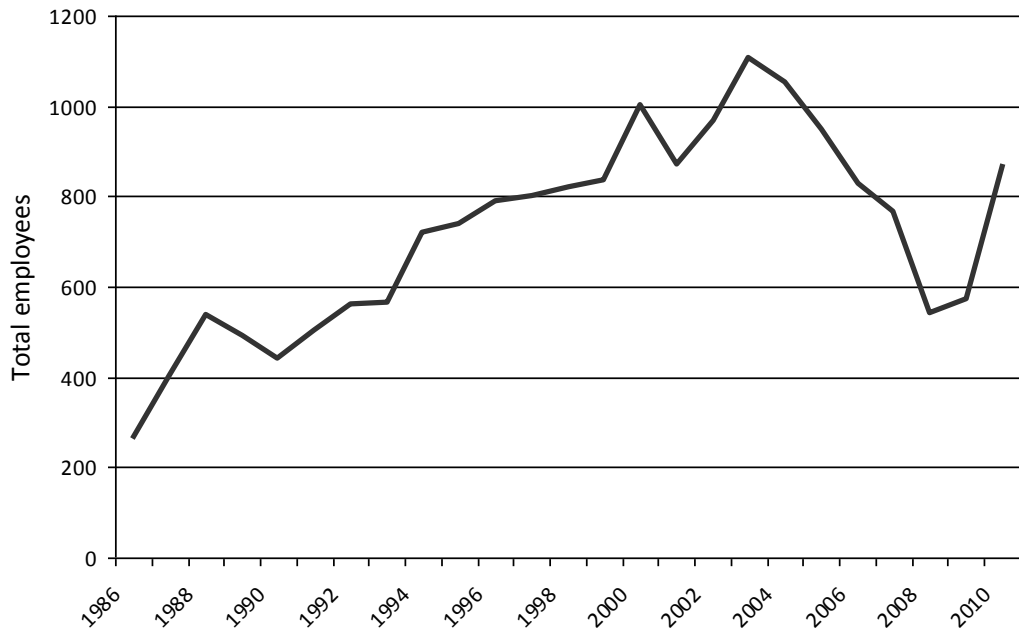
Ideally it would be possible to outline the exact number of ILM participants and welfare-to-work jobseekers involved in Albase programmes over time. Unfortunately, it was not possible to generate this information from the data collected. It was also anticipated that through the information gathered in the accounts that the funding could be divided between types of employment programmes over time, unfortunately the data was not recorded in this way and this was also not possible. Appendix 1 provides an illustration of how Albase's involvement in different policy contexts shifted over time. In these diagrams it is visible that Albase delivers some activities in policy areas which are not discussed in this chapter. This thesis focuses specifically on the delivery of employment programmes, however, some of the other policy contexts and activities are discussed in chapter eight as part of the consideration of resource diversification options.

A number of structural changes occurred between 1983 and 2010. The early ILMs were undertaken by a number of organisations, linked, but structured as separate Intermediate Labour Market organisations. In 2000 these were all unified under one organisation. Secondly, in the early days of the organisation (throughout the 80s and early 1990s) a number of spin-off organisations existed which were for-profit. These were either subsumed into the new unified organisation in 2000 or ceased their operations at this time. Albases were formally considered as one single organisation (although informally all the separate organisations had been operated by the same people and from the same offices. This period of change is viewed here as a consolidation process as the organisation became one unit.

Third, as outlined in the financial data below it is argued that the late 1990s and early 2000's represented a transformational phase for Albase as the organisation became involved in welfare-to-work programmes and the delivery of new types of employment support. The third phase which was identified from the data collected is called the 'growth' phase. The section below describes the organisational changes experienced by Albase in terms of employee numbers and turnover (considered here as basic indicators of organisational size) in relation to these two phases. When Albase was established they had very few full-time and permanent employees. The first official records of the number of employees were from the first submitted accounts in 1986. The number of employees each year (as recorded in the annual accounts) is displayed in Figure 5.5. The graph shows that there was a gradual growth of employees up to 2004 before a reduction in 2008 and an increase in the final two years of this study.



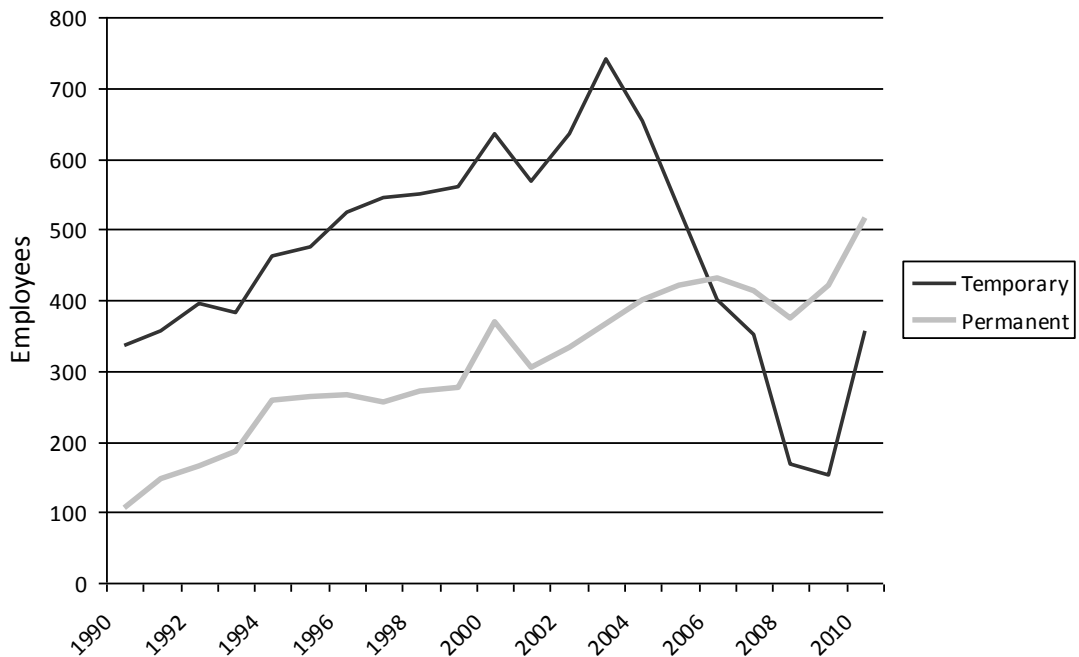
Figure 5.5: Total Number of Albase Employees between 1986 and 2010



Source: Author's own based on the annual accounts. Data table available in Appendix Two.

The ILM model involved projects with two or three permanent employees working with up to twenty 'trainees'. Trainees in the early days of Albase were temporary participants on ILM programmes, the jobseekers. Therefore, the number of employees recorded in Albase's figures also included ILM participants up to the 2000's. In order to demonstrate the changing structure of the organisation in terms of their employees, Figure 5.6 shows the split between permanent and temporary employees.

Figure 5.6: Permanent and temporary employees 1990-2010



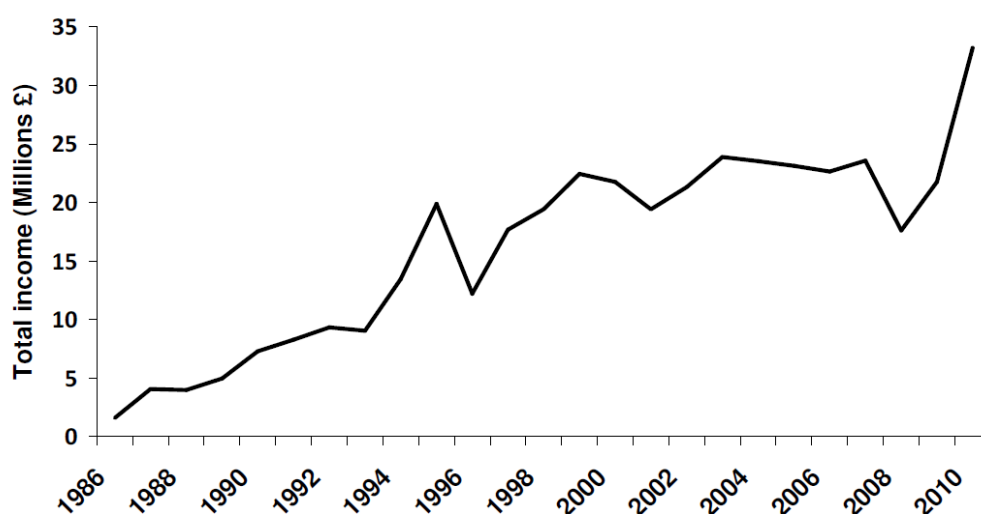
Source: Author's own based on the annual accounts. Data table available in Appendix Two. (Data unavailable for 1988 and 1999).

Figure 5.6 demonstrates that as the number of trainees reduced, the number of permanent staff increased over time. This demonstrates a shift in the human resource policy of the organisation and possibly a reflection of the changing activities in terms of employment service delivery as the ILM programmes decreased within the organisation and participants were no longer registered as temporary employees.

So far, it has been described how Albase's activities changed over the research period, and how elements such as the employee composition shifted over time. The final area covered in this chapter is a consideration of the shift in the financial income of the organisation, which involved a number of aspects.

Firstly, Albase's ILM activities involved a number of funders and a range of policy context. Figure 5.7 outlines Albase's total income over time. This graph provides a very basic idea of the organisation's financial experience over the research period. It demonstrates that there were a number of years where Albase experienced a decline in income. From this data it appears that 1997 was a difficult year for Albase.

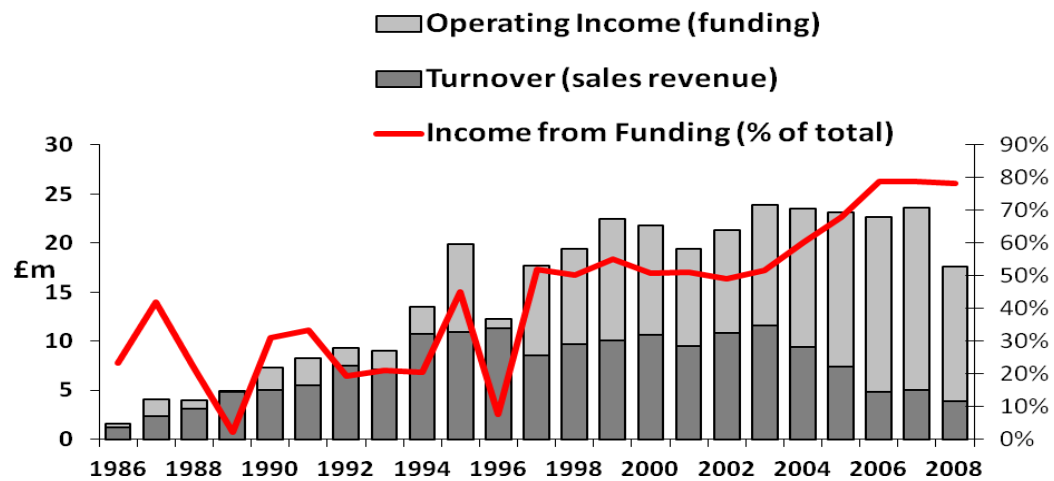
Figure 5.7: Total Income 1986-2010



Source: Author's own based on the annual accounts. Data table available in **Error! Reference source not found.** Adjusted to 2011 prices.

It is suggested in this section that Albase was in a vulnerable financial position in the late 1990s and early 2000's. If we look at the financial information in Figure 5.8 below it is clear that post 1996 the organisation's income began to increase and shows a healthy growth in line with the organisation's involvement in welfare-to-work contracting.

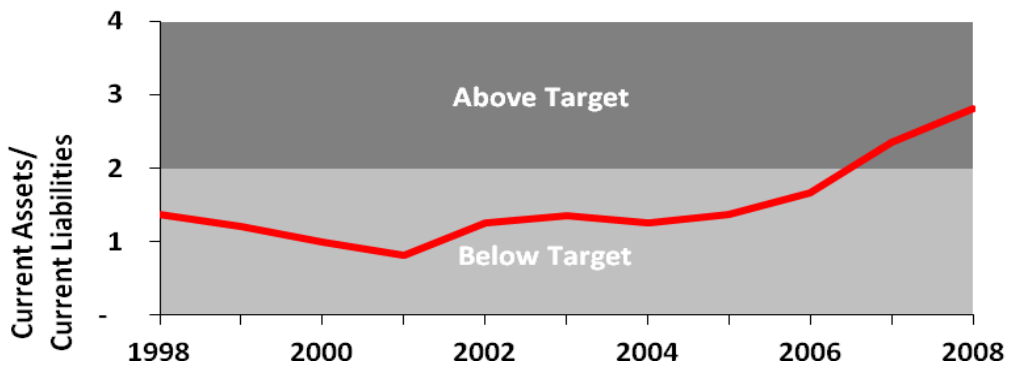
Figure 5.8: Financial Information 1986-2008



Source: Author's own based on the annual accounts. Data table available in Appendix Two **Error! Reference source not found.** Adjusted to 2011 prices.

However, whilst this information is useful, it only provides a limited understanding of the financial pressures. The following graphs therefore depict the findings from the account analysis and the ratio tests discussed in chapter four. According to the outcome from the current ratio test during the late 1990s and the first years of 2000's Albase experienced some financial difficulty. These findings suggest that in 2000 and 2001 Albase may have struggled to cover its liabilities when the figure fell below one. This means that their assets did not outweigh their liabilities by 2:1, which is the ideal score (ICA, 2008). If the figure is above one it means that short term debts can be paid, consequently this financial situation would have been a concern for the management team, as it suggests that Albase was experiencing poor financial health (although it was unlikely to be declared bankrupt). Since 2005 the figures for Albase have improved and they were in better financial health.

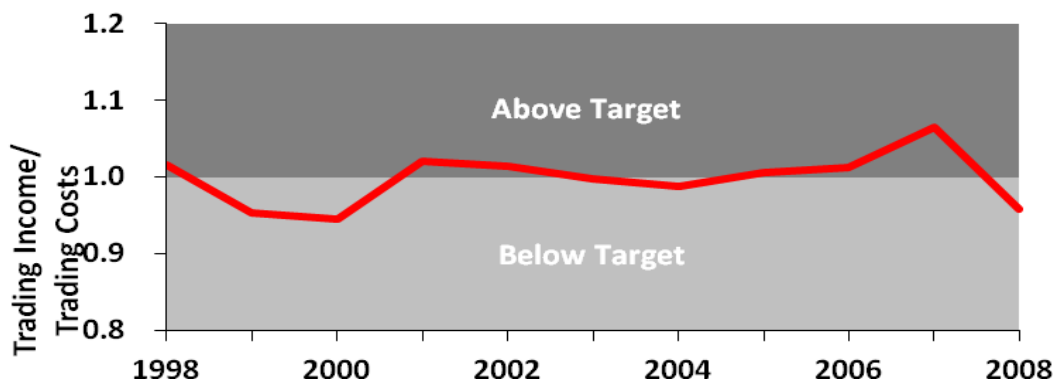
Figure 5.9: Current Ratio 1998-2008



Source: Author's own based on the annual accounts. Data table available in Appendix Two.

Similarly, as visible in Figure 5.10 the Trading Cost Ratio suggests that in 1999 and 2000 Albases activities scored low in terms of its profitability.

Figure 5.10: Trading Cost Ratio 1998-2008



Source: Author's own based on the annual accounts. Data table available in Appendix Two.

These figures suggest that despite what initially looked like a steady (excluding 1996) growth, there were more complex financial difficulties occurring at the organisation. These financial difficulties may have placed the organisation in a more vulnerable position.

In fact from the financial data gathered it seems that since the early 2000s Albase's finances were positively affected by their involvement in welfare-to-work funding. Respondents discussed the importance of DWP funds during this time as vital for the organisation's continuation.

*"It turned out actually NDDP was probably, for a number of years, kind of a bit of a saviour for Albase, because it really kind of carried some of the overheads that we had within our business, and actually helped us to generate surpluses."*<sup>40</sup>

### 5.11 Summary

This chapter has presented a simplified descriptive account of the changes which occurred in Albase in terms of the key organisational characteristics: activity, resource, and employees' structure. Between 1983 and 2010 Albase's funding and activities formed a complex arrangement which presented both data collection and description difficulties. Nevertheless, in a simplified form in Figure 5.11 the dominant story of organisation change for Albase is pulled together from the information presented previously in this chapter. It demonstrates that Albase's development involved an early period of experimentation by the founders and

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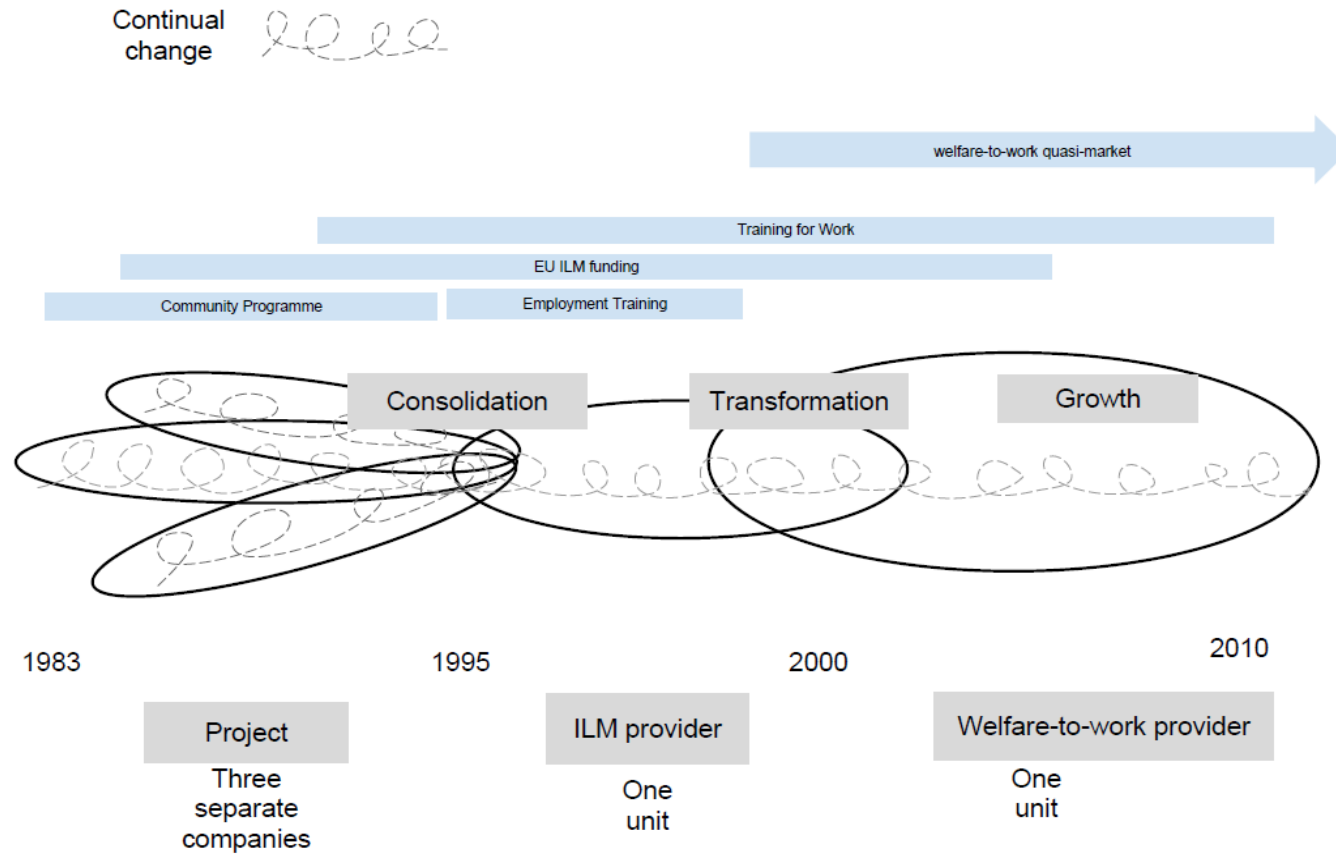
<sup>40</sup>Respondent Madden

original employees based on the ILM model and the availability of funding to support this approach. In the early 1990s when the various 'strands' of activity were brought into one organisation it is described here as a period of consolidation, in terms of organisational structure, activities and identity.

Throughout the 1990s Albase remained dedicated to the ILM model and at the same time continued to grow through replication and expansion into new policy areas and geographical locations. The introduction of the welfare-to-work quasi-market in 1999 instigated a transformation period in which Albase began to compete to deliver employment programmes which were less focussed on creating temporary employment based on training and work experience than the ILM approach. During this period of transformation Albase's income from welfare-to-work contracts increased and the organisation began to grow in terms of permanent employee numbers and turnover. From the middle of the 2000's Albase continued to grow and develop based on its involvement in welfare-to-work contracting, and its diversification of activities into environmental contracts alongside the continuation of some ILM activity.

The purpose of this chapter was to provide the background to Albase and the foundation for the discussions in the following chapters. The empirical information presented here has told the basic (and somewhat simplified) story of Albase's change over time. Due to the range of policies, programmes, and activities which the whole of Albase is involved in there has been some simplification in this chapter. The remaining chapters focus specifically on the transformation and growth period from the diagram and the role of the welfare-to-work quasi-market.

Figure 5.11: Organisational change in Albase 1983 to 2010







# CHAPTER 6 - SHIFTING ACTIVITIES

## THE DECLINE OF ILM PROGRAMMES AND THE RISE OF WELFARE-TO-WORK

This chapter explores the transformation of Albase's delivery of employment support from 1983 to 2010. It pays particular attention to the shift in activities in order to better understand the context in which Albase originated and developed. The purpose of this chapter is to describe the organisational field from this time and identify the institutional pressures which may have influenced organisational change. The chapter brings together the institutional development over this period with Albase's transformation. It traces the changing activities of the organisation and links these changes to the broader political and social shifts in the organisational field. In particular, it focuses on the institutional changes to employment support activities (as experienced by Albase) and outlines Albase's move from primarily delivering Intermediate Labour Market (ILM) programmes in the 1980s and 1990s, to predominately 'earning income' through welfare-to-work programmes by 2010. It argues that the decline in ILM activities in the organisation was brought about by three interrelated shifts: the 'activation turn' and the move towards a work-first approach in UK labour market policy; the rise of New Public Management (NPM) and contractualism, which changed the governance system of the organisational field; and changes at the micro-level to the internal structure of Albase as influenced by the welfare-to-work quasi-market.

Whilst exploring the shifting activities of Albase, the chapter focuses on welfare-to-work contracting and argues that the organisational change experienced by Albase was directly influenced by the introduction of welfare-to-work contracting and the political ideas of "workfarism" (Jones 1996; Mead, 2001; Dostal, 2008). It

demonstrates how these ideas penetrated the activities of the organisation, particularly in terms of mandating, sanctioning, and the payment of wages for participants of employment programmes. The findings suggest that the reduction of Albase's ILM activities may be better understood through neoinstitutional and resource dependency theory rather than transaction cost economics, which does not appear to explain the organisational changes identified. However, it is also argued that whilst both ILMs and welfare-to-work programmes were types of activation measures, the continued delivery of ILMs was restricted and discouraged due to the rise of contractualism and NPM administration techniques which emphasised cost and ideas of efficiency in the delivery of employment programmes. It is argued below that the ILM did not meet the requirements of a cost-efficient support option and therefore some elements of organisational change could be attributed to neoinstitutional economic explanations for change.

### 6.1 The ILM approach as an Active Labour Market Policy (ALMP)

Due to the emphasis on providing work experience and improving the employability of jobseekers, the ILM approach introduced in the UK during the 1980s was considered part of an Active Labour Market Policy (ALMP) aimed at moving the long term unemployed into the labour market (see Campbell, 2000; Finn, 2003). Whilst this chapter will show that Albase's activities remained within the broad context of ALMPs, it will also argue that the change in activities reflects the shift in the approach to ALMP at the UK level from the 1980s to 2010.

According to Bonoli (2010) four types of ALMP can be defined based on the extent of market orientation and the investment in human capital, as shown in Figure 6.1.

Figure 6.1: Four types of Active Labour Market Policy

Promarket employment orientation	Investment in human capital		
	None	Weak	Strong
Weak	(passive benefits)	<b>Occupation</b> Job creation schemes in the public sector Non-employment- related training programs	(basic education)
Strong	<b>Incentive reinforcement</b> Tax credits, in work benefits Time limits on reciprocity Benefit reductions Benefit conditionality	<b>Employment assistance</b> Placement services Job subsidies Counseling Job search programs	<b>Upskilling</b> Job-related vocational training

Source: Bonoli, 2010, p.441

This is a useful typology for understanding the change in activities for Albase as it provides a way to differentiate between their ILM activities and their welfare-to-work activities which were briefly outlined in the previous chapter. It is argued that Albase’s activities moved from providing ‘Occupation’ ALMP (the ILM projects), which according to Bonoli’s typology are weak in their promarket orientations and investment in human capital, towards the delivery of programmes and activities defined as ‘Employment Assistance’ (p.441). In this typology welfare-to-work programmes are considered weak in human investment (due to their limited investment in skills development and training), but strong in their promarket orientation due to the contractualist approach. It is argued in this chapter that Albase’s shift towards delivering activities with a strong promarket orientation led to a number of organisational changes.

In the following section it is argued that the development of the ILM model during the 1980s was closely aligned with the introduction of 'workfare' ideas (Dolowitz, 1997). Dostal (2008, p.22) contends that, "workfare relates to a concept in which 'benefits are given in return for work', thereby suggesting policies in which 'those who refuse to participate in training or employment lose state benefits' (Digby 1989, p.113)". According to Lødemel and Trickey (2001) there are three core components of workfare policies; their compulsory character; their primary focus on work; and the direct targeting of clients in the lowest tier of state assistance. However, as will be discussed, the ILM approach delivered by Albase was not compulsory, involved education and skills-development and, therefore, demonstrated some ALMP and human development characteristics.

During the 1980s and 1990s 'workfare' ideas became popular in employment policy discussions (Lødemel and Trickey, 2001) and some ideas infiltrated into the design of employment support funding (such as the Community Programme discussed below). However, Albase did not make its activities compulsory<sup>41</sup>. Instead it appears that the ILM programmes demonstrated a 'human development' approach (Bonoli, 2010) as they were voluntary and included vocational training. Whilst its ILM activities remained largely voluntary in nature, the introduction in 1997 of welfare-to-work programmes with a promarket orientation shifted the general ethos of the organisation towards supporting workfare ideas, including compulsory attendance for individuals enrolled on welfare-to-work programmes. These links between Albase's activities and the political influences of the organisational field are discussed below, with particular attention given to the impact of the contracting system and quasi-market environment on the organisation as a whole and their

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<sup>41</sup> Respondent; McMahon Respondent Hamilton

continued delivery of ILM programmes (which were mostly funded outside the welfare-to-work quasi-market).

## 6.2 Shifts in the organisational field: ideas of workfare

In the UK, the development of the ILM model was closely linked to the political environment in the early 1980s (Finn and Simmonds, 2003). In 1982 the ruling Conservative administration reconsidered the existing relationship between the state and job-seekers, and moved away from ideas of national planning and labour market regulation based on temporary job creation, and national workplace policies. Instead the administration favoured the introduction of the first “benefit-plus” programme where job seekers could receive benefit payments plus a small ‘top-up’ if they participated in community based work projects. This initial idea sought to link benefit receipt to an individual’s work-related activity whilst they continued to search for employment (see Howells, 1980; Gray, 1999; Tusting and Barton, 2007).

Assuming that this would reduce benefit dependency (Clarke, *et al*, 2001) and increase employment levels (Tusting and Barton, 2007), the relationship between the state and jobseekers continued to be adapted and developed over the subsequent thirty years. The ideological reform of the welfare state involved a shift towards re-conceptualisation of the role of the state in the provision of employment benefits from the 1980s until the mid-1990s (Clarke *et al*, 2001). Whilst at first glance such schemes seemed to offer job seekers an opportunity to gain temporary employment and remain job-ready, the move was arguably also part of a larger ideological shift towards introducing ideas of ‘workfare’ (Jones, 1996). The introduction of the workfare idea was part of a broader agenda that created the policy and funding environment in which Albase was established and predominately operated in

(delivering temporary employment programmes) prior to the introduction of the welfare-to-work market in the late 1990s (see chapter 5).

Pressure for workfare reforms came from a range of influential sources from the late 1970s until the 1990s. This included MPs such as (the then Cabinet Member) Michael Heseltine, and Sir Ralph Howell<sup>42</sup> through his books on unemployment entitled, *Why Work?* (1976), *Why not Work?* (1991) and *Putting Britain Back to Work* (1995). Dolwitz (1997) argued that welfare models in North America and Sweden also provided comparative ideas which the UK Government researched and explored during this period. As Burton argued in the 1987 report entitled, “*Would Workfare Work?*”:

*“The purpose of this study is to consider the feasibility of reforming the administration of the UK unemployment placement, training and benefit system along the lines of a thorough-going workfare operation. It draws on experiences in other countries—specifically the USA, Sweden... and those elements of the present structure of administration in the UK that would require modification or expansion if a workfare system were to be instituted” (1987, p. 7, quoted in Dolwitz, 1997, p.29).*

The Community Programme (CP) was arguably the outcome of these workfare discussions and the issue of rising unemployment in the early 1980s. In 1982 Geoffrey Howe (the then Chancellor of the Exchequer) announced the government’s intention to introduce an employment programme to link benefit recipients with work-related activity. This was arguably an important change to the policy environment as he sought to advance the general ideas of workfare into the practical

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<sup>42</sup> Sir Ralph Howell became a Member of Employment Committee appointed in 1994 and was active in the creation of the Right to Work/Workfare paper in 1995/1996 which proposed a number of welfare state reforms

administration of welfare benefits through the creation of new forms of employment support:

*“The central idea would be to give those who have been on the unemployment register for some time the chance to work for the benefit of their own community, while still getting broadly the equivalent of their benefit entitlement plus an addition for expenses and the like.” (Hansard, HOC 9 March 1982, 732 quoted in Dolowitz, 1997, p.34).*

The original “benefits-plus” idea faced opposition from Trade Unions (TUs), Third Sector Organisations (TSOs), and Local Authorities (LAs) about wage deflation issues and the moralities of individuals not receiving a working wage but undertaking a working day (Deacon, 1998). As such, the Government slightly reformed the original policy idea and produced the CP (Maxwell, 1990; Peck and Theodore, 2000). When the CP was launched two central features were that “existing jobs are not replaced and that the local community derives benefit from a particular project” (DoE 1982, 411). Projects funded by the CP were primarily operated by voluntary organisations and local authorities. Private organisations were allowed to operate projects, provided any gain was considered secondary to the benefit of the community (Dolowitz, 1997; Third Sector Task Force, 2009).

Through the inclusion of these caveats for the creation of and delivery of projects that could be funded by the CP, Maxwell, (1989) states that the government encouraged TSOs to design projects and apply for CP funding to create temporary employment positions in community projects. Due to the emphasis on community work and the limitations on the type of organisation that could access CP funding, the CP was an important financial contributor to ILM programmes across the UK



(Finn, 1996) and was an essential funding source for Albase<sup>43</sup>. The introduction of an employment programme that emphasised temporary job creation and project-based community work created the political and funding space for the original ILM model and the early activities of Albase<sup>44</sup>.

The CP maintained the requirement from the earlier political ideas that benefit recipients work or search for work in return for welfare benefits. However, the delivery design for how this was administered was altered to take into account opposition from TSOs, LAs and TUs (Dolowitz, 1997). It was, in most cases, no longer a “benefits-plus” model because it had been reformed to pay the “rate of the job” where jobseekers could take a temporary employment position and receive a ‘wage’, albeit partly made up of their benefit payment (Gray, 1998; Finn and Simmonds, 2003). In fact, in the case of Albase, the organisation received the equivalent financial amount of an individual’s benefit claim, which through the sourcing of further project funding to undertake environmental work, increased to represent a wage<sup>45</sup>. Participants therefore received a weekly wage (which was subject to tax and national insurance in the same way as employment in the labour market) from Albase and no longer directly received their benefit payments from the Department of Social Security<sup>46</sup>. As discussed later in the chapter, from the data collected it appears that the provision of a paid wage was an important facet in the development and later change in the ethos of the organisation.

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<sup>43</sup> Anon Doc 58, Anon Doc 62, Anon Doc 63

<sup>44</sup> Respondent Hamilton; Anon Doc 58; Anon Doc 62

<sup>45</sup> Respondent Hamilton

<sup>46</sup> Respondent Madden; Anon Doc 20

Alongside the introduction of the CP, early ideas of administering employment support and incorporating ideas of 'workfare' were enacted in the 1980s through the introduction of a number of administrative reforms to the provision of employment services and out of work benefits. First, the UK Government began to link the receipt of out-of-work benefits to new conditions, such as the introduction of compulsory Restart interviews in 1986 for LTU (including the introduction of claimant advisers later in the same year), alongside the publication of the *Training for Employment* White Paper in 1988. The White Paper called for all existing programmes for the adult unemployed to be combined into a single, unified training programme, called Employment Training (ET). This replaced a range of programmes, including the CP, which offered project-based training. From September 1988, "ET refocused resources on helping the longer-term unemployed and on providing training rather than temporary employment, in the hope that this would motivate and up-skill people to get longer-term jobs" (Tursting and Barton, 2007, p.20). The government linked the provision of employment support and benefit receipt through the Social Security Act of 1989. The government also introduced the need for benefit claimants to show that they were 'actively seeking work' to continue to receive their benefit payments. From 1989 new claimants were required to complete a 'Back to Work Plan' and attend a review after 13 weeks (King, 1993; Tusting and Barton, 2007).

### 6.3 Policy Transfer

Some commentators, such as Burton (1988), Dolowitz (1997), and Daguerre (2004), have argued that the introduction of workfare ideas in the UK was a direct policy transfer from the USA and was a notable move away from other European employment models as well as the previous British welfare state design. They contend that the CP mimicked the USA's Community Work Experience Programme (CWEP) and was not only designed as a work-for-benefit program. Although this is

challenged somewhat by Dostal (2008) who asserts that the similarities are limited to the discourse of workfare and not in policy implementation techniques. Nevertheless, increased conditionality for benefit recipients alongside the introduction of the CP signalled a move away from what was later described as a passive benefits system towards an active benefits system where jobseekers were required to undertake some activity to continue benefit receipt (Jones, 1996).

Whilst the idea of workfare has attracted much attention and criticism, the ideological shift from benefit receipt being a 'passive' act to an 'active' act has been widely accepted across political parties and remains a central idea in the creation of active labour market programmes which aim to move individuals from welfare into work (Finn, 2000; Dwyer, 2004). In practice, during the early 1990s increased conditionality included the compulsory attendance of the long term unemployed (LTU) at Jobplan Workshops in 1993, and by 1996 (through the introduction of the Jobseekers Act of 1995), claimants had to enter into a formal contract (the Jobseekers Agreement) to receive Jobseeker's Allowance (JSA) (The Employment Committee, 1996, page xxi). Furthermore, the introduction of the Jobseekers Agreement contract between the benefit claimant and the state during this period reflected the general move towards using contracts as tools of administration and delivery. The contract specified the measures that each benefit recipient agreed to take in order to find work, and those who failed to demonstrate their efforts to gain employment were subject to penalties (Adler, 2008). By using contractual agreements welfare was conditional on jobseekers demonstrating appropriate 'responsible' behaviour (Wetherly, 2001), as outlined 'The Right to Work Report' in 1994:

*"People have a right to expect the highest standards of advice and service while they are unemployed. The taxpayer has a right to expect the commitment of unemployed people to make every effort to get back to work"* (The Employment Committee, 1996, p.xxiv).

From this viewpoint it was argued that, “policies that seek to promote unconditional entitlement to public welfare benefits are seen as entrenching welfare dependency” (Dwyer, 2004, p.268). Furthermore, Mead (1997) argued that not only is conditionality both generally popular and functional but also that the imposition of compulsory work conditions for the recipients of state benefit effectively re-establishes their right to be regarded as citizens. Following the Conservative government of the early 1990s, the Labour government elected in 1997 also emphasised what Sage (2012, p.359) described as the “ethic of reciprocal responsibility’, a quid pro quo which distributed rights and responsibilities equally to both government and claimant.” Welfare reforms (including the introduction of the welfare-to-work quasi-market) were underpinned by the view “that rights offered go with responsibilities owed” (Labour Party, 1997, p.1). Arguably echoing the workfare discussions outlined previously. Dwyer (2004, p. 277) stated that, “in making the principle of conditionality central to its approach, New Labour endorsed the development of a welfare system in which rights to welfare are being superseded by lesser order conditional entitlements to social provisions”.

Unlike the welfare-to-work market discussed in the previous chapter, during the 1980s and early 1990s both the conditionality of activation and the provision of national support services remained *within* the public employment service as welfare services were not outsourced at this time. The Employment Service (ES) and the Department for Social Security (DSS) played important roles in initiating the transformation of the relationship between jobseekers and the state and controlled access to employment benefits and entitlements (Fairley, 1998, Wright *et al*, 2003). However, whilst benefit receipt and the act of ‘signing-on’ remained within the public sector, the CP was mainly delivered through a range of other organisations, chiefly training providers and TSOs (Maxwell, 1989). As such, benefit recipients that

volunteered onto a CP project moved from the unemployment statistics into the temporary employment programme funded in part by the government.

The involvement of an assortment of organisations in the delivery of the CP provided a piecemeal arrangement of measures delivered in a small, localised approach (Finn and Simmonds, 2003). ILMs were not part of a national programme or network and figures for the extent of ILM activity during this time are somewhat unreliable. According to Finn and Simmonds (2003, p. 25), “ILMs are developed from the local level with a mixture of different funding streams and this creates problems in measuring activity given that the nature and extent of management information varies considerably between ILMs”. However, collectively the services managed by TSOs provided employment support, temporary employment and training to a large number of job seekers. Figures available from Albase, which described itself at this time as a ‘Community Programme Agent’<sup>47</sup>, show an increase in the number of ILM places year on year from 1986 to 1999. Whilst many ILM projects recruited small numbers (up to 20), collectively the ILM programmes provided a large number of temporary employment positions in the locality. For example, in 1986 Albase offered 355 Community Programme places in Greater Glasgow alone. By 1987 this had grown to 446,<sup>48</sup> and by 1999 to 728 places (under the CP successors-Employment Training and Training for Work programmes).

Whilst Albase was the only organisation in its locality which operated the ILM model in the 1980s and early 1990s, the broad activities of Albase as a provider of employment services were not unique. According to Maxwell (1989), the role of the third sector as the through-vehicle for the workfare reforms during this period

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<sup>47</sup> Anon Doc 57

<sup>48</sup> Anon Doc 57, p.1, Anon Doc 58, p.1

instigated a large growth of TSOs providing employment support services and creating temporary jobs in physical regeneration community space management, and public housing improvements. The funding provided through CP provided the original resources for Albases' ILM activities. As such, the CP and the move towards a welfare and benefit system based on workfare ideas created an institutional environment whereby Albases were able to access resources and deliver activities which met the requirements of the policy context. The organisational field for the delivery of these programmes involved a mix of funders and public sector organisations.

#### 6.4 Adopting workfare principles

Whilst TSOs were actively involved in the localised design and delivery of ILMs and temporary employment programmes during the 1980s, it appears that they were not wholly compliant with the wider politics of welfare reform. In particular many TSOs were reluctant to adopt workfare principles and the government experienced resistance from TSOs who were reluctant to participate in the increased conditionality based schemes, particularly those proposing mandatory attendance to continue benefit receipt. For example, the previous CEO of Albases argued to The Employment Committee in 1995 that people who are forced to work for their benefit are less motivated than those which volunteer because, *"it is very hard to work with conscripts; it is much easier to work with people who actually think that they are going to contribute and benefit"* (1998, page, xxix). Furthermore, he argued that, *"if we wish to see people motivated to learn, to get work and to improve their qualification, then a system based on punishment will not achieve this"* (ibid). Similarly, the Scottish Council for Voluntary Organisations (SCVO)<sup>49</sup> stated that, *"a workfare regime will reinforce*

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<sup>49</sup> The SCVO is an umbrella body for voluntary organisations based in Scotland.

*negative perceptions of Government schemes, as cheap labour and attempts to depress the unemployment count, and could fatally taint future schemes, no matter how innovative, for years to come” (page xxix).*

The background to the ILM model and the political environment in which Albase was created has been outlined in this section. It demonstrates that the organisation’s activities discussed in the previous chapter were associated with early attempts to introduce ideas of ‘workfare’ into UK employment policy. Albase’s early development was possible due to the focus from the governments over this period on benefit recipients engaging in work, and the role of TSOs in service provision. Whilst there are some debates regarding the extent of workfare principles in the administration of the CP, it appears that over time the founding ideas of rights and responsibilities, and active to passive citizens affected the context in which Albase operated ILM programmes. The second part of this chapter describes and analyses the reason for the decline of ILMs as a proportion of Albase’s activities and in the wider organisation field. The section provides the policy and funding structure of these employment programmes to further understand the organisational structure of Albase and their delivery of ILM programmes.

## **6.5 The decline in support and funding for ILM programmes**

Albase’s ILM design and activity was affected by a number of policy changes driven by changes to the activation agenda at the national (and international) policy level. First, the ILM programme length was affected by the introduction of an activation approach which favoured early entry into the labour market instead of occupation and training approaches popular in the 1980s and 1990s. Where ILMs traditionally

had a set time period where individuals remained 'on programme',<sup>50</sup> the workfirst discourse and the associated welfare-to-work programmes (and the quasi-market framework) encouraged providers to move individuals into the labour market as quickly as possible. For Albase the duration of ILM programmes was originally 12 months, which allowed individuals to gain 12 months work experience and training qualifications<sup>51</sup>. Arguably it also served a wider labour market purpose for the government as trainees were removed from the unemployment count and as such the model gained political support during periods of high unemployment (see Finn, 2002; Finn and Simmonds, 2003). As such, drawing on Bonoli (2010) it is possible to argue that whilst ILMs formed part of the broad activation approach they were an "occupation" measure during the 1980s. Their objective was not solely to promote labour-market re-entry but to also keep jobless people busy in an economy offering few labour market opportunities, and to prevent the depletion of human capital associated with an unemployment spell (Finn and Simmonds, 2003). As the SCVO (1990) stated:

*"In the UK, the profusion of training and temporary-work schemes has at best helped the most able and motivated, and at worst merely "contained" unemployment" (The Employment Committee Report, p.10)*

The institutional environment and the norms and practices of the organisational field did not remain constant and, as such, shifts in ideas of employment support, along with an increasing demand from the labour market impacted the continued delivery of (and organisational growth from) ILM programmes.

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<sup>50</sup> Respondent Stein; Anon Doc 42

<sup>51</sup> Anon Doc 7; Anon Doc 28



According to Jones (1996) during the 1990s the UK moved towards emphasizing stronger work incentives and employment assistance. In particular, as part of this reform agenda, welfare-to-work programmes were accompanied by a discourse which promoted the transfer of individuals into the labour market as quickly as possible (Finn, 2003; Lindsay *et al*, 2007). Policies were introduced which sought to move individuals into the labour market on the understanding that for some job seekers, 'work first over training first' may produce better labour market outcomes (Layard, 2004). Furthermore, in terms of social and economic benefits for unemployed people the idea that 'any job is better than no job' (Layard, 2003, p.5) gathered support from policy makers.

In 2003, the UK government described its labour market policy as a 'work first approach to moving people from welfare into work' (DWP, 2003, p.3). This workfirst approach proposed moving individuals into the labour market first, and training or developing the individuals skills once in employment. Although this is not considered a correct assumption for all jobs (Bellamy and Rake, 2005), the principle underpinned the reforms and the subsequent availability of training provision to the long term unemployed (LTU) and the expected activities for organisations delivering employment support programmes. Consequently, the ILM approach operated by Albase which provided temporary, subsidised employment opportunities with a training component, no longer matched the needs of the wider policy environment and the government's preference for workfirst policies<sup>52</sup>. Over time, the policy context and the funding sources were less inclined to support programmes which maintained human development or training focussed approach (Peck and Theodore, 2000; Walker and Wiseman, 2003; Dwyer, 2004; Lindsay *et al*, 2007).

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<sup>52</sup> Respondent Sutton

## 6.6 Training provision

Arguably, one of the reasons why the ILM approach no longer suited the policy and funding context of employment support policies was the emphasis on training and the greater resources costs in terms of government financing. The ILM model operated by Albase involved not only 12 months work experience and on the job training, but in most cases, participants would gain accredited vocational training qualifications<sup>53</sup>. The cost for the training was included in the overall budget for the ILM project paid for by one of the projects funders (see chapter 5 for a description of ILM funding). However, over the thirty years covered in this research not only did the approach towards employment support shift from the state to the 'active' individual, but also the approach to training and skills development (Wright *et al*, 2003; Tusting and Barton, 2007). It is possible that this was because the provision of training was considered expensive and unnecessary for jobseekers, particularly when faster labour market (re)attachment was favoured by the government (Finn, 2008). Whilst the training provided in many ILMs was specific to the temporary job that individuals were employed in (for example grounds maintenance), specific skills such as these were not a requirement in a workfirst approach (Walker and Wiseman, 2003). In workfirst systems the trainee and the employer were expected to bear training costs in lieu of their future economic benefits. As such specific skills training programmes were less attractive in this context and the jobseeker was encouraged to enter the labour market by accepting any job, and take responsibility for their own future training developments. There was no incentive for the government to pay for specific skills training for most jobseekers, and funding was only available for generic skill training for those jobseekers further away from the labour markets (Lindsay *et al*, 2007; Sol and Westerveld, 2007; Finn, 2008).

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<sup>53</sup> Anon Doc 20; Anon Doc 21

Consequently, both the workfirst approach and the associated 'rights and responsibilities agenda' (Hutton, 2006) impacted on the provision of training for the LTU as the onus of training provision shifted from the state to the individual. The shift in training policy also impacted on the delivery of employment programmes as programme budgets for training costs were reduced (compared to ILM funding or human development ALMP). Furthermore, extended periods of training were not encouraged as employment services were expected to move individuals into any employment positions within the labour market as quickly as possible (Peck and Theodore, 2000; Finn, 2008).

With the introduction of the New Deal programmes in 1999 the broader funding and policy environment moved towards shorter programmes of support (Webb, 2003). In particular, the increasing demand from the labour market at the time meant that the political support for longer programmes dwindled and longer term training and experience programmes were not part of the new activation agenda. ILM approaches were considered a possible support option in the New Deal Programmes, particularly for the LTU who were not considered 'job-ready.' However, 12 month long ILMs were not considered a viable or necessary support option and shorter versions were incorporated into the programme by some New Deal delivery organisations (Finn, 2003; Finn and Simmonds, 2003).

Albase directly responded to the policy and funding changes by altering their programmes down from 52 to 16 weeks, in line with the New Deal requirements and other funding sources with a preference for shorter programmes and faster outcomes<sup>54</sup>. The ILM model was redesigned in response to the environment as

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<sup>54</sup> Respondent Madden

managers sought to: *“evaluate and re-shape our programmes in order to meet the realities of funding (e.g. length of programmes)”*<sup>55</sup>. In this way the policy context directly influenced the activities of the organisation as the length of ILM programme became an issue for project costs as traditional ILM funders were required to pay for between three and 12 months project work, supervision and training alongside the trainee’s wages. When the length of the programme reduced from 12 months to 6 months and in some ILMs down to 16 weeks the associated costs reduced, but the ILM model was still at odds with the dominant discourse of activation and policy demand for quicker labour market (re)entry. As the extract below demonstrates this was an issue for the continuing delivery of ILMs linked to welfare-to-work programmes.

*“Changes to New Deal have meant a reduction in income, reduced training time for New Deal trainees and an inability to complete some aspects of the programme provision.”*<sup>56</sup>

Arguably, the ILM model and other ‘occupation’ ALMP approaches also clashed with the introduction of promarket policies which sought to quickly move individuals into any job in the labour market and once there encourage continued job progression. External criticisms of the ILM model focused on the attitude of trainees who did not continue to search for permanent employment once on the programme (Layard, 1997b). Some Albase respondents also acknowledged that some job seekers who started an ILM placement viewed it as ‘real job’ so did not partake in job search activities until their 12 month position was completed<sup>57</sup>. As

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<sup>55</sup> Anon Doc 98

<sup>56</sup> Anon Doc 34, 2005, p.55

<sup>57</sup> Respondent Hamilton

such some individuals returned to claiming unemployment benefits directly after the 12 month period as they had not been actively seeking their next job.

Furthermore, from studying the documents produced by Albase it appears that because the original ILM models had not been associated with moving individuals into employment as quickly as possible (i.e. they were occupation rather than workfirst programmes) they were not originally evaluated on the numbers of individuals that moved into the labour market<sup>58</sup>. Finn and Simmonds (2003, p47) note that , “there is no standard practice for how ILMs identify and record job outcomes,” and in the early ILMs operated by Albase job entry targets and figures were not always recorded or required by the funding. Instead Albase reported on the numbers of individuals enrolled on their programmes, their attainment in regards to qualification and training, and for some funders the number of beneficiaries to the work undertaken on the project (such as home improvements)<sup>59</sup>. Whilst the later ILMs delivered by Albase in the 1990s and 2000’s did record job outcome, this was not one of the original purposes of the ILM model. As such, when workfirst ideas began to dominate employment discourse in the 1990s ILMs were considered unsuitable due to their weak promarket orientation and their limited evidence for moving individuals into the labour market (Layard, 1997a; SEU, 1999). Whilst this criticism was overcome to some extent during the 1990s by Albase who provided job search support during the latter weeks of their ILM programmes, the criticism continued to hinder perceptions of the ILM model within broader ALMP contexts (Finn and Simmonds, 2003).

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<sup>58</sup> Respondent Madden; Respondent Hamilton

<sup>59</sup> Anon Doc 73

## 6.7 The policy interaction between ILMs and welfare-to-work programmes

In terms of broad economic policy the ILM programme might not conflict with welfare-to-work programmes because the ILM approach was an ALMP, as was the welfare-to-work approach. Furthermore, some welfare-to-work programmes (particularly those initiated in the late 1990s such as the New Deal Young People) offered ILM possibilities within their delivery design (Nativel and Sunley, 2002; Aiken and Bode, 2009). The election of the Labour government and the introduction of the New Deal programmes in 1997 replaced some of the traditional funding sources with sources within the New Deal framework (Webb, 2003). Some of the New Deal options emphasised the need to provide work experience and temporary employment to jobseekers, and as such, offered the possibility for providers to utilise the ILM approach. For example, through the introduction of the New Deal for Young People (NDYP) there was an opportunity to provide an ILM style component for younger job seekers who required work experience.<sup>60</sup> Furthermore, as the extract below demonstrates, political rhetoric supported the use of ILMs as part of the welfare-to-work approach and some high profile Labour politicians visited Albase during this time<sup>61</sup>.

*"Innovative approaches for the future will need to learn from some of the cutting edge work in ILMs, which provide pathways to work through Community based activity." (Blunkett, 2000)*

However, programmes such as the NDYP differed from Albase's original ILM ethos. Whilst it was more akin to policy context Albase's programmes were aligned to (including a focus on training and long-term work experience) it also incorporated some elements of a workfirst approach as it introduced a mandatory

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<sup>60</sup> Anon Doc 42

<sup>61</sup> Anon Doc 39

element and shortened the 12 month programme to as low as eight weeks (White and Riley, 2002; Finn 2003). The NDYP included a Full-time Education or Training (FTET) option which sought to ensure jobseekers achieved S/NVQ level 2 or equivalent and offered two types of programmes. The first was an eight week short course including a certificate on completion. The second was a course, more akin to the ILM model, with an education and training provider which lasted between 13 and 52 weeks and involved work experience and led to S/NVQ level two (Bivand and Somerville, 2003).

Albase secured the contract to deliver both the Gateway option where NDYP participants could select their programme options (see White and Riley, 2002; Finn, 2003) and the NDYP FTET programmes. For a number of years in the early 2000's, Albase delivered ILMs which involved NDYP funding. However, over time as New Deal programmes became increasingly target based and funding for the longer programmes was reduced, the traditional ILM approach did not suit the DWP's requirements (see Jarvis, 1997).

#### 6.8 Differing policy views on human capital and ILM approaches.

Some welfare-to-work policies and policy documents emphasised investment in human capital and ILM models were discussed in government departments and by Labour Party Politicians (SEU, 1999). Despite the increasing shift towards workfirst welfare-to-work programmes over the 2000's (and the decline of ILMs in this context) support for the ILM approach remained in some policy circles and in job creation discussions at the localized neighbourhood level. The ILM approach, alongside the promotion of work experience, training and job creation ideas, continued to be viewed as an approach by some commentators to increase employment rates in particular areas in the UK or for particular labour market

groups. For example, the Gregg Report (2008) argued that work centred programmes could tackle two key barriers – lack of work experience and employer reluctance to hire the long term unemployed and disadvantaged. The report argued that *'the ILM model, which offers work placements along with additional support and assistance required to find mainstream employment, can be particularly useful as a means of tackling the barriers and providers should be encouraged to provide them as an option for support'* (p.17). The Cabinet Office's report *Real Help for Communities: Volunteers, Charities and Social Enterprises* (2009) echoed similar ideas regarding work experience and the role of the third sector. It identified options such as changes in benefit entitlements for JSA claimants for volunteering, and work-focused volunteering opportunities for benefit claimants, in particular young people.

More support for ILMs was provided The Houghton Report (2009), a local economic development paper which for an enhanced role for local authorities in tackling unemployment. Among a number of detailed recommendations, the report highlighted the need for the development of ILM-style models, designed and funded through localised sources. The report suggested a Challenge Fund to stimulate temporary jobs of benefit to the community and the local economy whilst also targeting the long term unemployed. The ILM model was associated with both a view of employment support based on long-term job creation and training and with ideas of addressing unemployment through localised policy approaches and institutions. Whilst some support for the ILM model continued throughout the 1990s and 2000s, in reality the funding provided through the DWP over this time became increasingly limited for the ILM approach operated by Albace. As such, the national (and centralised) DWP welfare-to-work programmes were administered separately to the ILM discussions which became more aligned with national (Scottish) and regional funding policies.



As previously noted, whilst the welfare-to-work market developed and the DWP experimented with a range of contract and management frameworks, the involvement and possible inclusion of ILM approaches declined. The continual evolution of the welfare-to-work market was based on a strong activation approach which used an intensive job search activity model (ONS, 2002; Finn, 2011). It appears that this approach provided less scope for the longer-term, training based ILM approach. For example, within the Flexible New Deal (FND) Phase One, there were two potential openings for measures based on the provision of work experience, albeit different from the early intentions and style of the ILMs of the 1980s and 1990s.

First, JSA claimants entering the 12 month spell on FND were required to work or do work-related activity for at least 4 weeks dependent on client needs. There was no requirement for the provider to ensure that the participant achieved a level of training or qualification and in many cases the participant on this route did not receive a wage. Instead participants received their benefits plus perhaps support for travel to work (if the provider wishes to provide this) (DWP, 2010c). Whilst work experience and job-ready ideas were still considered an important part of moving into the labour market, key aspects of the ILM model (such as training and a wage) were not maintained in mainstream welfare-to-work programmes. Consequently, during the 2000's a tension existed between the supporters of the ILM approach as an activation measure for the unemployed, and the administration of welfare-to-work programmes which prioritised the workfirst approach (see Gautie and Gazier, 2003).

The FND programme which was launched at the same time as DWP's *No One Written Off Reforming Welfare to Reward Responsibility* Green Paper (DWP, 2008c). Both promoted the idea that individuals who completed the FND support and

remained unemployed and in receipt of JSA after a review, could be transferred to a 'community work' programme in order to continue to receive benefit payments. The DWP indicated that it would contract with private, public and voluntary providers to pilot a number of models around mandatory full time activity in 'community work'. In support of the idea that jobseekers require work habits gained from undertaking work experience whilst in receipt of their benefit, they stated that "*We believe there is real value to long-term unemployed people working full time to develop their work habits and employability*" (DWP, 2008c, p.42).

However, Albase stated in an internal document that their ILM approach would not be compatible with the FND requirements as "*there are further risks with the FND model that will have an effect on our ability to deliver our future Intermediate Labour Market (ILM) projects. FND will operate a delivery model of referring clients for work experience for a maximum of 4 weeks instead of the current 13weeks resulting in a potential change in how we deliver our ILM model.*"<sup>62</sup>

ILMs were replaced for a short spell by Transitional Employment Programmes (TEPs) which centred on shorter periods of work experience, often in private businesses (Finn and Simmonds, 2003), and more recently as mentioned above by compulsory work experience and work placement options in the FND and Work Programme (DWP, 2008d; DWP, 2010c). This occurred simultaneously with a shift in policy terminology which moved from 'occupation' and 'upskilling' to 'activation' and 'personal responsibility' (Hutton, 2006) on the part of the jobseeker. Arguably, work experience and work training remained rooted in an ALMP and supply-side approach but the redesign of the administration and the shift in

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<sup>62</sup> Anon Doc 23, 2008, p.20

discourse reflected ideas of workfarism and personal responsibility. Whilst the DWP and broader government policy continued to promote the benefit of work experience as a way of increasing the employability of long term unemployed jobseekers, it was also considered a necessary (and sometime mandatory) requirement for the continuation of benefit receipt. The DWP considered mandatory full-time activity a significant deterrent to continued claiming for some clients (DWP, 2008c), and as such it was not approached in the same vain as Albase's original ILM activities which had rejected the mandatory and punitive element to workfare.

#### 6.9 The importance of paying a wage and using real work experiences

One problem for Albase was that as work experience and TEPs gained popularity in policy contexts, employment programme funding became directed towards programmes that operated in partnership with private and commercial firms and offered short-term experience placements (Finn and Simmonds, 2003). As such, ILMs which paid a wage to participants and which provided long term, publicly funded training options could have been considered as an unnecessary (and expensive) 'luxury.'

Arguably, the rise of workfarism at the national policy level reduced the support for ILM programmes which were based on principles of wages, work simulation, training and temporary job creation. Gregg (2008) argued however that workfare programmes would fail if they provided little or no formal training to participants. Echoing the human investment arguments, Gregg stated that without support or assistance to aid future job search or to address personal barriers to job entry, an individual's labour market attachment may not be sustained. Workfare models which provide no emphasis on job entry are less concerned with moving

individuals into employment through the reduction of personal barriers, and more concerned with wider ideological concepts of welfare dependency are less beneficial to reducing long term unemployment. Whilst work experience continued to be considered as a relevant and useful approach for moving individuals into the labour market, more recent government policies emphasised shorter work experience periods, without an imperative for employers to offer a wage<sup>63</sup>. As such, the ILM which paid wages and provided training appears to be an expensive and unnecessary programme to fund in comparison to unpaid work experience which had become a mandatory component of many welfare-to-work programmes (Walker and Wiseman, 2003; Gregg, 2009; Ainsworth *et al*, 2012).

The importance of work experience for unemployed people was a prominent idea in both welfare-to-work programmes and the ILM model. However, as already discussed, their ILM model faced criticisms regarding the unit cost of each ILM programme place, and the workfirst model prioritised labour market entry over human development and training programmes. It is also argued below that the shift towards larger welfare-to-work contracts dominated by a workfirst approach not only sidelined the ILM model in policy circles, but also within Albase. Arguably for Albase the delivery of ILMs on one hand, and the delivery of welfare-to-work contracts on the other clashed in two ways.

First, there was a tension in terms of the organisation's traditional activities (the ILM model) and the current policy view of what was an effective approach to reducing unemployment. Second, there was also a tension for the organisation in the administration of ILMs and welfare-to-work programmes and the different attitudes

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<sup>63</sup> Respondent Doyle

from their funding providers towards the delivery of services. For example, within the organisation individuals who were registered on one of the government's workfirst-based employment programmes, such as the New Deal Disabled People (NDDP) or the Employment Zone (EZ), would rarely be moved onto an ILM even if they matched the eligible criteria and may have benefitted from the involvement in a temporary employment position. The reason for this, as one respondent noted, was because *"you tend to want to get them (those on workfirst programmes) a job A, as quickly as possible, and B, for as little money as possible. And it's about trying to minimise what you would spend on them, so you wouldn't necessarily put them into an [ILM] placement."*<sup>64</sup> Arguably it is evident that one of the reasons for the decline of ILMs may also be attributed to the different administrative processes between ILMs and welfare-to-work programmes. As the extract below demonstrates:

*"There is however a dilemma for Albase in operating an ILM in the context of current programmes such as Training for Work and the New Deal for Young People, which provide output-related funding and which are time limited."*<sup>65</sup>

As outlined above, part of the reason for the decline of ILMs was that (post New Deal) welfare-to-work requirements did not focus on the need to provide training and human development measures in the design of support for the LTU.

#### 6.10 The impact of NPM and contractualism on ILM delivery

There are also a number of other reasons why the ILM model delivered by Albase began to lose support in the 1990s and 2000s discussed below. The first of these was

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<sup>64</sup> Respondent Madden

<sup>65</sup> Anon Doc 9, 2007, p.7

the role of contractualism and the associated 'lowest cost approach' (Peck and Theodore, 2001). It is argued that this was a major factor in the decline of ILM programmes as they were comparatively less attractive for delivery organisations due to their cost. Before explicating this point further, it is necessary to discuss a long-standing criticism of the ILM approach - the cost per head of moving an individual into the labour market. Whilst some commentators (McGregor, 1999) and organisations such as Albase have debated these criticisms<sup>66</sup>, they arguably remained an impediment for ILM programmes.

It is argued here that concerns regarding the cost of employment support increased as the organisational field moved towards competitive contracting (Finn and Simmonds, 2003). The impact of this shift was evident in how Albase's management viewed ILM activity and the associated cost concerns from the wider environment. One of the tensions between the ILM approach and the workfirst approach was based on the perception of cost and value.

According to some respondents the shift in the organisational field infiltrated Albase. Respondents noted how these ideas of cost and value at times replaced the emphasis on local community development and regeneration. It appears to some that 'good value' became measured in terms of money and income rather than the redevelopment of particular neighbourhoods and sites as was the view of value in the earlier years of the organisation. As one respondent stated:

*"It's about recognising that Flexible New Deal comes into the business and development teams are rightly responsible for pulling that together. But*

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<sup>66</sup> Respondent McMahon; Anon Doc 11

*that's...a £138 million pound contract over 5 years...The highest value of wider role activity you get through regeneration would be somewhere in the region of £300,000 to £400,000. So if you're a Development Executive working on the latter, how do I assess your performance against your peer?"<sup>67</sup>*

It also appears that a tension can be identified within the organisation between the way in which employees involved in the different employment support approaches (ILM and welfare-to-work) understood value. Some respondents felt that the tension was a fundamental issue with the shift towards quasi-markets and government contracts as they could not incorporate an 'expensive' support option when the, "government judges you on how much per job you are charging them"<sup>68</sup>. In short, the lowest cost approach and the associated decision making mindset excluded the ILM option in Albase's welfare-to-work activity post New Deal. Regardless of policy and political views on employment assistance and training, the competitive contracting approach did not allow for Albase's ILM approach to be easily incorporated into competitive quasi-market business models.

*"When you're looking at Flexible New Deal, Into-Work contracts, and the New Deal, you don't even consider an ILM. It's not a kind of option you would consider, because what you do is you look at those contracts in isolation from the ILM. What the New Deal contracts allowed you to do was to continue to deliver part of the ILM, because you could put New Deal people on it for the work experience. When you are looking at the NDDP contract for example, there is no work experience. It's a kind of, almost keep in touch contact basis, as is Employment Zone, so it's a kind of fortnightly meeting with a personal advisor and there is no work experience element that you have to fulfil, so the ILM is not considered."<sup>69</sup>*

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<sup>67</sup> Respondent Doyle

<sup>68</sup> Respondent Sutton

<sup>69</sup> Respondent Madden

Traditionally the funding regime of ILMs paid the full cost of a project and as such EU funding and the earlier government programmes paid back the cost of delivering the project<sup>70</sup>. In this financial approach there was little scope for full financial management to be delegated to the delivery organisation and little opportunity for the organisation to make a surplus or profit, as was the case in welfare-to-work financing. Instead, bidding organisations would include a standard management fee (often of approximately 10%) included in their overall bid for funding for an ILM project which would cover their core costs<sup>71</sup>. They would also include the price of all aspects of their project and in negotiation with the funding organisation design a project where all costs were covered.

As discussed in chapters seven and eight welfare-to-work bidders were assessed on a range of criteria which collectively met the requirements of DWP. Unlike previous funding relationships in welfare-to-work contracts, delivery organisations could manage their own programme delivery expenditure costs and make a substantial profit (NAO, 2005). The assessment criteria included an emphasis on the financial strength and 'business-like' behaviour of the organisation (defined and discussed in more detail in chapter eight), which included the organisation's ability to demonstrate that it was able to manage a programme's finances and that it had previously been able to deliver services and generate a surplus (DWP, 2010b; DWP, 2010c). The DWP was able to make an assumption of their suitability in the welfare-to-work market based on criterion such as these. As such, it was difficult for Albase to incorporate the ILM approach in their welfare-to-work business planning process. The extract below is taken from an internal report in 2007 which focused on the future of Albase's activities. The author highlighted the difficulty with the ILM model in terms of cost in market-based contexts.

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<sup>70</sup> Anon Doc 10

<sup>71</sup> Respondent Collins; Anon Doc 18



*“The problem is that the ILM remains relatively expensive in a contracting world based on price and the consequence is that if Albase is going to compete for contracts...it will either need to change the funding model or reduce the cost base, especially overheads. As the market changes, this is likely to become more, not less, of an issue”<sup>72</sup>.*

The ‘expensive’ ILM model (Marshall and Macfarlane, 2000) was not suitable to the welfare-to-work environment based on a lowest cost approach. In this competitive environment the lowest cost approach not only excluded the ILM approach from the welfare-to-work business model but, as discussed below, it also influenced the view of the whole organisation. This was because the organisation’s overall accounts would not show a healthy growth from ILM activities which, as previously mentioned, did not provide the same opportunity for surplus-making. As such, operating ILM programmes would not provide a surplus on Albase’s annual accounts or assist the organisation in investing in growth. In the welfare-to-work quasi-market ILMs would not meet the market’s definition of innovative in terms of lower cost, higher return programme design (discussed in more detail in chapter 8).

Furthermore, without a surplus-making aspect they would not meet the competitive norms (and ‘business-like’ requirements) of the welfare-to-work context (see chapter 7). If the organisation’s activities and incomes were predominately related to the ILM model the delivery organisation may appear less efficient than organisations which operate less expensive programmes or those with more profit making opportunities (DWP, 2010c). Arguably, there was therefore no incentive for Albase to offer an ILM option to jobseekers or to design their internal activities around an ILM overlap with welfare-to-work activities as this would have increased their costs

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<sup>72</sup> Anon Doc 25, 2007

in the welfare-to-work contracting market (and ultimately be unsuccessful in the bidding phase). Regardless of any advantage to jobseekers that the ILM approach may have brought and regardless of the organisation's institutional tradition, it was unlikely that Albase would have included this option in their design and been able to successfully compete on lowest cost. In sum, it is argued here that such welfare-to-work norms and ideas based on lowest-cost impacted on the continuation of ILM activity within Albase.

### 6.11 Human capital versus workfirst in Albase

For Albase, the wider policy tensions between a longer term regeneration and human capital approach versus the workfirst, promarket and contractualist orientation were played out at the micro (organisational) level. Albase's continued delivery of ILMs did not interact with their new activities in the delivery of welfare-to-work programmes, despite the early New Deal programmes offering ILM-style opportunities for young people and the following FND programme which emphasised the importance of developing work skills and experience to reduce job entry barriers. Albase however operated distinct divisions for the delivery of welfare-to-work programmes and their continued delivery and design of ILM activities.

The delivery of ILM project did not intertwine with welfare-to-work activity and in most cases (excluding the early New Deals) the organisation did not link the ILMs to welfare-to-work programmes in the bidding and delivery design. Most managers within the organisation (interviewed in 2009) appeared to consider the programmes as distinctly separate and were aware that they were operating two different types

of employment support programmes; *“You’ll find if you go into Albase today, they are running Flexible New Deal and it won’t even cross over the ILM programme at all.”*<sup>73</sup> Some of those working predominately within the welfare-to-work context considered ILM projects as somewhat outdated and discussed the growing difficulty through which resources could be sourced for the continuation of the model<sup>74</sup>. Other employees who worked in the ILM division (in particular on environmental and regeneration activities in local neighbourhoods) favoured the ILM model and the benefits that the projects brought to those involved<sup>75</sup>. Consequently, the internal divisions reflected the broader policy divisions, one side favouring a human capital ILM model based at the neighbourhood level, and the other favouring the workfirst approach associated with the welfare-to-work quasi-market. For Albase the organisational issue centred on how to manage and deliver both versions at the same time from two different funding and policy environments.

### 6.12 Shifting views

So far it has been argued that Albase’s activities were affected by the availability of funding sources, the accepted policy view of what unemployment support should provide, and the impact of contractualism on the management and administration of employment support programmes. The following section provides a consideration of what these changes meant for Albase in terms of their view on the politics of welfare reform and employment support. In particular, the ideas of mandating, sanctioning and paid work experience – key indicators of workfarism (see Mead, 2001; Dostal, 2008). Each are discussed in turn below.

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<sup>73</sup> Respondent Sutton

<sup>74</sup> Respondent Doyle; Respondent Bonnar

<sup>75</sup> Respondent Collins

The shift in the organisational field away from the ILM model towards a workfirst approach may have resulted in the reduction of Albase's ILM activity. As Albase became more successful in the welfare-to-work quasi-market they adapted to the requirements of this policy context and shifted away from focussing on EU funding, regeneration projects, and more localised sources of income in favour of the DWP quasi-market. Whilst these changes may demonstrate the organisation's ability to adapt to their operating environment arguably a number of changes in the organisation's approach to unemployment reflected the broader state level ideological shift towards a workfare and workfirst agenda.

One of the most notable changes for Albase was their stance on the role of mandating jobseekers into employment programmes. Their original ILM models emphasised the importance of participants receiving a wage rather than simply their benefits or their benefits plus a top-up (see Finn and Simmonds, 2003). The waged aspect was a defining characteristic of Albase's ILM approach which sought to make the experience in their temporary jobs as close to a 'real' job as possible<sup>76</sup>. As the extract below from a government policy consultation in 1997 demonstrates:

*"The importance of a wage cannot be overstated. If ILMs are to produce outputs of value to the community or industry, people need to be rewarded appropriately. Given that there may be insufficient money within the New Deal programme to pay a wage then the system must be flexible enough to allow local partnerships to use New Deal money as part of a package that can"*<sup>77</sup>.

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<sup>76</sup> Anon Doc 20; Anon Doc 21

<sup>77</sup> Anon Doc 7, 1997

By 2000, in the majority of Albase's ILM projects, the focus had shifted away from creating a 'real work environment' and did not always include the emphasis on the importance of paid wages. Employment policy at this time had moved towards a "work for your benefit" approach (DWP (2008c), and as such, there was less of a political requirement to provide wages for the trainees/participants. Some ILMs reflected the broader shifts in employment policy and instead of paying their participants, they offered a 'benefits plus' payment scheme (Finn, 1997; Peck and Theodore, 2000; Walker and Wiseman, 2003; DWP, 2010c).

Albase's ILM programmes traditionally offered temporary employment opportunities in regeneration projects which job seekers could choose to participate in<sup>78</sup>. Some criticisms of ILMs that recruited voluntary participants centred on the idea that the much higher job entry rates claimed for ILMs were heavily associated with the recruitment of well-motivated, if nonetheless disadvantaged individuals, on a voluntary basis (Finn and Simmonds, 2003). In fact, to date there is no evaluation evidence that ILMs are a cost-effective intervention for mandated clients (see Finn 2003) and the difficulty associated with differentiating between what is the outcome of the ILM model and what is the outcome based on the individuals characteristics has tended to mar the ILM evaluations which have claimed that ILMs offer higher job outcome rates than other types of employment support (see McGregor *et al*, 1997). Consequently, criticisms of the ILM model focussed on whether the overall approach was any more effective in moving individuals into employment than the workfirst approach (Marshall and Macfarlane, 2000).

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<sup>78</sup> Anon Doc 20

From the data collected it appears that the voluntary nature of ILMs was an important stance for Albase's leaders during the 1980s and 1990s. Yet this stance altered in line with the rise of the workfare discourse in national labour market policies and because some welfare-to-work contracts involved a commitment towards mandating clients onto employment programmes. Previously, the organisation promoted the idea to the government that ILM programmes should include payments to participants for their involvement.

*"Perhaps the key factor, however, is the payment of a rate for the job allowance. It is this link between real work and payment that has established the credibility of Albase in the eyes of the unemployed and given them most self confidence. Our experience is that by breaking people out of the benefits system they develop the skills to manage their own budgets and also a determination not to move back onto benefits."* <sup>79</sup>

Although within Albase's ILM activity there remained a limited involvement in mandating clients on ILM programmes, overall the organisation became more acceptable of mandatory practices for the delivery of employment programmes. In 2005, their response to a government consultation document reflected this:

*"It would therefore be wrong to assume that compulsory participation in work focussed support will incite a hostile response from claimants; for some people this may actually provide the impetus they need to instigate a return to the labour market...Mandatory programmes can be helpful in terms of incentivising people who have been economically inactive for a long time and who are demoralised, isolated or lacking in confidence."* <sup>80</sup>

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<sup>79</sup> Anon Doc 7, 1997

<sup>80</sup> Anon Doc 17, 2005

The change in the organisation's stance on both the use of paid wages and the mandating of clients appears to reflect broader societal and policy ideas rooted in the workfare discourse which had become dominant during the 1990s and during the organisation's development. It is argued here that the internal employees who managed the remaining ILM programmes may have maintained some of the original ethos regarding mandating individuals onto employment programmes. However, the out-facing communication from Albase shifted to match the dominant workfirst views of the welfare-to-work field<sup>81</sup>. Within seven years the organisation changed their 'public view' (i.e. on their external communication) on the role on mandating and compulsion in the delivery of employment support as the extract below demonstrates.

*"We welcome the extension of compulsion from February 2005, to people who have been on incapacity benefits for up to three years and we would suggest that this should precede the introduction of mandatory participation for all but the most severely disabled claimants when reform is introduced in 2008."*<sup>82</sup>

The reduction in the number of ILMs in the organisation (as demonstrated in the previous chapter) reveals a broader shift in the activities and approach of Albase. With the reduction of ILM activity as a proportion of the organisation's activity there was a clear shift in focus from the earlier mission of Albase which focussed on getting people into jobs and on environmental or community regeneration<sup>83</sup>. Employees interviewed in 2009 revealed that the organisation's attitude towards creating projects aimed at achieving both regeneration and employability had changed. For example, one respondent felt that previously, *"we got the balance of that*

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<sup>81</sup> Respondent Campbell; Respondent Collins;

<sup>82</sup> Anon Doc 17, 2005

<sup>83</sup> Anon Doc 62; Anon Doc 63

wrong." S/he went on to add that, *"what we've been in danger of doing is, having lovely fences and lovely back courts, fantastic regeneration projects, but we don't actually plonk the people that put them there into employment. So that's been an education...and that continues to be a discussion, a dialogue, across the company."*<sup>84</sup>

As the organisation became more dependent on the welfare-to-work contracts in the early 2000's instead of ILM funding, the view on the appropriate support for unemployed individuals changed. An external report produced in 1999 stated that:

*"The strength of the service [from Albase] is the combination it offers of real paid work along with skills training and vocational guidance and counselling, using a holistic approach that takes into account the particular difficulties of those who have suffered unemployment and adverse life circumstances. Trainees' motivation is also enhanced by being able to see their efforts helping to regenerate their own areas and communities"*<sup>85</sup>.

However, over time the organisation shifted its view on employment away from promoting the long term development approach of the ILM model based on training, experience and human development towards the dominant workfirst approach of welfare-to-work contracts. By 2004, Albase stated whilst competing for DWP funding that, *"we adopt a work first approach from day one: our aim is to move our clients into the job of their choice as quickly as possible."*<sup>86</sup>

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<sup>84</sup> Respondent Doyle

<sup>85</sup> Anon Doc 26, 1999, p.229

<sup>86</sup> Anon Doc 1, p.3



### 6.13 The impact of cost-efficiency ideas on ILM provision

This shift in the mind-set of the organisation to prioritise the employment outcome over the community or environmental development outcome could be attributed to the changing focus of employment programme funding which became increasingly concerned with the final job outcome over the activity and support involved (Freud, 2007; Freud 2010). Some respondents directly attributed the change in Albase's focus to the changes in the policy and funding environment. As one respondent stated:

*“Supporting and punting a product when the world changes is also nonsensical, and that’s where we need to be lighter of foot in approach, and be clever about, and just think a little bit in clear and simple terms”<sup>87</sup>.*

The respondent suggests that the organisation's approach to moving individuals into employment should not have been complicated by the ILM approach and the overlapping policy areas when welfare-to-work contracting offered greater rewards for the organisation without the complexity of EU funding, numerous partnerships and the limited profitability of local ILM regeneration projects. Arguably, this suggests that the importance of improving neighbourhoods and social spaces became less important for Albase due to the emphasis on employment outcomes over regeneration and community development. Instead attention was directed towards improving its ability to deliver workfirst and contractualist activities as discussed in much greater detail in chapter seven.

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<sup>87</sup> Respondent Doyle

#### 6.14 Summary

This chapter has discussed the decline of Albase's ILM activities which were introduced in chapter five. It demonstrated that whilst these activities overlapped during the start of the welfare-to-work quasi-market, the ILM approach became less feasible in the funding and policy environment and by the mid-2000's Albase's main activity was the delivery of welfare-to-work programmes.

The chapter traced the history of Albase's activities and used Bonoli's (2010) Active Labour Market Policy distinctions to frame the shift in job search and support. By using this as a framework it was evident that Albase's activities continued to centre on the provision of employment support, the administrative, political and economic context affected the type of activities delivered. The chapter argued that the change in employment support activities was intrinsically linked to the organisational field as national employment policy became less focussed on training and work experience provision and more concerned with workfirst and less expensive contracted employment support.

In these discussions there was a detailed consideration given to the concept of workfare and it was demonstrated that whilst workfare ideas were active in the field during the 1980s and 1990s Albase did not support or provide mandatory activities, unpaid work experience, and sanctioning measures on jobseekers. However, with the introduction of the welfare-to-work quasi-market some of these features typical of workfare policies were displayed in the data collected from Albase. Arguably in order to access welfare-to-work resources there was a shift in organisational position on these key issues of employment support.

Building on chapter five the findings here suggest that the demise of support for the ILM in the organisational field pushed actors in Albase to find alternative resources for its traditional activities. There was some overlap in the early welfare-to-work programmes and Albase successfully adapted some of the ILM model to some of the welfare-to-work programmes, however this was only possible in welfare-to-work programmes which stipulated a work experience of temporary employment option, and which also included funding to cover this. In welfare-to-work programmes which did not stipulate temporary employment, it was more difficult for Albase to adapt the ILM programmes due to the workfirst approach and the outcome payments based on moving individuals quickly into employment. This led to an internal division in terms of the structure, management and activities included in the delivery of programmes on one hand from the ILM approach and on the other the welfare-to-work programmes.

# CHAPTER 7 - SHIFTING STRUCTURES AND WAYS OF ORGANIZING

## ORGANISATIONAL TRANSFORMATION AND BECOMING 'BUSINESS-LIKE'

The previous chapter argued that the demise of the ILM funding and the introduction of welfare-to-work programmes which suited the activities of Albase in the late 1990s facilitated a shift in Albase's activities. It is argued in this chapter that the welfare-to-work quasi-market that developed post-1997 became increasingly divergent from the organisational field which Albase had previously operated in. In particular, the DWP's expectations of their delivery partners created a set of new rules and regulations which Albase had to comply with to continue to gain resources from this policy area and funding source.

This chapter focuses on how, between 1999 and 2010, key organisational characteristics of Albase (structure, activities, management style and financial management) changed to become more 'business-like.' It is argued throughout this chapter that due to the administration of resources via the welfare-to-work quasi-market Albase experienced this type of organisational change. Whilst the organisation remained a charity limited by guarantee<sup>88</sup>, operationally core activities and behaviours shifted towards the required characteristics of the welfare-to-work quasi-market. The chapter demonstrates that as the institutional environment shifted towards NPM and market-based initiatives it became increasingly important for Albase to demonstrate that they shared characteristics with private organisations and that they had become more 'business-like' in order to gain resources.

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<sup>88</sup> Anon Doc 60, 2010

The purpose of this chapter is to understand *how* and *why* Albase changed in order to better understand how the changes at the institutional-level may affect a third sector organisation delivering employment services. It is structured as follows. It begins by identifying what 'business-like' meant in the welfare-to-work context, and how this was constructed in the Department of Work and Pensions' (DWP) documents from 1999-2010.

Through the case-study fieldwork and the wider analysis of major DWP policy documents and market information texts a number of key characteristics are identified which outline what 'business-like' meant in welfare-to-work contracting and the consequent tensions experienced by Albase who, it is argued, changed inline with these environmental rules and norms. These findings suggest that the DWP created a legitimate organisational form for the quasi-market using resource acquisition processes, competition regulations, and formal accreditation processes. In effect, the emphasis on the DWP's concept of 'business-like' appears to demonstrate coercive isomorphism and resource dependency theory may be best suited to explain the momentum and extent of the change processes discussed.

Following this section the chapter demonstrates that Albase's organisational change process over this time presented a number of organisational design, identity and managerial issues. Alongside the emphasis on becoming more commercially minded and demonstrating financial strength, the chapter contends that involvement in this quasi-market environment encouraged Albase to adopt 'business-like' practices and adapt to an environment which (it is argued) gave preference to private-sector characteristics. The adaptation process created a number of tensions within Albase, and as such, it is suggested in this chapter that the change processes undertaken in Albase were part of a strategy to gain

legitimacy in their organisational environment and not part of a rational-economic model.

### 7.1 Constructing 'business-like'

It is argued here that over the time period covered in this chapter (1999-2010) the UK government, through its welfare-to-work reforms, encouraged both private sector organisations and TSOs to become partners in their new service delivery framework. When commencing each new tendering process for a programme the government proclaimed the virtues of both the financial management and flexibility of the private sector, and the service knowledge and expertise of the third sector (DWP, 2006b; DWP, 2008d). In welfare reform documents it was claimed that, 'these organisations can bring a distinctive approach to service delivery, based on their specialist knowledge, experience and skills' (DWP, 2006b, p.74), and that 'they can also offer more scope for innovation, developing new and creative ways of working with customers' (DWP, 2007a, p.7). The government also claimed that the welfare-to-work quasi-market was not a transfer of public to private, but a pragmatic policy that would ensure services were provided by organisations with expertise and who were best suited to meeting the needs of jobseekers (DWP, 2006b; Hutton, 2006).

Whilst the quasi-market was originally set-up by the Labour government at the same time as policies to promote third sector involvement in public service contracting (see Carmel and Harlock, 2008; Alcock, 2009), after the 2010 general election the Conservative led coalition government continued with the development of the welfare-to-work quasi-market. Chris Grayling, the Minister for Work and Pensions, also continued to emphasise the role of both private sector organisations and TSOs as delivery partners in their welfare arrangement.

*“There is a unique opportunity to combine the best of the third sector, the voluntary sector and the private sector to reinvigorate our welfare-to-work system” (Grayling, 2010, no page number).*

This chapter contends however that whilst it appears that at the policy level both TSOs and private sector organisations were encouraged to compete for contracts in the welfare-to-work quasi-market, the administration of the programmes (through contracts in a quasi-market system) emphasised terms and ideas associated predominately with private sector organisations. Whilst arguably some of these ideas were present in the late 1990s when the quasi-market was developing, overtime the DWP increasingly emphasised ideas of performance management, earning profits, and quantitative measurements of performance (see Frumkin and Galaskiewicz, 2004). For example, within the guidance for bidding organisations for the FND there was an emphasis by the DWP on the need for partners to display “commercial acumen” (DWP, 2008a, p.18) above all else, and suppliers were, “required to deliver provision from premises that are of a high standard and offer a professional, *business-like* environment” (DWP, 2008d, p.46, *emphasis added*). Similarly, in a speech made in 2010 in an event for welfare-to-work providers David Freud, the Minister for Welfare Reform, emphasised the coalition government’s support of market mechanisms and business methods.

*“We will free you from the pressures of political tinkering so that you can get on with the job, making the most of your own experience and business practices” (Freud, 2010)*

The administration of welfare-to-work programmes within the quasi-market system also emphasised the use of business tools such as ‘strategic planning processes’ and ‘market analysis’ (DWP, 2010b). The DWP required all bidders to demonstrate their ‘Business Continuity Strategy’ (DWP Provider Guidance Document, no date, p.32),

and guidance provided to TSOs about public service contracting stated that they must, “demonstrate a long-term business plan/strategy, outline business processes to encourage efficiency and effectiveness, and demonstrate access to finance” (Scottish Executive, 2003, p.13). From market documents and information provided to organisations seeking resources in the welfare-to-work quasi-market, it appears that providers which met the DWP’s concept of ‘business-like’ were deemed legitimate.

As mentioned previously in chapter five, as the quasi-market developed and grew between 1999 and 2010, these organisational requirements expected of providers also increased. The most recent phase of quasi-market development (The Work Programme) emphasised the importance of supplier’s financial capability and the payment schedule for the contracts was based on payments-by-results method and required substantial upfront capital (NAO, 2012a). In the aforementioned speech by David Freud, he emphasised the importance of business characteristics for delivering welfare services.

*“We [the government] will need well-capitalised and well-resourced groups that are prepared to take up the challenge of competition” (Freud, 2010, no page number).*

The DWP produced guidance shortly afterwards which emphasised provider’s capital and resource levels, “to ensure that bidders that proceed have sufficient resources to successfully deliver the contract with a minimum risk of failure”...and, “to ensure that bidders have a sufficient size to sustain minimum contract values and an outcome focussed payment model” (DWP, 2010b, p.11). The DWP and the government required providers to possess a number of organisational



characteristics in order to successfully gain resources in their tendering system for welfare-to-work programmes.

In the “Expected Provider Capabilities” list which was included in the DWP Commissioning Strategy (DWP, 2008a) the DWP outlined what characteristics delivery partners should be able to demonstrate. These supplier capabilities were also a requirement at the FND phase one bid stage (DWP, 2008d) and the subsequent Work Programme (DWP, 2010c). In the Commissioning Strategy the DWP also introduced the separate “Provider Capabilities Framework” and stated the specific capabilities and requirements that “make up a high-performing supply chain and an effective prime contractor” (DWP, 2008a, p.15). These characteristics were used by the DWP to “contract, inspect, manage and intervene on the basis of these capabilities and requirements” (DWP, 2008d, p.30). Similarly, the ‘Evaluation Criteria’ (DWP, 2010c, p.10) included in the bidding documents for the Employment Related Support Services Framework (ERSS-the framework for the pre-bidding round of the Work Programme) outlined the preferred characteristics of DWP suppliers based on their ability to meet a number of desired requirements which would demonstrate how capable the organisation was of fulfilling the needs of the DWP (DWP, 2010b). It is argued here that as these features were required to access resources in the quasi-market, organisations which possessed them were considered legitimate by the DWP and the wider welfare-to-work quasi-market.

The provider requirements have been combined in Table 7.1 below, and grouped into four dominant themes. The table demonstrates that providers were required to possess a number of characteristics and attributes, however the required capabilities are skewed towards the first two; finance and resources and contract and performance management.

Table 7.1: The DWP's provider requirements

Finance and Resources	Contract and performance management	Networks and connections	Employment support knowledge
DWP Commissioning Strategy Expected Provider Capabilities (DWP, 2008d)			
financial strength/access to capital together with an investment strategy;	supply chain management and development	ability to bring in expertise from other organizations/sectors;	local labour market knowledge and identification of skills needs and job opportunities;
ability to lever in other resources to enable programme management with partners;	programme and project management	effective partnership working;	Specialist understanding of sources of disadvantage and strategies to overcome it for all customer groups based on evidence;
commercial acumen;	rigorous performance management	local credibility and outreach capability	
capacity and capability to respond to changing economic conditions	case management to assist people, particularly disadvantaged people, into sustained employment;	ability to work effectively with other delivery partners, including those in the public sector, notably Jobcentre Plus, Learning and Skills Council and local authorities; strategic employer engagement to provide suitable and sustained jobs and a sound employer-facing infrastructure;	
Evaluation Criteria Employment Related Support Services Framework (ERSS) Framework (DWP, 2010c)			
Qualification Criteria (pass/fail)	Supply-chain management (25%)	Stakeholder engagement (10%)	(n/a)
Delivery challenges (25%)	Implementation (20%)		
	Contract performance (20%)		

Source: DWP, 2008d; DWP, 2010b

The following part of this chapter focuses specifically on the first two characteristics (finance and resources, and contract and performance management) from Table 7.1. It is argued these requirements became coercive isomorphic pressures for Albase. It appears that the DWP requirements exerted pressures on Albase to adapt to the

changes enacted in the organisational field in order to enter and then maintain their involvement in welfare-to-work contracting.

## 7.2 Contract and performance management: Targets and indicators

In welfare-to-work contracting there was an emphasis on organizing the quasi-market system through the use of targets and indicators, and in order to operate in this environment Albase had to accept and adapt to these regulative and competitive pressures. These pressures occurred in a number of ways as discussed in this section.

In the tendering stage contracts were designed with specific minimum target requirements (see DWP, *FND presentation*, no date). Targets and indicators also became fundamental tools in the design and regulation of the welfare-to-work market. For example, the contracting stage for FND phase one introduced Critical Success Factors (CSF), which the DWP considered as the core requirements for programme success. Suppliers were required to meet these CSF which included meeting or exceeding; “Short Job Outcome Targets (a jobseeker completing 13 weeks in paid employment) as agreed in their contract; Sustained Job Outcome targets (26 weeks in paid work) agreed in their contract; ensuring every customer received a level and type of support appropriate to their individual needs, suppliers delivering a service that represents value for money and a step-change improvement in performance compared with previous programmes; and suppliers delivering high quality provisions to all customers in line with the DWP Quality Framework” (DWP, 2008d, p.15).

Target setting and target attainment tools were also used by the DWP to create competition in the quasi-market as organisations which did not meet their targets could lose their contract or service payments. Provider competition was a central feature in the quasi-market system, as the extract below displays:

*“Multiple provider arrangements will test whether competition between providers, when dealing with the same client group in the same labour market, will produce better performance” (ONS, 2002, p.2).*

The need to measure performance and communicate results with organisations in the organisational field through performance league tables became a significant aspect of the market structure and supplier relationship. The aim was to encourage competition between delivery organisations based on the rationale that providers who were exposed to competition would perform better (Flecker and Hermann, 2010), and non-performing delivery organisations would be pushed out of the quasi-market if they failed to innovate and improve (NAO, 2012a; WPC, 2012). The DWP’s approach to monitoring the market included the introduction of the Star Rating System (SRS). The SRS was introduced as a “supplier performance tool” to score, compare and rank providers within the market as they delivered a DWP contract (four stars was the highest score, and one star the lowest). It was based on three Key Performance Indicators (KPIs): job outcomes, quality, and contract compliance. However, it was weighted heavily towards job outcomes (70%), with Quality (20%) and Contract compliance (10%) contributing only a small amount of affect the overall Star Rating Score (DWP, 2008d, p.36). The DWP also broadened its role in the quasi-market to include standard-setting, purchasing excellence and contract management, and used targets as the measurement tool to achieve this. In effect, the DWP created a competitive system based on awarding contracts and resources using quantitative performance measurement regulations and DWP quasi-market specific accreditation standards.

In this organisational field targets were not only part of the contract monitoring process, they were also used as a way to reduce costs by encouraging bidders to increase their target aspirations to secure the contract. For example, for the Work Programme bidders were required to discount their bids in order to offer better value for money (DWP, 2010c). The DWP's approach linked discounting to performance based on the opinion, "providers will have to secure high levels of performance in order to justify a high level of discount" (NAO, 2012a, p.31). As the DWP both monitored and audited providers based on target performance, the government (through the quasi-market and the welfare-to-work contracts) placed great emphasis on providers working towards pre-defined measurable targets.

*"Whilst the baselines set out our national expectations, we expect bidders to look at the local labour market and submit, what their analysis determines is a realistic and stretching expectation for the area. Bidders will be required to justify performance offers within the bid and the Department will assess that justification" (DWP, 2008d, p.93).*

The DWP bidding guidance included a number of management practices it expected providers to adopt to demonstrate that all providers could meet targets and adhere to reporting and monitoring rules. In order act as a DWP supplier organisations needed to demonstrate that they possessed the required management systems which included, "rigorous self-assessment and effective action planning" (DWP, 2010c, p.24). Similar features were outlined in the DWP Quality Framework which required suppliers to, "undertake continuous self-assessment and action planning; monitoring and review; external inspection; and sharing of good practice" (DWP, 2012, p.31). The Quality Framework directed organisations to undertake "Independent External Inspection, Learning and Development Plans, Continuous Self-Assessment and Development Planning, Management and Review" and to

demonstrate a commitment to develop and share good practice. To borrow from Scott (2008, p.53) it appears that due to the emphasis on targets and indicators to control and organize transactions in the welfare-to-work quasi-market the DWP acted “as rule maker, referee and enforcer.”

The following section builds on the idea that predetermined targets and quantitative-based measurement standards created a coercive framework in this policy context. It contends that the administration of resources in the quasi-market centred used the target attainment approach to develop a payment-by-results exchange system which increased competitive pressures.

### 7.3 Payment-by-Results

This section begins by discussing the types of payment approaches used in public sector out-sourcing. It then focuses on the impact on Albase of the funding approach used by the DWP.

Payment-by-outcome was a broad term to refer to a form of performance management where providers were paid on the basis of outcomes rather than effort (see Cumming, 2011). The approach was a form of performance contracting and was a key policy instrument in the NPM approach to public service reform. In the UK this was known as *payment-by-results* (a phrase preferred by the current Conservative led coalition government) and replaced the term *outcome-based commissioning*, which was the favoured term by the previous Labour Government (Sturgess *et al*, 2011). In practice there was arguably little difference in the approaches used by either administration in the context of welfare-to-work and the term payment-by-results is used here for all relevant welfare-to-work programmes

regardless of their political association. According to (Finn, 2011a) payment-by-results played a key part of the reforms to the administration of employment programmes as it was used to direct and measure the performance and financial reward of contractors who were able to meet the short-term targets outlined by the DWP. In this format payment-by-results was employed in conjunction with performance contracting; that is, it was associated with a public sector commissioner purchasing specified outcomes from an independent or semi-independent provider from the public, private or third sector (see Behn and Kant, 1999).

Welfare-to-work providers received two main types of funding; performance linked and non-performance linked (see Webb, 2003; Beale, 2005). Performance linked funding triggered a payment to the contractor once an agreed milestone was achieved by the job seeker, most commonly the move into the labour market. In some contracts there were also payments if the individual maintained in the labour market over a specified time period. For example, in the UK Employment Zones if providers ensured jobseekers retained work for both 13 weeks and 26 weeks they were eligible for outcome payments. In addition, they were also required to obtain work for a certain percentage of jobseekers referred to them in order to be eligible for a bonus award (Webb, 2003). In the Work Programme job seekers must remain in work for up to two years for providers to receive the bulk of their performance linked payments<sup>89</sup> (see Bruttel, 2005).

The second type (non-performance funding) was often a lower value than performance linked payments and was awarded when the individual registered with the organisation (known as an attachment or referral fee). In the New Deal

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<sup>89</sup> Anon Doc 15

contracts the provider also received on-programme fees once the individual had been with the organisation for a specified period of weeks (Finn, 2000; Damm, 2012). The non-performance payments were seen by Albase as a crucial part of its business plan as it provided the funding for overhead and running costs during the contract delivery phase, particularly in the earlier programmes (the New Deal and Employment Zone). Non-performance funding was also considered beneficial to the DWP's contracting-out efforts as the payments helped attract providers to compete in the market<sup>90</sup>.

#### 7.4 Types of contractor's payments

Over time the bulk of contractors' payments became increasingly weighted towards performance linked payments (DWP, 2010e). This development was most evident in the Work Programme which adopted an 'invest-to-save' approach required providers to finance a substantial proportion of the up-front costs of service provision, with reimbursement being made later out of identified savings to the Treasury (Freud, 2009; Freud, 2010). Three types of performance linked incentive approaches can be identified which were used in the design of welfare-to-work contracts; thresholds, distance travelled and milestones.

'Thresholds' were strict standards in which providers receive no reward until a certain level of achievement was reached, such as 30% of the contract population (Sturgess *et al*, 2011). Although the threshold approach was not used on its own in the UK, it appears that the broad threshold principle framed much of the welfare-to-work contracting as providers who did not meet their targets at specified dates could lose their contracts or a percentage of their referrals (NAO, 2012a). Whilst

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<sup>90</sup> Respondent Madden; Respondent Sutton; Anon Doc 1



Sturgess *et al*, (2011) contend that thresholds had the advantage of setting high standards and increasing competitiveness, the approach has been associated with delivery issues such as creaming and parking where providers prioritise service users in order to meet the minimum threshold requirements(see Struyven, and Steurs, 2004; Finn, 2008; Koning and Hendrich, 2010; Finn, 2011).

With 'distance-travelled' standards, the aim was to reward incremental improvement and the approach was often associated with programmes working with those furthest from the labour market which advocated the use of distance-travelled standards (Sturgess *et al*, 2011). In such programmes providers were rewarded for improving an individual's employability, rather than for labour market attachment rates. Employment programmes that used this approach tended to work with health-benefit claimants and used condition management based programmes (see Barnes and Hudson, 2006). The 'milestones' approach also rewarded intermediate outcomes for progress made against a distance-travelled measure or for outputs on route to a primary outcome (Sturgess *et al*, 2011).

Milestone payments tended to be associated with programmes which were designed to measure progress such as a payment for the completion of a training course. Broome (2002) suggests that milestone payments served to motivate providers to work with disadvantaged clients who may not have met the final standard but would nevertheless have achieved some of the benchmarks and trigger a payment. In some cases they provided early evidence of performance and thus helped commissioning bodies to overcome problems of under performance (Sturgess *et al*, 2011). For example, in the FND programme, providers received payments when jobseekers were placed in a job and then when they remained in work for 13 weeks, even though the primary focus was on ensuring that clients remained in employment for 26 weeks (see Mulheirn and Menne, 2002). Arguably,

these milestones were considered valuable enough to the DWP to reward, perhaps because they provided evidence of cost savings. The approach was also used to reduce performance risk for providers or to assist them in dealing with cash flow problems. In practice between 1999 and 2010 welfare-to-work programmes involved a mixture of incentive options as part a continual 'adaptive contracting' or 'market testing' approach (Webb, 2003; Beale, 2005; Finn, 2010).

## 7.5 Contractualism and management behaviour

Whilst attention has been given by academics and commissioning bodies to problems associated with provider behaviour in terms of gaming and the incentive strategies (Bredgaard and Larsen, 2008; Davies, 2008; Finn, 2008), much less has been directed towards the discussions of the management behaviour within organisations that operate in a payment-by-results market (see Macmillan, 2010 for a review). So far it has been argued that the DWP's approach to administering welfare programmes was based on targets and indicators as tools to create competition and efficiency from delivery organisations. The inclusion of these tools demonstrates that the DWP and the government prioritised particular organisational qualities, such as management systems and approaches designed around target attainment and measurement. The following section contends that the use of performance based outcomes by the DWP created a quasi-market where delivery organisations operated in a normative framework guided by NPM approaches to service delivery. The quasi-market involved regulative pressures to meet the DWP's provider characteristics, and alongside the competitive pressures from the performance based contracting the quasi-market facilitated isomorphic changes in Albase. Before a discussion of the other field level rules and characteristics expected of providers, the following section explores how Albase adapted to the target based approach created by the DWP in welfare-to-work contracting.

## 7.6 Albase- incorporating new management systems

Albase designed and implemented organisational processes and management systems in line with the field level rules, regulations and expectations outlined above. For example, by 2005 Albase stated in documents that as an organisation it managed and organized its activities through systems based on target measurement and attainment. In the extract below Albase refers to two regulation processes created by the DWP in the early 2000's.

*"We place the highest emphasis on continuously reviewing the quality of our provision. All provision will be delivered in line with the JCP Quality Framework and will be subject to self-assessment against the Common Inspection Framework."<sup>91</sup>*

Resource acquisition was dependent on Albase demonstrating that it met the DWP's expected requirements. All delivery organisations were required to demonstrate in their bids that they possessed the capacity to collect and report on targets (DWP, 2008). In order for Albase to participate in welfare-to-work contracting they were required to employ individuals with contract management skills, update their IT systems to meet the recording requirements, and design front-line services designed around target-attainment. Albase adopted management techniques such as the use of measurable case-loads for personal advisers and front-line employees, and work patterns for those working with job seekers were changed to include weekly and monthly individual and team goals<sup>92</sup>. Whilst some existing employment positions were affected by these organisational changes in order to delivery welfare-to-work

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<sup>91</sup> Anon Doc, Doc 12, 2005

<sup>92</sup> Anon Doc 1; Anon Doc 6; Anon Doc 15

contracts Albase created a number of new employment positions and team which worked in the specified way<sup>93</sup>.

Albase adhered to and promoted the DWP's expectations of contract management, as visible in the extract below from a tender document. The author described in the bid how Albase would manage the proposed contract, which included the use of a number of key 'business-like' ideas such as KPIs, the creation of a programme manager position, and management practices based on performance targets. These organisational features were not present in earlier bidding documents to other funding bodies<sup>94</sup>.

*"On a day to day basis the programme manager will have responsibility for meeting all key contractual performance targets and standards of service. We will appoint a performance manager who will head up our team of employment consultants and will also head up our employer engagement strategy...Each of our employment consultants will have a narrow range of KPIs around job entry, job retention, client engagement, and into work account management"*<sup>95</sup>

From analysing the quasi-market documents a vital part of the quasi-market system was based on delivery organisations demonstrating their ability to manage payment-by-results contracts. The duration and size of the contracts awarded by the DWP depended on two performance related factors. First, the decision was based on an organisation's performance expectations- the target they outlined they would meet in their tender document. Second, in some programmes, contract value also

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<sup>93</sup> Respondent Beattie

<sup>94</sup> Respondent Hamilton

<sup>95</sup> Anon Doc 6, 2003, p.22.

depended on performance achievements during the contract period (DWP, 2008d; DWP, 2010c). For example, in some programmes such as the Multiple Provider Employment Zone (MPEZ), the DWP could transfer part of the contract value from one provider to another if one was not meeting their performance expectations (NAO, 2012a; WPC, 2012). As such all contract holders, including Albase, were required to incorporate (new) employment positions such as contract managers into their organisational structures to meet the reporting needs of the contracting system. A similar system was applied in the Work Programme where guidance to providers stated that:

*“One of the tools we [the DWP] will use to manage provider performance and achieve best value for money (VFM) is the use of random allocation Market Share Shifting to drive competition between providers in live running. This will enable us to move referrals, and so potential earnings, if a provider is not meeting performance standards” (DWP, 2012b, p.7).*

Albase adapted its internal processes and systems to meet these external requirements. As visible in the extract below, one respondent clearly stated that they felt changes at the institutional-level during the 1990s and 2000’s now required TSOs to become more business-like.

*“I think there’s been a move over the last 10 or 15 years to push organisations much more on the need to have proper performance indicators and processes for monitoring and evaluating... In that way, governments get value for money and I don’t see a problem in that at all. And I think the voluntary sector has woken up to that evaluation. The private sector does it so if we don’t do it then we can’t be as involved”<sup>96</sup>*

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<sup>96</sup> Respondent McStay

This extract suggests that individuals within Albase accepted the requirements in their organisational field as 'legitimate' and, as displayed in the discussion below, sought to demonstrate that Albase possessed them in order to access resources. An impression was gained during the fieldwork that the discussion of the use of targets and indicators did not involve an economic rationale in terms of an internal assessment of the organisation's actions and output in terms of operational efficiency, as neoinstitutional economic theorists would suggest (Menard, 2005). Instead, employees created new tasks and processes in Albase in response to understanding the quasi-market's regulatory and competitive requirements. A further example is outlined below. When required to discuss how they would manage performance and quality control in a tender document, the author for Albase wrote that they would adopt contract management behaviour which would demonstrate their capability to control supply-chains and meet DWP expectations. This included creating a new position in the organisation of a 'client liaison officer,' and suggests that Albase not only adhered to DWP processes but also adopted them as their own approach to managing relations with others in the organisational field.

*"We will set minimum standards for all providers in line with our own performance targets. Our client liaison officer will monitor the performance of all of our providers on a daily basis. We will regularly monitor health and safety and programme compliance and will penalise providers who do not meet our standards by reducing their referrals. We will also work to build the capacity of our providers by providing help with self-assessment of their provision and best practice workshops."<sup>97</sup>*

Internal management practices were also implemented which demonstrated that the organisation had the characteristics to meet the requirements of the quasi-market. For example, in 2008 one of Albase's new key performance indicators was to

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<sup>97</sup> Anon Doc 1, p.20

*“achieve a level 4 DWP star rating”*<sup>98</sup>, and the organisational development plan for the same year was based on targets, indicators and outcomes<sup>99</sup> (a relatively new approach for Albase according to one respondent who mentioned a complete lack of performance monitoring processes a few years earlier<sup>100</sup>). One respondent described the new processes which had been implemented to meet the requirement for target and performance management systems. This respondent stated that in practice it involved the introduction of new *“weekly recording information”* which was designed through the *“performance and management committee”* in order to *“track out numbers and produce weekly and monthly reports”*<sup>101</sup>. The respondent stressed the importance of *“getting these systems right”* as the DWP audit team regularly undertook visits and arranged meetings in order to check on the processes in place and the numbers recorded in the contracts.

However, the respondent quoted above also stated that these new processes did not just cover the (audited) FND contract but they had been implemented across the organisation. This suggests that the processes and rules within the welfare-to-work market which Albase’s management team had identified as important in welfare-to-work contracting had also been implemented in other parts of the organisation working in different activities and/or policy contexts where the processes were not a regulatory requirement. Consequently, it appears that the changes enacted in the organisation were not simply in response to the resource exchange with the DWP. Instead, internal processes and the way work was organized changed due to normative perceptions on what was the correct way of organizing.

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<sup>98</sup> Anon Doc 23, 2008, p.26.

<sup>99</sup> Anon Doc 24, 2008

<sup>100</sup> Respondent McStay

<sup>101</sup> Respondent Somers

*“We developed that across everything the business does. It doesn’t just cover FND, and it doesn’t just cover employability. It covers criminal justice work, regeneration and sustainability”<sup>102</sup>*

### 7.7 Quantitative reporting in funding programmes

It is also worth noting at this point that whilst targets and indicators were key components in the administration of the welfare-to-work quasi-market it was not the only public service area to prioritise targets in the management process. NPM reforms were enacted across all policy areas which Albase operated in. Quantitative reporting based on targets had gradually become the dominant tool to access funding in other policy areas such as regeneration and employment programmes, and EU and local government funding sources which had also adopted a broad NPM approach (see Bachtler and Mendez, 2004). Some respondents stated that target and indicators ‘crept’ into the organisation throughout the late 1980s and 1990s through Albase’s involvement in funding from these sources<sup>103</sup>. For example, some ILM funding sources, such as Training for Work (TfW) funds, introduced the ‘targets’ based management approach to Albase prior to their involvement in welfare-to-work. TfW was an employment programme which sought to increase the skills levels of unemployed people. As mentioned in chapter five, Albase used TfW funds in some of the ILM projects, but it was also used for a range of local employment support programmes throughout Scotland (see Canning, 1998; Raffe *et al*, 2010).

Some respondents from Albase felt that the involvement in activities which required a target and indicator mindset was a useful stepping stone towards the contract

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<sup>102</sup> Respondent Somers; Anon Doc 24

<sup>103</sup> Respondent Madden



culture of welfare-to-work and the payment-by-results model that followed<sup>104</sup>. This was because during this transformational phase Albase was able to develop internal approaches to achieve and manage targets without the financial pressure of the payment-by-results model. Respondents felt that staff had also become accustomed to this style of working and that there was a steady growth of working towards targets as the organisation won more target-centred programmes. Respondents identified TfW funding (in the late 1990's and early 2000's) as an important step towards understanding the New Deal requirements (the contract was secured in 2000), and subsequently the Employment Zone contract (in 2002)<sup>105</sup>.

Through TfW Albase experienced working with funders who used target setting processes with contractors and a small element of payment-by-results for meeting set targets<sup>106</sup>. There was a gradual shift in management practice towards delivering to prescribed targets, albeit originally only for a small percentage of their activities during the 1990s and into the 2000s. As some of the funding sources used in ILMs had targets attached and had begun to adopt more NPM style mechanisms to administer their funds, it appears that Albase gradually adapted to the workings of the target culture<sup>107</sup>.

However, it is argued here that prior to the introduction of the welfare-to-work quasi-market, other funding streams *did not exert the same pressures* nor emphasise the need for organisations to be more 'business-like' in terms of commercial characteristics and financial capacity. For example, TfW was aimed predominately

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<sup>104</sup> Respondent: Sutton; Respondent Madden; Respondent Somers

<sup>105</sup> Respondent: Madden

<sup>106</sup> Anon Doc 36, 2009

<sup>107</sup> Respondent: Madden; Respondent McMahon; Respondent Sutton

at TSOs and not private sector organisations so it was not dominated by ideas of business and competition efficiencies or the requirement for up-front investment. Albase was a TfW provider for over 15 years<sup>108</sup> and through this time it did not enact as many ‘business-like’ changes as it did in a relatively short period between 2005 and 2010. The target approach adopted by funders did not affect Albase’s internal structure and management systems prior to the quasi-market. Furthermore, whilst contract monitoring was based on targets, and resource acquisition required the identification of targets, previous policy areas had not used a ‘lowest cost’ target based approach as is evident in welfare-to-work contracting. As the extract below demonstrates employees within the organisation identified a difference in the organisational field due to the introduction of competitive market forces.

*“Changes to public procurement and to the employment and welfare ‘market’ mean that Albase is increasingly operating in a competitive environment, and so demonstrating the value of what we do is ever more important.”<sup>109</sup>”*

This is an important caveat in the development of Albase as it appears that the organisation’s gradual adaptation to the welfare-to-work rules and regulations over a number of years enabled some organisational learning in terms of output reporting. In this respect, the involvement in other target-centred policy areas helped Albase to adapt to the requirements of the welfare-to-work quasi-market and assist in accessing resources from the early welfare-to-work programmes.

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<sup>108</sup> Anon Doc 38, 2005

<sup>109</sup> Anon Doc 24, 2008, p.1

## 7.8 Organisational design and EU funding

Despite an increasing amount of Albase's resources coming from target-centred programmes, the predominant way of working (the ILM model) and the cultural set-up of Albase had, however, originally developed towards meeting the needs of the reporting and recording systems of EU funds<sup>110</sup> As outlined in chapter five EU funding had previously comprised the majority of Albase's income and it was an important funding component in much of its employment, environmental and regeneration projects<sup>111</sup>. Unlike welfare-to-work contracts, EU funding did not follow a payment-by-results approach and target reporting was not a fundamental part of the management processes. Instead it was based on specific objectives and outcomes of each project. As one respondent stated:

*"ILM wasn't as target driven, although there would be targets set in relation to European funding etc. You didn't get paid on targets so, if you put your claim in at the end of the year and you didn't achieve your targets there wasn't really very much said about it. So you kind of just get money again for the next year, it didn't really matter."<sup>112</sup>*

Conversely, since the introduction of welfare-to-work contracts Albase became more target focussed with advisors and those working on specific contracts organized and managed to meet predetermined targets as dictated by the contracts, and regulations dominant in the organisational field. For example, in contrast to the respondents view on the ILM funding above, the FND Invitation to Tender (ITT) document stressed that suppliers must, "focus strongly on performance" and that contracts had to be managed using the "Contract Management Framework (CMF),

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<sup>110</sup> Respondent Doyle; Respondent McMahon

<sup>111</sup> Respondent Madden; Respondent McMahon

<sup>112</sup> Respondent Madden

which incorporated monthly analysis of management information, performance management, quality assessment and customer satisfaction feedback” (DWP, 2008d, p.34).

The transition from one approach to the other was not a clear-cut process. Albase continued to operate a number of different programmes, funded by a range of organisations, some adopting a target-centred approach, and others continuing with approaches more akin to EU funding systems. As such, since 1999/2000 Albase operated internal processes of both funding approaches. This contrast in administrative arrangements for Albase created an organisational tension as the management in some departments funded by more target-led programmes differed from the reporting systems and management in other departments. However, Albase’s adaptation of internal procedures towards targets increased as Albase became more dependent on resources from the welfare-to-work quasi-market and there was a shift from one approach to the other.

*“We probably became a bit more results driven because a bigger percentage of our funding was then results orientated, so you became more dependent on it”<sup>113</sup>.*

The extract above suggests that the impact of the welfare-to-work quasi-market was not restricted to the parts of the organisation involved in this context, but as welfare-to-work resources became the largest part of Albase’s income ideas from welfare-to-work began to affect all the activities and processes within the organisation. Consequently, it appears that the influence of the exchange process in

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<sup>113</sup> Respondent Madden

welfare-to-work quasi-market was more than the influence of previous exchanges. Whilst previous target reporting assisted Albase to adapt to performance contracting, these exchanges only led to the adoption of new reporting methods and did not create new ways of organizing across the rest of the organisation like welfare-to-work contracting did. The following section looks at how regulative and competitive pressures in the quasi-market impacted on Albase's approach to financial management.

### 7.9 Finance and Resources: 'earning income'

Alongside the use of targets, the DWP's approach to organizing the welfare-to-work quasi-market placed great emphasis on the idea that competition between delivery organisations would encourage innovation and improve service delivery (ONS, 2002; WPC, 2012). Through the tendering processes delivery organisations competed to secure a contract which would enable them to generate surpluses. That is, the design of the quasi-market and the contracts advertised allowed organisations to generate profits in the delivery of welfare services on the assumption that profit generation would support delivery improvements as businesses sought to increase the profits they could produce from their contract. As contracts included targets and minimum standards, the DWP's assumption was that services would be maintained and improved because organisations sought to maintain their contracts for income and increased profits (NAO, 2012b; WPC, 2012).

Arguably, moving away from grant based funding towards the idea of 'earned income' is one of the fundamental features associated with TSOs in public service markets (Frumkin and Galaskiewicz, 2004). Arguably, in the welfare-to-work market 'earning income' and generating surplus was one aspect of operating in a more 'business-like' way. As the extract below demonstrates, senior managers in

Albase identified the competitive pressures in the organisational field as an explanation for why the shift towards earning income and developing in this way was a positive move for Albase.

*“In the past five years or so we have moved from grants dependency to contested contractual income. We are competing against large private, often multi-national companies and are holding our own in terms of quality of service and value for money. This journey reflects that of the larger social enterprise sector in moving from a relatively unknown concept to one of the most exciting models for business development in Scotland today”<sup>114</sup>.*

As such, this section argues that a key way in which Albase became more ‘business-like’ involved financial management reform. This is because in comparison to previous employment and regeneration programmes involvement the welfare-to-work quasi-market required Albase to overhaul their financial operations and the way that they managed cash-flows<sup>115</sup>.

Prior to the introduction of competitive contracting in welfare-to-work programmes Albase were largely dependent on resources for ILM programmes which were administered in two ways. The first was through service-level agreements (SLA’s) with local authorities and housing associations where the ‘principal’ contracted the ‘agent’ to undertake specified work tasks (see Sanderson, 2001). The second main way in which Albase received funding for its activities was through a Full Cost Recovery (FCR) approach which is discussed in more detail below.

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<sup>114</sup> Anon Doc 35, 2007

<sup>115</sup> Respondent Madden

FCR is the principle by which TSOs, “are paid not only for the direct costs they incur by providing a service – for example staff salaries – but also for the indirect or overhead costs associated with delivering the service such as office space, information technology support and other support costs” (NAO, 2005, p.2). FCR covered the costs associated with the delivery of a project or service and this approach was the dominant funding method in Albase’s environment during the 1980s and 1990s. Arguably, the FCR approach was not designed for organisational profit or surplus making (in comparison to welfare-to-work funding). In the report *‘Working with the Third Sector’* (NAO, 2005, p.9-10), three types of financial relationship based on the principle of FCR between public sector bodies and third sector organisations were outlined:

- I. A “shopping” relationship – where a purchaser designs a specification for a service it requires or is statutorily obliged to provide, and seeks a supplier to provide that service;
- II. A “giving” relationship – where the funder provides support towards a specific project or in support of the organisation’s general objectives; and
- III. An “investing” relationship – where the funder provides support towards a specific internal organisational change, such as an enhancement in a third sector organisation’s managerial capacity.

Whereas many employment support programmes had previously been delivered through grant-based funding<sup>116</sup>, the welfare-to-work quasi-market matched the definition of a ‘shopping relationship’ because of the use of the competitive procurement procedures and contracts previously discussed. Fundamental to

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<sup>116</sup> Anon Doc 47

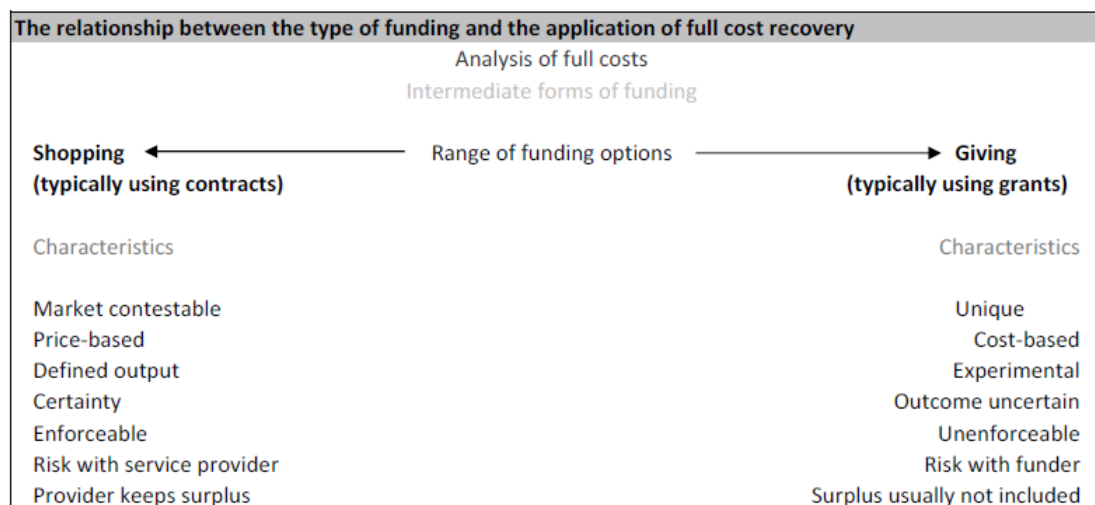
shopping relationships was the opportunity for commissioners to compare a number of service offers from potential delivery partners and chose the one which they preferred (NAO, 2005). That decision involved a consideration of price, or value for money, and as such, for Albase to win a contract it needed to be able to compete on these terms. The NAO stated that the move from giving/investing relationships to shopping relationships was problematic as TSOs were designed for and more experienced in the original administrative approach. The NAO argued that one of the main problems was that, “the main responsibility for ensuring the full costs of the specification are met falls on the provider (in this case, the third sector organisation)” (NAO, 2005, p.9), rather than on the principal.

In contrast, in giving and investing arrangements both the scope of the project and the costs of meeting it were discussed between funder and recipient during the project design phase and full costing of a project was the basis for funding decisions. As such, partner organisations delivered a project fully aware of the costs involved and with an expectation of a full reimbursement for delivering a service or project. Arguably the ILM model worked in this way and once the project had been established all the costs involved in its delivery were covered in the funding arrangements with commissioning bodies (and the SLA agreement). As such, using the NAO definition of funding arrangements it appears that the organisational field shifted from being based on a giving-relationship to a shopping-relationship. This institutional-level transformation created new pressures on Albase to change their approach to accessing and using financial resources. This is because the shopping relationship which underpinned welfare-to-work contracting emphasised market based competitive systems and for Albase, it invoked major internal restructuring over a period of approximately ten years. In this time their financial and management systems shifted from being predominately designed for the ILM model towards the shopping relationship requirements.



The NAO (2005) contends that shopping relationships replaced previous giving or investing relationships in many policy contexts. As outlined in the NAO diagram in Figure 7.1 below (NAO, 2007), whilst surpluses may not have been possible due to the FCR principle, it is unlikely that grant based relationships would have placed the TSO at a serious risk of making an irretrievable loss. However, due to the price-based mechanism the shopping relationship did create situations where TSOs could deliver services at a loss if their programme management or the competitive process led to an organisation securing a contract they could not afford to deliver. Thus in welfare-to-work contracting, the move from one approach (FCR) to the other (quasi-market) may have shifted operational responsibility, risk and financial management out of the public sector commissioning organisation and onto Albase.

Figure 7.1: The Relationship between the type of funding and the application of Full Cost Recovery



Source: NAO report, 2007, p.10

As previously noted, as the quasi-market replaced the previous grant-based systems in the wider environment in which Albase operated, Albase experienced a

transitional period where they moved from an organisational structure serving one funding relationship, to developing internal structures to meet the needs of the other. For a period of time the organisation operated financial procedures and business-strategies for each type of approach and sought to manage and understand the requirements of both funding approaches.

#### 7.10 Generating surpluses to fund organisational change

Despite operating a number of other projects which continued with the previous financial arrangement, over a period of eight years (between 2001-2009) Albase was able to gradually adapt their financial systems to the welfare-to-work requirements outlined previously<sup>117</sup>. Albase successfully won a number of welfare-to-work contracts, was able to earn income, and in some contracts it generated a large surplus<sup>118</sup>. The organisation used the surplus to invest in internal development in parallel to the on-going changes in the welfare-to-work market<sup>119</sup>. The impression gained during the fieldwork period was that without the surpluses generated in some of the earlier welfare-to-work contracts (such as the Employment Zone and New Deal contracts), Albase would not have been able to implement the required internal changes to continue in the welfare-to-work market.

However, a number of tensions can be identified in the data collected arising from these changes. For example, some documents demonstrate that employees raised concerns about the impact of this shift on organisational development. In a document from 2008 it was stated that, *“the implementation of FCR is vital if social*

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<sup>117</sup> Anon Doc 35

<sup>118</sup> Respondent Madden

<sup>119</sup> Respondent Doyle

*enterprise are to deliver effective services, as it is longer term funding and the need to recognise that social enterprises' sustainability depends on the ability to generate a surplus. A clear commitment to move towards FCR would ensure that social enterprises can receive the costs of essential central service such as financial, IT, Human Resource and other essential management services to ensure that they operate professionally and effectively.<sup>120</sup>*

Concerns also centred on whether they could successfully move from a negotiated FCR approach towards a shopping relationship where it was required that overhead costs were factored into the competitive price offered in the bid. The transition period involved a learning and adaptation phase where managers were concerned with adapting to the new relationship without increasing the risk of organisational failure<sup>121</sup>. For example, in an Albase document in 1997 it was stated that in order to adapt to the New Deal programme arrangements, *"heavy investment will be required in staff training and better quality materials and training programmes<sup>122</sup>."*

Furthermore, one respondent felt that the shifting payment schedule instigated more than an alteration to the organisation's financial processes. They felt that it was significantly altering the organisation's identity as staff and board members started to use 'surplus' figures as a measurement of organisational success. The respondent felt that this caused a major tension in the organisation's identity, and as visible in the quote below, questioned whether the business-like requirements of the welfare-to-work market were suitable for TSOs.

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<sup>120</sup> Anon Doc 8, 2008

<sup>121</sup> Respondent Sutton

<sup>122</sup> Anon Doc 7, 1997

*“So you have to look at it and say, is Albase going in the direction where its turnover is increasing and it looks healthy? That is what the underlying trading position is, but are its mission and values being eroded by following a government policy that’s been designed for the big Sercos of the world- it hasn’t been designed for the smaller organisations<sup>123</sup>”*

Other responses highlighted the impact of the shopping relationship on how the organisation viewed potential contracts. Here, it appears that targets and the potential to generate a surplus redefined the framework for service delivery. For example,

*“The contract doesn’t drive you, the contract gives you a set of rules under audit and compliance. It gives you an agreement about a performance expectation and it leaves you to get on with it. So, you then do a calculation that says, if I get X number of people in the door, and I get Y amount of them in a job, which I keep for 13 or 26 weeks, that will give me A, B and C. I do that calculation that says I need to get 35% of people who walk through the door, a job, and keep them a job for 6 months, then I will make surplus of that<sup>124</sup>”*

Whilst the respondent felt that the contract didn’t drive the organisation, arguably the framework influenced the way in which the organisation approached service delivery design as outlined below. From the data collected it appears that in Albase’s previous activities (the ILM model) the organisation identified social issues and created a project proposal with a funder based on the activities they would offer alongside the anticipated outcomes of the project. In many projects Albase participated in discussions with funders, and other relevant agencies during the design phase. The cost of the project was factored into the design, and many ILM

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<sup>123</sup> Respondent McMahon

<sup>124</sup> Respondent Somers

programmes included a core fee to cover some organisational costs. Due to the fact the relationship with the commissioning organisation (such as the EU or the Local Authority) was akin to a 'giving relationship,' generating a surplus and managing the surplus during the project delivery phase was not an over-riding outcome for Albase.

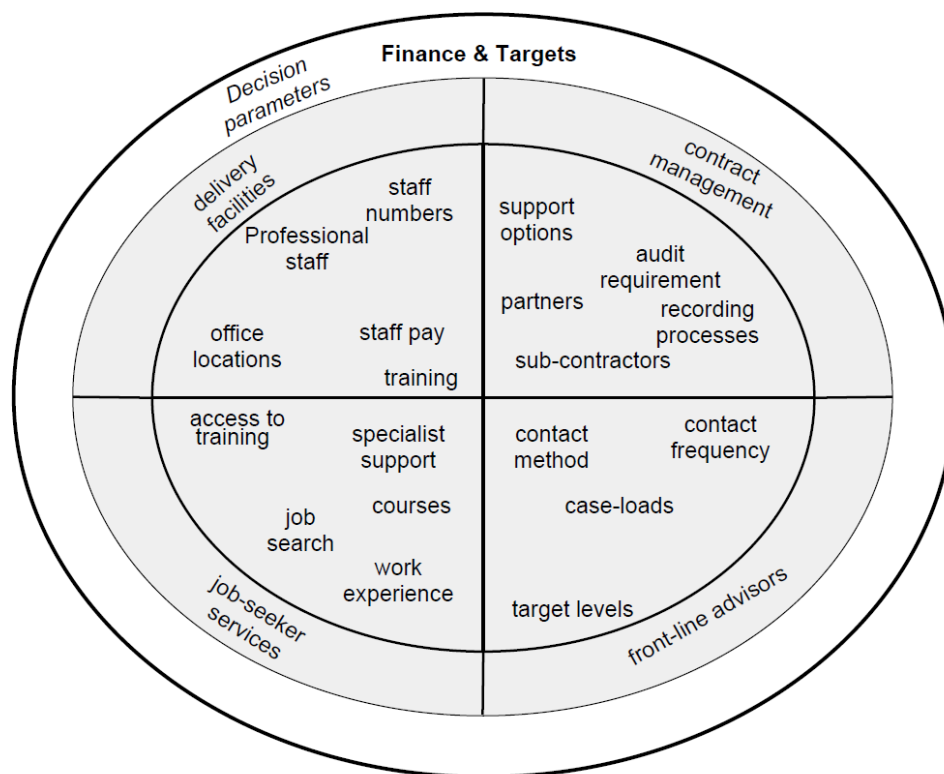
### 7.11 Designing employment support services

However, the contracting process in the welfare-to-work quasi-market reversed the activity design process for Albase. Targets and surplus options were prioritised and identified before the design of the services to be delivered in the actual programme. These factors (price and targets) created which are termed here as 'operational boundaries' for Albase. 'Operational boundaries' refers to the decision-making process and the pre-defined parameters from the quasi-market and contractual norms and rules. For example, the decision making process for Albase in welfare-to-work contracting focussed on what it could afford to offer and what targets they could achieve. Once these parameters had been identified it appears that the organisation would then break down aspects of the bid requirement. This process has been simplified and grouped into four (interrelated and non-linear) categories here (presented in Figure 7.2).

The first group, 'delivery facilities' focuses on the physical requirements for contract delivery, the second group 'contract management' covers how Albase approached their bid including the use of sub-contractors, the amount and type of audit requirement, and who and how much support options and partners they would work with. The third group, 'job-seeker services' includes the options to move individuals into employment such as the provision of training, access to support courses, whether a work experience element would be included in their bid and so

forth. Finally group four includes the management of the front-line services including the number of personal advisors, the frequency of contact, the case-loads of advisors and so forth. It is important to note that these groups weren't exclusive but it appears that they were bounded by the parameters outlined in the contract which were interpreted by the organisation's senior management into a framework for their bid. The process for 'working-up' the bid involved feedback loops at numerous stages between departments working on different areas of the bid, and ultimately to the overall framework based on finance and targets<sup>125</sup>.

Figure 7.2: A simplified version of Albase's service delivery design approach in performance-by-results led welfare-to-work contracts



<sup>125</sup> Respondent Bonnar; Respondent Doyle; Anon Doc 16; Anon Doc 77

Consequently, over time the DWP (through their administration of welfare-to-work programmes) not only prioritised particular organisational forms, but also particular processes that organisations used to determine service provision. Whilst the findings here do not suggest that all welfare-to-work providers adopted the approach used by Albase, it appears from the information gathered here that the contracting processes and the rules, norms, and regulations within the system created the environment where leaders within Albase decided that their approach was 'best practice'<sup>126</sup>.

### 7.12 Professionalizing human resources

This section argues that Albase's approach to human resource management experienced a noticeable shift from the 1980s to 2010. Part of the process of how Albase sought to become more 'business-like' involved a shift in their approach to the recruitment of, and required skill-set of employees. This section identifies a number of changes which reflect the shift in Albase's activities from an ILM provider to a welfare-to-work provider. It is argued that the changes required of employees is due to the targets culture of the organisational field which required different skill-sets from employees working at the front-line (advising and supporting jobseekers) and in leadership positions (enacting organisational change), than had been required in the previous funding and operating arrangements.

The shift from predominately operating and delivering the ILM model towards the welfare-to-work approach impacted on the organisation's recruitment preferences.

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<sup>126</sup> Anon Doc 15, 2010

Whereas the purpose of the ILM approach was to provide work experience and temporary employment to move individuals to the labour market, the requirements of the welfare-to-work field promoted the use of welfare-to-work specialists. Over time the organisation moved away from temporary staff linked to ILM projects and the ILM employees (or 'trainees' as they were previously known<sup>127</sup>), towards permanent staff (see chapter five). Many staff in the 1980s and 1990s possessed skill-sets based on their knowledge and experience of EU funding, regional employment policy, practical manual skills (i.e. they were supervisors on ILM projects) and the administrative skills required for EU funding schemes. Similarly, their posts were often project-linked and once the funding for a project finished, employment positions ceased to continue at the organisation. As the extract below demonstrates:

*"I think the traditional way of working in Albase was...get money for a project, that project in itself would then be the money that would recruit staff to run it, temporary employees if it was doing that, carry out the project and then the project would finish."<sup>128</sup>*

To become more business-like Albase adapted its HR strategies and business planning strategies to move away from employing temporary staff linked to specific projects and allocated funding, to full-time staff required to gain experience in welfare-to-work contracting and contract management. Full-time employees, with a different skill-set to that under the previous policy arrangement, were required to develop the organisational capacity and knowledge base required by the competitive market context<sup>129</sup>. Front-line employees (who may have had fixed-term contracts linked to a welfare-to-work programme) were required to have previous

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<sup>127</sup>(although not all temporary staff were ILM trainees or ex-ILM participants)

<sup>128</sup> Respondent Hamilton

<sup>129</sup> Anon Doc 1, pages 14-16



experience with assisting jobseekers, and the ability to work in a target<sup>130</sup> based culture. As evidence from a tender document demonstrates:

*“Our high standards of delivery in all of our activity are the result of the quality of our staff. We will recruit talented and committed staff, ideally from a commercial recruitment background<sup>131</sup>.”*

Similarly, the extract below from a New Deal contract in the early 2000’s outlined how the organisation was implementing management and cultural changes associated with what the author considered to be the preferential approach by the DWP.

*“Our working style is more typical of that found in a sales or marketing environment. By making these working practices central to our delivery, and by recruiting commercially experienced recruitment professionals who thrive in a high volume target driven environment we will be able to deliver jobs at a level significantly above the local, regional and national average<sup>132</sup>.”*

From the data collected it appears that due to the need to progress the transformation into a welfare-to-work organisation, Albase sought to employ experienced recruitment staff (as seen in the quote above), and retain through offering permanent contracts. The following extract summarises the way the change process in Albase involved an emphasis on managerial practices and recruitment processes associated with managerialist ideas outlined in chapter one.

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<sup>130</sup> For example, some front-line staff had previously worked in private sector recruitment firms

<sup>131</sup> Anon Doc 1,

<sup>132</sup> Anon Doc 2, p.4

*“We will recruit the best staff and adopt commercial performance management working practices in order to successfully move a high number of our clients into jobs, we will adopt a range of commercially oriented performance management working practices, more commonly found in sales and marketing environments. By making these working practices central to our delivery, and by recruiting commercially experienced recruitment professionals who thrive on working in a high volume target driven environment, we are confident in our ability to deliver jobs at a level significantly above the local, regional and national averages”<sup>133</sup>*

The transition from the arrangement prior to the welfare-to-work contracts to the organisation portrayed in the extract above was not simple. The background information in chapter five outlines how, over time, Albase shifted from employing temporary project based employees, towards an organisation where the majority of employees were on full-time contracts, which were less programme specific than previous arrangements. However, this shift created a major change in HR management, and some complications. As the extract below demonstrates, senior management respondents appeared to be aware that by employing the majority of staff on full-time contracts there would be times when Albase would struggle financially to cover the costs.

*“It gets more complicated every year, I think...We had a meeting this morning talking about the transition from contracts, current DWP contracts finishing next year, in the lead up to the Work programme, and in theory, we have a gap of 3 months, or could have a gap as much as 3 months, where we don't have funding for projects before the Work Programme starts, assuming we are running the Work Programme. So, what do we do for those 3 months? Do we pay everybody off and then re-recruit them? Or do we keep them, try and keep as many staff as we can and we use them in different things? I think the obvious thing to do is the latter, to keep staff. So, in terms of actual*

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<sup>133</sup> Anon Doc, Doc 1, p.3

*business planning and budgeting, how you do the annual plan and budget, it is never going to be fixed<sup>134</sup>”*

This transition from temporary, fragmented project staff into a ‘coherent organisation’ with core functions over an approximate eight year period during the 2000’s posed two main difficulties for the organisation; financial resource management, and staff retention. First, in order to employ individuals on longer-term or permanent contracts the organisation required ‘loose’ funding. That is, funding that was not allocated to a specific time-limited project such as an ILM funded by ESF. The ‘loose funding’ could cover employee costs when Albase was not in receipt of specific project or contract funding. Second, in order to attract and retain the staff required to compete against the larger multinational organisations, Albase offered full time, permanent contracts to a number of ‘core staff’. One respondent described core staff as those employees who worked in departments central to the organisation’s existence, i.e. they were not employed in the delivery of projects of programmes as such, instead they worked in function areas such as HR, finance, bid-writing and development, and PR - departments ‘shared’ by all the project teams<sup>135</sup>. These employees were paid for out of contract surplus, or from funding for organisational development from TSO resources.<sup>136</sup>

### 7.13 Management challenges

When the organisation was close to the completion of one contract and prior to the award of another (if they have been successful in winning a tender), respondents identified management challenges. Maintaining and resourcing core staff continued

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<sup>134</sup> Respondent Somers

<sup>135</sup> Respondent Somers

<sup>136</sup> Anon Doc 54, Anon Doc 55, Anon Doc 56; Respondent Somers

to consume Albase's resources at times when there was no certainty on future income. This challenge has always (to some extent) been an issue for Albase<sup>137</sup>, however in the welfare-to-work organisational field there was not only uncertainty about short-term income, but in the case of payment-by-results contracts, there were resource uncertainties for a longer period as money had to be generated from target attainment to cover these core functions and employees.<sup>138</sup>

The transition from project based funding to payment-by-results contracting also impacted on the financial budgeting approach of the organisation. As the history of Albase was based on projects with little 'profit' making opportunities (i.e. the programmes used a FCR approach) previous budget planning involved the identification of an annual budget which when agreed by the board, became the boundary for the upcoming years' activities. Respondents stated that over a short period of time the organisation moved towards a more fluid approach to financial budgeting to take into account the uncertainty of the funding environment.

*"So the whole thing is very complex and has to be managed, monitored and managed properly. So we need to know, you know, we need to be able to take decisions quickly if the case, just describing the transition time, if we decide to keep the staff on and you know, being to make a loss, then we need to review that and know what we are doing. So it is a big managing a complex financial world that we are in<sup>139</sup>."*

The shift from project based ILMs towards a business-like welfare-to-work model brought up issues regarding the organisation's ability to attract "professional" staff.

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<sup>137</sup> Respondent McMahon

<sup>138</sup> Respondent Somers; Anon Doc 15

<sup>139</sup> Respondent Somers

Issues about staff capacity and professionalism occurred throughout Albase during the transition from the ILM delivery organisation to a 'business-like' welfare-to-work organisation. It is argued here that creating a new organisational structure and responding to the requirements of the welfare-to-work organisational field required the services of skilled professionals in leadership positions in the organisation. Albase experienced a period of major restructuring of the higher-level managerial positions (in the early 2000's) and a turnover of staff from those which had been with the organisation from the start (including the resignation by and replacement of the founding CEO and a number of other department heads<sup>140</sup>).

The need for skilled professionals in leadership positions also generated internal demand for more professionalization throughout the organisation. The impression gained from the ethnographic research and from some respondents was that particular professions were required so that new systems could be established and overseen on an ongoing basis. Respondents suggested that this was necessary in order to comply with the expectations of the outside professional consultants and funders.

*"We will recruit the right kind of staff and adopt commercial performance management working practices. Although our practices and approach would rival any private sector recruitment agency."* <sup>141</sup>

The move towards becoming more 'professional' affected the day to day work of employees. Alongside the changes outlined above, there was a move towards more

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<sup>140</sup> Anon Doc 83; Anon Doc 84; Anon Doc 85

<sup>141</sup> Anon Doc 2, p.3

“flexible staff”<sup>142</sup> in terms of the work they did in regards to applying for and securing external resources. This meant a shift away from staff funded and working purely on a project with specified funding (as was the case for ILMs), to staff working across the organisation with a responsibility for accessing and finding new contract markets<sup>143</sup>. As such, throughout the 2000’s the development and funding staff were increasingly required to understand a range of policy contexts, procurement and bidding processes, and be able to adapt the organisation’s activities to secure external resources from a range of resource contexts. There was a shift within the organisation towards development staff with experience in employability and tender writing and the perceived future needs of the business.

*“I suppose what I’ve done...I’ve not kicked people out the business, but where there has been natural sort of turnover, where people have left the development team...people that have come into the development team have an understanding that there’s a flexibility about it, and that we’ve selected people on that basis. But also, if they have a CV, then it’s a CV that can make a business impact and that has been around employability.”<sup>144</sup>*

The managerialist approach for service delivery prescribes that organisational culture focuses on leadership, human resources and ‘staff empowerment’ (see Peters and Waterman, 1982). For a short time in the mid 2000’s as part of the change process Albase was experiencing in response to the quasi-market environment a more traditional managerialist approach was used. This was based on organizing the behaviour of front-line staff not on the basis of their professional affiliation, their third sector ethos of helping other people, or their previous arrangement within Albase, but by, *“motivating our staff by engaging them in the process of objective setting*

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<sup>142</sup> Respondent Doyle

<sup>143</sup> Respondent Doyle

<sup>144</sup> Respondent Doyle

and through linking their performance to pay increases<sup>145</sup>." This approach had not been used in previous activities, and it was arguably only an approach adopted due to the emphasis on targets and competition in the welfare-to-work quasi-market. From the data collected it was not evident that Albase continued with this approach as front-line employees at the time of this research did not receive performance related pay (although all worked towards 'people-into-jobs' targets<sup>146</sup>).

#### 7.14 Adopting the language of contractualism

A number of aspects can also be identified regarding how Albase's approach to assisting job seekers may have become more permanently influenced by the managerialism of the welfare-to-work organisational field. Firstly, in welfare-to-work activities the job seeker or the welfare 'beneficiary,' was portrayed as a 'consumer,' 'client' or 'customer.'<sup>147</sup>Albase adopted these key terms from the welfare-to-work programmes into the organisation's terminology. For example, in tender documents Albase stated that, "we will adopt a *client-centred* approach to New Deal delivery<sup>148</sup>", identified, "*client* related problems<sup>149</sup>", and stated that, "success is attributable to the attention paid to building relationships with employers, understanding their needs, and matching our *clients* to their job opportunities.<sup>150</sup>" Arguably, this NPM terminology contrasted with Albase's previous EU funding applications where 'beneficiary' was more commonly used.<sup>151</sup> However, an impression which was gained during the data collection was that over

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<sup>145</sup> Anon Doc 1, p.16

<sup>146</sup> Respondent Murdoch

<sup>147</sup> Respondent Campbell; Respondent Doyle

<sup>148</sup> Anon Doc 1, p.2, *emphasis* added

<sup>149</sup> Anon Doc 13, 2000, p.23, *emphasis* added

<sup>150</sup> Anon Doc 6, p.2, *emphasis* added

<sup>151</sup> Anon Doc 2

time just as ideas regarding the use of targets and indicators became 'legitimated' (Suchman, 1995), so did managerialist terminology. It appeared as though a number of managers had adopted a managerialist way of working (Aiken and Bode, 2009) and organizing in welfare-to-work contracts. For example, in meetings bid writers and senior managers regularly used phrases such as, 'customer journeys' and 'client target attainment',<sup>152</sup> which reflected the institutionalised terminology in the welfare-to-work organisational field.

Collectively, over time a number of apparently managerialist processes and systems were incorporated into Albase in response to the organisational field and the perceived requirements of the quasi-market contracting system. This included the use of managerialist terminology and phrases, a shift in terms of human resource policies and employee experience, and the incorporation of new ways of organizing which included 'earning income' and target attainment.

### 7.15 The influence of private contractors

The final section of this chapter focuses on how Albase was promoted and marketed and how this changed due to its involvement in welfare-to-work contracting. It is argued that the DWP's emphasis on welfare-to-work organisations demonstrating that they were 'business-like' affected the way the organisation communicated with other organisations in their environment, and the way in which the organisation portrayed itself. Before discussing these issues it is worth briefly recapping on the some of the information from chapter five regarding the types of organisations involved in the welfare-to-work quasi-market.

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<sup>152</sup> Anon Doc 15



As discussed in more detail in chapter five, as the quasi-market developed from 1997-2010 it became increasingly dominated by large, often multi-national private sector organisations. In short Albase's involvement in the late 1990s and early 2000's included limited competition with private sector organisations other than specialist welfare-to-work providers such as A4E and Reed in Partnership. Gradually, as the value of the contracts grew different types of private sector competitors entered or increased their role in the market. This included multinational welfare-to-work organisations such as Ingeus, or large contract management organisations such as G4S and Serco.

It is argued below that due the increased role of private sector organisations (which appeared to be aligned with the DWP's concept of business-like), when Albase rebranded in the mid-late 2000's it was influenced by these competitive pressures to conform to the dominant and arguably expected welfare-to-work delivery organisation image. There is not room in this thesis to discuss how the ideas of welfare-to-work image became dominant in the field, or whether other organisations also adopted to approach implemented by Albase. However, in terms of the change narrative of Albase, it appears that there were isomorphic pressures in the rebranding process as discussed in more detail below.

#### 7.16 Publicity and communication

Prior to Albase's involvement in welfare-to-work contracting it was engaged in the delivery of ILM programmes and regeneration activities in local neighbourhoods throughout Scotland. When delivering local ILM programmes Albase tended to

release 'good news' stories into local and regional newspapers (such as, the Paisley Advertiser, and the Scottish Herald)<sup>153</sup>.

Figure 7.3: Example of a 'good news' story

*Our report, 'Algerians unheard of since deportation', depicted the plight of, among others, Gordana Vasic who was having difficulty finding a job which would utilise her linguistic and librarian skills (October 26).*

*I am happy to report that, after a year on Albase's employee status programme, where unemployed people are given training, work experience, and a real wage, Gordana has found a job with the University of Strathclyde Library which matches her skills.*

*Her success in finding suitable employment offers hope to other refugees trying to integrate into Scottish society; that, with a considerable amount of hard work, it is possible to find a job that matches the skills and experience they amassed in their native countries.*

Source: 'Matching Skills' Herald Newspaper, 1995

According to respondents these stories displayed the value of the organisation's activities to the local community and attracted ILM trainees into their programmes<sup>154</sup>. However, becoming more 'business-like' required Albase to also create a 'brand image' and promote itself to others within the welfare-to-work market<sup>155</sup>. Whilst some local stories continued to be published, according to respondents Albase's communication team shifted their attention to the national press and welfare to work industry<sup>156</sup>. Respondents felt that marketing the

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<sup>153</sup> Anon Doc 90; Anon Doc 91; Respondent Connelly

<sup>154</sup> Respondent Hamilton; Respondent Collins

<sup>155</sup> Anon Doc 86

<sup>156</sup> Respondent Collins

organisation to the welfare-to-work industry would attract partners and promote the organisation to politicians, competitors and supporters. They stated that the aim was to portray Albase as a *'leading welfare to work organisation'*<sup>157</sup>. As such, an image of Albase was portrayed of a large, professional business, capable of delivering the larger contracts required in public service markets. Arguably, the rebranding sought to shed and discourage perceptions of the organisation as a *'charity'*, and promote ideas of associated with *'social enterprise'* such as contract management, employment knowledge and innovation.<sup>158</sup>

Albase promoted its image as an experienced delivery organisation through welfare-to-work events and advertising aimed at the industry audience<sup>159</sup>. This approach differed from local and regional news stories which were aimed at service users (i.e. unemployed people and local communities). In particular their strategy for marketing the organisation in the welfare-to-work quasi-market differed from the ILM approach which focussed on politicians and policy makers at the local (Local Authority level) and funders across the region<sup>160</sup>. Table 7.2 outlines the changes which occurred in Albase's communication efforts. The extract below summarises the way in which Albase had moved from a local to national audience.

*"So we had gone from being in the Paisley Advertiser or the Kilmarnock Standard, to being on Panorama, BBC 6 o'clock News, Radio 4 World at One Today programme, BBC Scotland."*<sup>161</sup>

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<sup>157</sup> Respondent Collins; Anon Doc 81

<sup>158</sup> Respondent Collins; Anon Doc 88

<sup>159</sup> Anon Doc 15; Anon Doc 95; Respondent Collins

<sup>160</sup> Respondent Hamilton

<sup>161</sup> Respondent Collins

Table 7.2: Target audience pre and post welfare-to-work contracting

<b>Pre</b>	Purpose	Audience	Methods
<b>welfare-to-work</b>	Funding requirement	Funders: EU office, LA, Scottish Government departments	Press release in local papers,
	Promote local work	Local politicians	Booklets, 'Good news' stories
	Attract service users	Jobseekers, Other support organisations, Job centre	Bus stop advertisements, Community newsletters
<b>Post welfare-to-work</b>	Increase profile	Funder: DWP, prime providers	National newspapers
	Brand and image of 'leading welfare-to-work'	welfare-to-work organisations (competitors and partners)	TV slots
	Increase perception of size and capability		Industry event sponsorship and attendance New website and logo

If we compare these two approaches Albase may have shifted its marketing strategy in response to their environment and their changing activities. Whereas their earlier approach may have reflected the history of the organisation as a local grass roots organisation, working close to and assisting local people, Albase's approach during the 2000's may have reflected the organisation's response to the DWP's expectations from delivery organisations in terms of the organisational capacity, structure and ability. It may have also reflected what some employees perceived as a successful organisational image in their competitive environment. Respondents stated that the aim was to create an image of one whole organisation instead of the localised 'project-based' structure it had naturally developed through the delivery of ILM programmes and separate policy funding streams. One respondent felt that had changed in order to give one brand and one image of the whole organisation to promote and increase the profile.

*"You can't tender for those kind of contacts and play with the very big providers, such as the A4E's, Working Links and various other people, if you don't have a profile."<sup>162</sup>*

### 7.17 Restructuring and branding

Respondents talked about the need to restructure the organisation to be branded as 'one vehicle' rather than in terms of the project or department they worked in<sup>163</sup>. This appears to be due to the perceived pressures from the welfare-to-work organisational field and the competitive element of this environment as respondents discussed the need to show a united and larger organisation to the DWP in order to increase their chances of gaining funds. Albase increased its PR and

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<sup>162</sup> Respondent Collins

<sup>163</sup> Respondent Somers; Respondent McStay

communications team and they, along with senior employees actively rebranded the organisation<sup>164</sup>. From around 2005 there was a gradual increase in stories and publicity aimed at an audience outside of the immediate delivery area (central Scotland). This was targeted at key decision makers, partners and competitors throughout the UK<sup>165</sup>. Respondents emphasised the importance of expanding the reach of their marketing work to include government agencies and individuals based in London.

*“If you go to BBC online and you get a story on there, that’s equivalent to £120 000 worth of free advertising each day it is on there. And that’s the, what you have to keep bearing in mind, online is a perfectly legitimate angle. One story that we did, the BBC online put it on and it was on there for 7 days. And I counted on the hits that it did, and it had nearly 800 000 hits on that story. Now you are never going to get that on the readership of The Herald or The Scotsman or The [Scottish] Sun, you are just not going to get that.”<sup>166</sup>*

A possible explanation for the shift in PR, image and marketing experienced by Albase is put forward here. Albase’s main activities were previously funded through EU grants and other sources of public sector income received through ‘giving relationships.’ For Albase prior to the welfare-to-work market there were two groups of target audience: 1) the user/client/beneficiary, 2) the donor/funder. In previous FCR programmes advertising a project or service to job seekers and the general public was a condition of funding, particularly for EU funded projects which emphasised the need to widely advertise the outcome of EU spending in local communities. However, in the welfare-to-work market the requirement to advertise their services to jobseekers was minimised as Jobcentre plus assigned individuals to

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<sup>164</sup> Respondent 10 Collins

<sup>165</sup> Anon Doc 15; Respondent Collins

<sup>166</sup> Respondent Collins

contracted delivery organisations through a random allocation process (Millar, 2001; Grenberg, *et al*, 2005).

Furthermore, some contractual arrangements discouraged delivery organisations to advertise their services to jobseekers. For example, for the FND the DWP stated that “suppliers can produce material for customers but not for the purposes of customer recruitment” (DWP, 2008d, p.321). The customers in the welfare-to-work programmes were not the users (i.e. jobseekers) as they were unable to choose their own service provider. It appears that because the DWP was the customer in this exchange relationship Albase shifted its behaviour to target the DWP and other associated resource providing organisations with branding and marketing exercises. One possible reason for Albase’s shift in marketing strategy therefore may have been because the organisation was seeking to match the rules and regulations of the organisational field, rather than maintain its previous approach. In the welfare-to-work quasi-market there was no incentive for Albase to continue to advertise to jobseekers and service users.

#### 7.18 Seeking legitimacy

According to Suchman, (1995) this behaviour could be attributed to the organisation’s desire to gain legitimacy in their organisational field. He argues that, “legitimacy affects not only how people act toward organisations, but also how they understand them. Thus audiences perceive the legitimate organisation not only as more worthy, but also as more meaningful, more predictable and more *trustworthy* (p.575). As Meyer and Rowan (1991, p.50) put it, “organisations that...lack acceptable legitimated accounts of their activities...are more vulnerable to the claims that they are negligent, irrational or unnecessary.” (ibid). As one respondent stated;

*“Brand is important, protecting and enhancing your reputation is always important... We play in a much bigger game now since we became a contractor, because we have gone onto the next level. And if we want to retain at that level, and not slip back down, we have got to be as clever as everyone else.”<sup>167</sup>*

In order to expended resources on features such as brand and marketing resources were acquired through profit generation or through capacity building programmes. Albase’s involvement in the New Deal and Employment Zone in the early 2000’s provided ‘surpluses’ which they used to reinvest in departments such as the marketing and communication team.<sup>168</sup> However, expending these expenses alongside the requirement for Albase to advertise to others (rather than the beneficiaries of their services) may clash with the mission, objectives and purpose of some TSOs. In terms of organisational change and in regards to marketing and image, Albase was replicating what employees perceived was the required organisational type.

Albase adapted to the requirements of the welfare-to-work market and adopted characteristics and processes which made them appear more ‘business-like’. Arguably, part of the reason for using the social enterprise terminology was to assist in portraying the organisation as a commercially experienced and organized unit<sup>169</sup>. However, if we question some of their activities and behaviour, it appears as though part of their decision-making remains rooted in a traditional TSOs context rather than private sector business rationality. For example, a number of employment and

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<sup>167</sup> Respondent Collins

<sup>168</sup> Anon Doc 56; Respondent Madden

<sup>169</sup> Respondent Collins



regeneration activities did not make a surplus, and some consistently had difficulty in attracting follow-on funding.<sup>170</sup> When asked whether making a surplus from a contract was an organisational requirement when bidding for resources, a number of respondents felt that it was important in welfare-to-work, but less important in the localised or original projects<sup>171</sup>.

*“The board has given the SMT (senior management team) and finance some direction in that as there has been flexibility with it in the past. Finance have said to me, well it’s not actually providing surplus, not what we’d hope for, however we recognise that, and we want to continue. For example, it could be sustaining an existing service, which then sustains permanent staff or supports regeneration.”<sup>172</sup>*

### 7.19 Becoming a social enterprise

This final section briefly discusses one aspect of organisational change for Albase, the shift from being a ‘charity’ to a ‘social enterprise.’ It is argued here that part of becoming more business-like for Albase involved adopting the language and concept of ‘social enterprise<sup>173</sup>’. Social enterprise has been described as “blurring the boundaries between non-profit and profit” (Dart, 2004), and this seems particularly apt in the context of welfare-to-work and the market requirements outlined by the DWP.

Albase heightened its social enterprise identity in the mid-2000’s. From the data collected this occurred through regularly emphasising in press releases, official

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<sup>170</sup> Anon Doc 5; Anon Doc 59

<sup>171</sup> Anon Doc 15; Respondent Sutton, Respondent Doyle, Respondent Madden, Respondent Somers

<sup>172</sup> Respondent Doyle

<sup>173</sup> Respondent Somers; Anon Doc 88

publications and in tender documents that it is a 'social enterprise'<sup>174</sup>. It is questionable whether at this point the all employees of the organisation fully accepted that it had fundamentally. For example, despite winning welfare-to-work contracts since 1999 in 2005 it still referred to itself as a charity on internal documents. Notably some employees also compared its performance to other charities rather than social enterprises or private contractors in the welfare-to-work field<sup>175</sup>. It began to move away from identifying itself as a charity (as is its legal status) and towards adopting the term 'social enterprise' on most of its outward facing documents such as the website, annual accounts and policy consultation responses<sup>176</sup>. Some respondents felt that this was due to the evolution of the organisation, whilst other felt that it needed to distance itself from the 'idea of charity.'

*"Albase is not grant dependent, it is income dependent in contracts. It earns its money from output. And if it doesn't have the output it doesn't get paid. Whereas, I think, the majority of organisations that the SCVO represent are grant aided. They are very different, well Albase is very, very different."*<sup>177</sup>

As outlined earlier in the chapter one key characteristic which differentiates a charity from a social enterprise is the emphasis on earned income, an idea synonymous with ideas of business "trading" and generating surplus. Earning income through delivering services on behalf of the public sector, or earning income through charging for a service or product appears to have moved the organisation away from traditional resource acquisitions based on grant funding. Grant funding (alongside charitable giving) are resource strategies considered as defining

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<sup>174</sup> Anon Doc 35; Anon Doc 73; Anon Doc 74; Anon Doc 88;

<sup>175</sup> Respondent McMahon

<sup>176</sup> Anon Doc 92; Anon Doc 93

<sup>177</sup> Respondent McMahon

characteristics of charitable and community based organisations (Anheier, 2005) and are considered to be the opposite to ideas of earned income and financial independence (see Pearce, 2003). According to the respondents from Albase they viewed themselves as a social enterprise because “nearly 70% of income is, ‘earned’ or contractual in nature<sup>178</sup>,” and due to their change in operating activities from a local regeneration organisation to a public sector contracting business<sup>179</sup>. Arguably, the policy environment and wider policy understanding of the term ‘social enterprise’ was part of the reason for the transition.

*“You become defined as a social enterprise which is almost a for profit social entity. It is not profit distributing, it is profit making. It has got to make a profit for reserves and reinvestment purposes. You have to act and think as a private sector business and that is why it is social enterprise. It is enterprise with a social purpose.”<sup>180</sup>*

In a newspaper article from 2009 CEO3 is quoted as saying that Albase’s success in welfare-to-work contracting can be linked to the way in which it was able to develop into a social enterprise with the required organisational characteristics to meet the DWP’s requirements.

*“I think it is very important for social enterprise. It demonstrates that we can compete with large multi-national private businesses on quality, price and delivery,” (anon doc 88)*

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<sup>178</sup> Respondent Somers

<sup>179</sup> Respondent Campbell

<sup>180</sup> Respondent McMahon

The shift from portraying itself as a charity or an Intermediate Labour Market organisation, to a social enterprise is discussed in more detail in chapter eight.

## 7.20 Summary

This chapter has focussed on the managerial and structural changes which occurred in Albase since the introduction of the welfare-to-work quasi-market in 1997. It began by arguing that whilst the DWP promotes both TSOs and private sector organisations in policy documents, the administration of welfare-to-work programmes has included a number of quasi-market rules, regulations and organizing features which are more aligned with typical private sector characteristics. Through a detailed discussion of the quasi-market documents which demonstrated the DWP's emphasis on 'business-like' features, it was argued that the payment schedule prioritises two sets of characteristics; finance and resources, and contract management and performance. Furthermore, as resources and contract attainment became weighted towards these characteristics, it was argued that the DWP bestowed legitimacy on the organisations which demonstrated these features in the contract competition process.

The chapter considered these two features in more detail and identified the importance of the payments-by-result mechanism in creating the 'business-like' concept. The use of this payment approach increased competition and risk for Albase and arguably this aspect of the contracting system, which requires on upfront capital, further demonstrates that the system was designed with preference for private sector qualities.

Albase adapted to these rules, regulations and legitimating processes in the organisational field by establishing new managerial processes, in particular through controlling and managing activities through the use of targets. It was noted that some of these processes extended beyond the reach of welfare-to-work programmes and similar systems were established in areas of the organisation without the same organisational requirements. It was suggested that this transfer of managing ideas supported ideas of isomorphic behaviour and legitimacy. It was also noted that in terms of the ability to change Albase's experience demonstrated a transitional process due to the use of target based management in other funding sources.

It was argued that the contract management characteristic required by the DWP led to new roles and employment positions in the organisation, and new ways of organizing work activities. The change was attributed by respondents to the rules and regulations of the field, and not to the economic rationality of actors. Daily, monthly, and annual reporting became a new aspect of the workplace and was directly attributed to the influence from the quasi-market.

Attention was given in this chapter to the emphasis on competition in the quasi-market and the idea of earning income. It was demonstrated that earning income was a core characteristics of the quasi-market and is rooted in NPM ideas of competition and innovation. The shift in the field from FCR to a shopping relationship was considered in more detail and how Albase adapted to this shift was covered. During the transformational period identified in chapter five it appears there was a gradual adaptation to the shopping relationship approach but this became more difficult as welfare-to-work contract values and competition with larger organisations increased. It was noted that Albase required financial investment in internal processes to shift to the new financial planning processes and

questions of whether missions and values would erode in this process were raised by some respondents.

The control aspect of the contracting system and service design was also highlighted. It was identified that for Albase this created new operational boundaries in terms of how services were designed and that targets and financial regulations were considered as the controlling boundaries in the new systems. Consequently, adaptations to the quasi-market rules and regulation appeared to be part of a rational-economic choice to reduce transaction costs and economic risk, and could also be attributed to the coercive isomorphic nature of the tendering and contracting process.

In order to manage the new organisational field, Albase undertook a number of organisational changes. This included professionalizing human resource processes and there was evidence that these changes included an emphasis on commercial qualities, recruitment background and target driven environments (section 7.2.2). It was noted that this adaptation to the contracting environment led to more employees working on permanent contracts, and an increase in staff core staff which created cash flow difficulties if contracts finished. Transition from fragmented staff to 'coherent' staff and resource uncertainties for these costs, and this may suggest that the changes demonstrate mimetic isomorphism as the leader of Albase sought to demonstrate and possess the same organisational qualities as competitors.

It was also argued that the change processes meant that different skill sets were required for the leadership team and the employees in the development team. There was also evidence of a shift in the way performance was measured for these employees with an emphasis on contract value and income generation for Albase.

Whilst there was some evidence that Albase had implemented performance based payments in the delivery of welfare-to-work contracts, this appeared to be a temporary approach in the mid 2000's which did not continue. However, all front-line staff worked to people into jobs targets.

Finally, the changes which occurred in the way actors within Albase communicated with others in the organisational field suggest that there had been a shift from focussing on communicating with jobseekers (and local actors) to competitors and resource holders in the quasi-market. This may suggest that resource dependency theory and idea that Albase was trying to influence others within the field to maintain and gain resources, has some relevance in explaining the change process. However, there was also some evidence of mimetic isomorphism in terms of how the image of a professional welfare-to-work provider was imagined and created. An issue which will be discussed in more detail in chapter eight is the concept of social enterprise in the change process and how the adoption of this term may demonstrate Albase's efforts for resource diversification. However, this chapter highlighted how Albase's rebranding process involved shifting terminology from ILM or charity to social enterprise in an effort to be considered as an efficient and more business-like organisation. Arguably, the shift was more than a discursive one due to the associated structural and operational changes implemented in the efforts to be considered as business-like, and may therefore be part of a legitimacy seeking strategy.

Throughout the chapter it was demonstrated the organisational change process appeared to be in response to the concept of 'business-like' and the importance this concept played in the allocation of resources and power (in terms of the prime-contractor model) by the DWP. In sum, the transformation phase in which Albase became less associated with its previous structural and organisational arrangements

and processes arguably occurred due to isomorphic pressures from the DWP. However, there also appears to be some strength in the resource dependency arguments, and whilst transaction cost theory does not seem to explain this transformation overly well, some aspects of change (such as the transformation of the service design process) appear to be part of a rational-choice model to reduce costs and risks associated with DWP exchanges.

Thus far the thesis has outlined the change processes and transformation of Albase in terms of its activities, structure and managing processes. Bringing together the findings here with those in chapter six it appears that due to the need to find new resources to replace ILM activities which became less favourable in the organisational field, Albase became heavily involved in welfare-to-work funding. This created an exchange relationship with the DWP, and as demonstrated in chapter five, over time it became dependent on funding from this source. Whilst the welfare-to-work funding originally suited Albase's traditional employment support activities, as it became more market orientated it created a number of organisational change demands for Albase. Albase adapted to DWP requirements which increasingly emphasised 'business-like' behaviour. Albase therefore became more 'business like' and emphasised the concept of 'social enterprise' over charity, actors incorporated new processes in order to gain resources and legitimacy within the market. It appears that the extent of these changes suggests that Albase experienced resource dependency in the welfare-to-work quasi-market relationship.





# CHAPTER 8 - ORGANISATIONAL CHANGE

## ISSUES AND TENSIONS

The purpose of chapters six and seven was to answer the research questions and explore how involvement in the welfare-to-work quasi-market impacted on the activities and structure of Albase. This chapter discusses some of the issues that Albase experienced as changes were enacted in the organisational field, in particular contract based changes introduced by the DWP. The aim of this chapter is to explore these issues and draw on the theoretical framework to understand why Albase changed in the way it did and what problems and issues were negotiated. It is anticipated that the discussion of these issues and tensions will help explain the pressures in the organisational field and further understand some of the change processes.

This chapter is comprised of a number of sections. The first focuses on the issue Albase faced regarding business planning and adapting to a contracting environment based on payments-by-results. The second section discusses the decision for Albase to become a 'prime provider' when the quasi-market was reformed in 2008 due to the amendments suggested in the DWP's Commissioning Strategy (2008). Moving on from these discussions (and drawing on neoinstitutional economics) the chapter will then focus on the cost of market involvement and identifies three types of costs: market participation costs; business acquisition costs; and traditional transaction costs. There is a discussion of how these costs affect market involvement and the perceptions of organisational change. Drawing on a discussion of resource dependency, the final section reflects on the impact of

welfare-to-work quasi-market involvement on resource diversification efforts and suggests the impact this had on the change processes Albase experienced.

### 8.1 Business planning with income uncertainty

As outlined in chapters five and seven, Albase delivered a number of welfare-to-work contracts which involved varying levels of the payment-by-results approach. This section focuses on how Albase adapted to the recommendations of the report by David Freud (the then special advisor to James Purnell MP the then Secretary of state for Work and Pensions), "Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare-to-Work" (DWP, 2007c). As previously mentioned in chapter seven, the report suggested three amendments to the contracting system:

#### 1. Payment-by-results:

Based on an 'AME/DEL switch' process the paper argued in terms of public sector financial management - that the funding for employment programmes could be achieved through benefit savings. Providers could be paid (DEL) based on the savings they make to social security payments (AME).

#### 2. A top tier of prime providers:

To reduce the number of contracts managed by the DWP the prime providers would be responsible for supply chains in their contract area.

#### 3. Larger contracts:

It was proposed that contracts be expanded to cover larger geographical areas, and more benefit recipient groups such as a range of health benefit claimants, lone parents and ex-offenders.

Arguably, the modifications were designed to reduce the transaction costs for the DWP associated with designing, tendering and managing a large number of complex contractual relations (NAO, 2012). Similarly, as Oster (2000) previously suggested in relation to public sector contracting, the change in governance structure may have also offered an efficiency gain as the state sought to off-load tasks into the less political and more single-minded corporate sector. However, changes to the administration of market mechanisms as outlined above also impacted on the accessibility of public service markets for delivery organisations such as Albase.

The DWP's Commissioning Strategy (2008) put the Freud recommendations into practice and the design of the Flexible New Deal (FND) programme (phase one) was the first welfare-to-work programme which incorporated the new arrangements in the quasi-market. The FND phase one contract was the largest (with the most emphasis on payment-by-results) of the contracts Albase secured. Whilst the move towards a payment-by-results model for the quasi-market was viewed by the DWP as the best way to pay providers for their service delivery work (Freud, 2009), for Albase the model presented a number of issues.

First, due to the way in which contracts were administered, business planning and future growth became more difficult to plan and manage during the contracting phase. It is argued here that this was particularly acute in regards to the larger contracts, such as the FND and the subsequent Work Programme (see chapter five for details on the welfare-to-work programmes), which included an expected five

year contract length and which were accompanied by longer procurement processes lasting up to 18 months (Harari, 2010; WPC, 2012). The programme design resulted in increased levels of uncertainty for Albase as the programme centred on the Freud recommendations and meant that the expected income (the total contract value) was unclear during the business planning stage. This made forward planning of business development difficult, particularly when managers in Albase were trying to invest in internal functions to “build capacity”<sup>181</sup>. For example, Albase secured a FND phase one contract in 2009, which was originally valued at £138 million, based on an anticipated 90,000 customer volume. However, due to a revision of the referral volumes after one year, the contract was re-valued at approximately £80 million over the 5 years.<sup>182</sup> This was also an issue with the EZ contract (despite the inclusion of milestone and on-programme or non-performance linked payments discussed in chapter seven) where it was reported in Albase’s management meeting in 2006 that the programme was not providing the expected income:

*“The Employment Zone is now fully embedded and has produced £1.3 million of additional income over 2005, although this has been largely surplus-neutral since the numbers of clients flowing through the zone have been much smaller than we were led to believe would be the case by the DWP.”<sup>183</sup>*

However, as the FND was much larger than the EZ contract, and because it did not include as many milestone payments, the level of uncertainty was increased. A problem with the payment-by-results policy for Albase was the lack of transparency of referral figures outlined at the tender stage and how it translated into income during contract delivery. This presented an extra risk consideration for the longer

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<sup>181</sup> Respondent Doyle

<sup>182</sup> Anon Doc 16

<sup>183</sup> Anon Doc 14

contracts such as the five year FND phase one programme. This is because upfront delivery costs meant that during the first year there was an increased necessity that the referral numbers translated into actual jobseekers, and then that some of these jobseekers entered employment<sup>184</sup>. During this time the organisation experienced maximum financial exposure as money was expended on service provision based on service user number predictions and on anticipated job-entry payments. The organisation termed this a 'depth of risk issue,' during the first year of the FND contract due to this extra degree of risk.<sup>185</sup>

A second and related issue that affected Albase's financial planning was the payment timing. The payment-by-results model required each contractor to invest its own money in the earlier years of the contract and only 'hit even' and then make a surplus in the latter years of the contract<sup>186</sup>. Arguably, this also increased the length of risk exposure for Albase. For the 5 year FND model the organisation expected that the cash flow would not become positive until approximately three years into the contract, with surplus expected in the final 20-24 contract months<sup>187</sup>. This was described as a 'length of risk' issue where Albase would be exposed to risk for a number of years as the early stages of the majority of services required for contract delivery were self-funded<sup>188</sup>. As such, programmes such as the FND (and the Work Programme contract which Albase did not win) required each provider to "cash and pump<sup>189</sup>," a large amount of up-front capital. The design relied on both the availability of capital in the early stages and the possibility of more cash during

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<sup>184</sup> Respondent Doyle

<sup>185</sup> Respondent Doyle

<sup>186</sup> Respondent Bonnar

<sup>187</sup> The FND was cancelled in 2010 when the Coalition government took over and FND contracts only lasted until 2011 rather than 2014 as expected.

<sup>188</sup> Respondent Doyle

<sup>189</sup> Respondent Bonnar

the delivery stages if the business plan and expected referrals and job entries were not achieved as planned. In the words of one respondent, “you really need deep pockets in order to do that<sup>190</sup>.” It was the perception from some of the respondents that the financial risk was intensified for TSOs (such as Albase) which were required to find the cash flows necessary to fund the early parts of the contract and to maintain service delivery during the contract lifetime<sup>191</sup>. As the extract below also demonstrates there was awareness within Albase that involvement in the welfare-to-work contracts would involve an increase in organisational risk in terms of finance and contract management:

*“To compete for large-scale contracts requires organisations to have sufficient capacity and capability for contract management and to shoulder significant risk.”<sup>192</sup>*

An underlying principle of the payment-by-results approach was to reduce the costs of delivering a service by only paying for those where a saving has been made (i.e. paying for employment support in the anticipation of reducing future, more expensive, out of work benefit payments as seen in the Work Programme) (see Freud, 2010; NAO, 2011). To select a contract winner, providers put forward a performance target or offer which outlined the number of jobseekers they would move into the labour market and ultimately what benefit savings they would make for the treasury (Freud, 2009). In order to win the contract and provide the lowest priced bid, each organisation offered the most competitive performance target (Cumming, 2011). For example, whilst the commissioning body may have suggested a minimum target of 30%, after receiving the bids the DWP may have then chosen

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<sup>190</sup> Respondent Sutton

<sup>191</sup> Respondent Somers; Respondent Bonnar

<sup>192</sup> Anon doc, 37, 2009, p.102

whether to award organisation A the contract worth £20m offering 35% performance target or organisation B who claimed that for £20m they would get 40% of people into employment. In this most basic example, during the tender phase the bidder decided on a performance figure which they considered as achievable in terms of delivery cost, their knowledge of the labour market, and knowledge of the delivery areas. The performance offer device aimed to ensure that the contract winner was the organisation who claimed to achieve the required targets for the largest proportion of the client group, and therefore at the financial best value.

## 8.2 The performance rate and winner's curse

However, according to Sturgess *et al*, (2011, p.36) this approach had the potential to cause 'winner's curse,' which occurs where the winner submitted a price or service package that it was not able to deliver or assumes risk that it was not capable of managing (Sturgess *et al*, 2011, p.36). This was possible because many of the welfare-to-work contracts required the bidding organisation to state their performance rate (expressed as a percentage) of the target group identified in the tender document, which may have been based on a service or client group which was unfamiliar to the organisation and/or the commissioning body (Mulheirn and Menne, 2008; DWP, 2010c; Sturgess *et al*, 2011; Damm, 2012). This issue had previously occurred in welfare-to-work contracting. For example, in the UK's Pathways to Work programme (PtW), the DWP established the standard for clients remaining in work at 26 weeks, while providers competed to set their own monthly targets for numbers of job and sustained job outcomes. The conclusion was that contracts were signed at levels of performance that were unachievable as providers were unable to supply the numbers of outcomes anticipated, and thus faced severe cash-flow problems (see Hayllar *et al*, 2010; Cumming, 2011). According to Finn (2010, p.298) the problem was that the design of the programme had led providers to 'bid low and



promise high.’ As such Sturgess *et al*, (2011) have discussed the problem of ‘winners curse’ as an outcome of an underestimation of realistic service needs and the associated costs.

From exploring Albase’s experience it appears that the performance offer decision was a complex one due to a number of factors, but predominately due to the competitive framework in which it operated. Arguably the DWP preferred stretched performance offers which would lead to cost saving innovation in the market (Savas, 1989; WPC, 2012), and go further to address their public policy issues. Albase experienced competitive pressures within the quasi-market through provider discussions which influenced the perceived minimum performance rate put forward in rival submissions<sup>193</sup>. As such, the DWP’s strategy increased the risk associated with meeting the performance targets produced by this competitive tendering process.

Albase generated their performance rate through the consideration of a number of factors such as the local economy, client group labour market rates, their relationships with employers, and their experience with the client group<sup>194</sup>. The competitive pressure created by the need to put forward a better performance rate than other organisations was an added factor that increased the performance rates declared. In practice, whilst competing delivery organisations avoided discussing performance rates with each other it was possible to get an approximation of competitors’ offers during discussions in the tendering stage either through networking events or official partnership discussions. For example, during sub-contractor discussions for one welfare-to-work programme with Working Links,

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<sup>193</sup> Anon Doc 15

<sup>194</sup> Respondent Madden

A4E and Work Directions (welfare-to-work competitors), Albase received performance offers and figures that these organisations required sub-contractors to deliver. Albase were able to identify a “performance zone” through “number crunching” and an approximate performance target for each bid. Albase could estimate that, “people [other contractors] were going kind of roughly between 45 and 55% of people into jobs” and could factor this into the decision for their performance offer<sup>195</sup>. Whilst increased performance offers through competition may have been an intended outcome for the commissioning body (as it may have created service innovations by providers desperate to meet their inflated performance rates), for Albase it created unknown business delivery and management problems during the bidding phase as offers were not wholly based on service delivery expectations<sup>196</sup>. The DWP and the NAO also published concerns about provider capabilities to meet competitive performance targets:

*“It is possible that one or more providers will get into serious financial difficulty during the term of the contract. The unprecedented performance and cost propositions expected by the Department and offered by prime contractors mean that it is highly likely that one or more will struggle” (NAO, 2012a, p.9)*

Due to these issues a tension can be identified which occurred *within* Albase between delivery departments and bid writing departments. From the data collected it appears that this tension occurred where there were competing agendas influencing the performance figure put forward. In Albase this meant that difficult decisions were required when the delivery team identified a lower performance rate than the development team<sup>197</sup>. This may have been because the delivery team were

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<sup>195</sup> Respondent Madden

<sup>196</sup> Respondent Doyle

<sup>197</sup> Respondent Beattie

aware that they would have the responsibility to achieve the future performance target and therefore suggested a performance outcome based on their front-line experience, having previously or recently delivered a similar contract with the client group. In contrast, the development team had attended presentations by the DWP which stressed the importance of higher performance offers, attended meetings with competitors, and feared the possibility of being outbid by rivals. Observation and discussion with employees created an impression that development employees were more aware of the institutional environment and competitive pressures<sup>198</sup>.

There were also individuals within the organisation (such as the finance director and the CEO) who had a responsibility to ensure that activities undertaken by the organisation were cost-neutral at worst, but were ideally producing a surplus that could be reinvested in the organisation<sup>199</sup>. There was a management tension as managers wanted Albase to succeed in winning the contract and remain active in the quasi-market, albeit aware that this involved increasing the potential for risk and failure. As such the performance target decision was not purely based on the cost of delivering the required services to the DWP as outlined in the contract, but was influenced by the competitive behaviour of others within the quasi-market (alongside the availability of labour market knowledge, and the perception of business gains and risks). As such, a number of difficult internal business management decisions regarding the performance offer were required. As one respondent stated:

*“It’s not simply we can’t, even if we wanted to be realistic and say, we choose 20% performance because we think that’s all we can get this current market place. 20% output based funding doesn’t actually give you a business”<sup>200</sup>.*

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<sup>198</sup> Respondent Delaney

<sup>199</sup> Anon Doc 35, Anon Doc 37

<sup>200</sup> Respondent Doyle

The impact of competitors within the organisational field exerted competitive pressures which affected internal operations and organisational financial management. By focussing on the decision making process for the performance offer three operational concerns regarding the associated financial risks of the contract are visible: a) winning the contract but not achieving the targets; b) winning the contract, achieving the targets, but not making enough surplus to reinvest in future contracting processes; and c) not winning the contract and therefore missing a resource opportunity which may have then hindered future contract awards. Arguably, and discussed in more detail later in this chapter, the level of dependency and commitment to the resource context affected the extent of risk attached to Albase's decision making. As Albase continued to operate in this contracting environment it adapted its internal structures in an attempt to reduce the risks involved.

Managers in Albase reacted to the competitive pressures of the field and sought to reduce risks by reorganising departments. There appeared to be interplay between the organisational learning process of the payments-by-results model over time (in the 2000's) and the "internal connectedness based on whether the structure of the organisation was fit for purpose"<sup>201</sup>. For example, during the New Deal and Employment Zone contracting phases the bid writing team (based in the development department) operated separately from the delivery teams (the front-line staff and existing programme managers who reported on their target success). This stemmed from the history of the organisation as a project-based delivery organisation where each department was closely linked to a project and funder, and worked quite distinctly from other departments (see chapter five for descriptive

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<sup>201</sup> Respondent Somers; Respondent Bonnar

details of Albase's structure during this time). In response to the concern that the development team may successfully win a contract which the front-line team could not deliver (in other words 'winners curse'), senior managers restructured the organisation and brought the responsibility for the management of development and delivery under the same manager to reduce the risk of failure:

*"I don't want to be caught by someone saying, you're winning contracts but they're undeliverable. So it looks good for you in March but we look terrible in October"*<sup>202</sup>.

It is argued here that the reorganisation of these departments was a response to the payment-by-results contracting approach which had presented a new organisational challenge to Albase. In order to reduce the risks associated with the requirements of each contract and performance offer, the managers in the organisation adapted the internal structure<sup>203</sup>. The development team was one of a small number of 'core departments'<sup>204</sup> servicing all the activities of the organisation, but it was subsumed under the leadership of the senior manager responsible for delivering the large welfare-to-work contracts (whilst other managers had responsibility for smaller employment programmes, environmental activities, and ILM activities). As such, the payments-by-results and performance offer policy affected the organisational structure, management processes and approach to resource acquisition, which led to an organisation designed towards a set-up more suited to the DWP contracting environment than other policy areas and resource supplies. Arguably, Albase was directing its attention and resources towards creating an organisational structure best suited to the welfare-to-work quasi-market.

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<sup>202</sup> Respondent Doyle

<sup>203</sup> Anon Doc 49

<sup>204</sup> The core departments in 2010 were public relations, finance, HR, development and facilities (including health and safety)

### 8.3 Albase as a 'prime provider'

Along with the move towards a payment-by-results model the DWP changed the structure of the market and introduced a “prime provider” model in 2008. The idea was to award contracts to large organisations at the regional level, which in turn would award sub-contracts to smaller, specialized, local service providers (DWP, 2010b). The move towards a model based on prime providers was intended to reduce the numbers of contracts that the DWP directly oversaw, and as a consequence was expected to “reduce administrative complexity and costs for the Department” (WPC, 2009, section 37). In order to avoid the emergence of monopolies and to ensure competition, the contracting rules stipulated that there ought to be at least two prime contractors in operation in most regions (Vegeris *et al*, 2010). The market reforms introduced for the FND by the previous Labour government were continued by the Coalition government through the introduction of the Work Programme which expanded on the earlier prime contractor idea by amalgamating a number of FND contracts into regional ‘lots’ across the UK (DWP, 2010c). In the DWP’s Commissioning Strategy (DWP, 2008a, p.2) the government claimed that the Work Programme prime-contractor model would lead to the creation of a strong market structure in which 80% of the Department’s business would be conducted with a “stable core of reliable providers” led by prime contractors at the regional and sub-regional level.

Due to the performance-by-results model (discussed in more detail in chapter seven), the scoring mechanism for the ERSS Framework<sup>205</sup> was weighted towards rewarding organisations with supply chain management experience, access to large financial resources and contract performance knowledge. Potential providers were

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<sup>205</sup> The ERSS Framework was a pre-Work Programme bidding evaluation round for prime providers. It is discussed in more detail in chapter five.

assessed through the introduction of a “growth capacity model”, “acid ratio” and “debt ratio” in an attempt to assess the financial capacity of bidding organisations. This approach emphasised financial performance and contract management as, “the appropriate mechanisms...to continually drive up performance” (DWP, 2008a, p.42). The DWP’s action to identify prime contractors based on their financial capabilities was arguably a move away from claiming to use independent providers for their superior client knowledge and innovation (as was stated during the New Deal and Employment Zone phases) towards a use of providers for risk transference and contract management cost reduction for the DWP. These changes impacted on Albase’s change process.

One of the key operational changes associated with the creation of the prime contractor supply chain was the increased discretionary approach in the sub-contracting arrangements of prime providers (Vegeris *et al*, 2010; WPC, 2012). In practice the prime contractor tendered for a contract and inclusive in their bid was the role subcontractors would play in the delivery of services within the specified location. It was the responsibility of the prime contractor to design the involvement, relationship and the separate legal agreements with subcontractors in their bid (DWP, 2010c; WPC, 2012). As such the DWP only made a contractual agreement with the prime contractor and expected the prime contractor to manage their supply chain relations, performance and complaints (WPC, 2012).

Respondents from Albase stated that the quasi-market had developed into an arrangement that they perceived as less suitable to TSOs:

*“We are working in a multi-billion pound global industry. It is not about voluntary sector companies like Albase at grassroots level feeding through to*

*politicians, who pick up the baton and start to shape it through the civil service. Those days are gone.*"<sup>206</sup>

Respondents also stated that the consolidation of contracts within the quasi-market threatened their funding opportunities, despite the organisational changes they had enacted to become more, 'business-like' (see chapter seven) in the previous years. They discussed a fear of losing the market position in 2010 due to competition from different types of organisations and the emphasis from the DWP on particular organisational characteristics:

*"We have gone from 300 or 400 providers in the UK to 30. And of that 30 there are 20 who are not of any significant size, there are 10 who are reasonably good, some very big, but out of that 10 there are 4 or 5 who are massive."*<sup>207</sup>

Respondents considered the changes as a 'middle-market squeeze'<sup>208</sup> and some stated that they did not know exactly where this would leave them as they felt the DWP was creating a system that would attract large multinational organisations with large financial backing:

*"That we were in a position where there was likely to be a sort of, middle market squeeze on welfare-to-work. But FND was the first programme that the government openly wanted to attract new providers, and it appeared they were trying to attract American, Australian and other European or Dutch mainly... So we realized that there was a potential to get squeezed in the middle."*<sup>209</sup>

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<sup>206</sup> Respondent Sutton; also suggested in Anon Doc 35

<sup>207</sup> Respondent McMahon

<sup>208</sup> Respondent Somers

<sup>209</sup> Respondent Somers



Another respondent noted that changes to the quasi-market were not as favourable as when Albase had first entered the market, or when it was delivering the welfare-to-work contracts in the early 2000's:

*"You get Capita, you get all these really big organisations, and Sercos, it wouldn't be Albase then, it wouldn't even be A4E. It would be about the global businesses taking it over... [The] government would have a big cost base off their books and moved into the private sector."*<sup>210</sup>

There were concerns from some Albase employees prior to the introduction of the FND that the market was moving towards a preference of larger private sector organisations in the role of prime providers:

*"An increasing emphasis is being placed on large-scale 'national' providers as a procurement preference and this could act against us. At this point it is not clear if we are seen as sufficiently 'large' enough to be a preferred organisation."*<sup>211</sup>

It is argued here that due to the concern regarding the required size of contractors the move towards the prime contractor role may have increased the importance of organisational growth and development. Whilst chapter seven argued that Albase became more business-like, it is suggested here that the introduction of the prime contractor model increased the perceived need for quicker and greater changes in Albase.

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<sup>210</sup> Respondent Sutton

<sup>211</sup> Anon Doc 75, 2006

Albase competed in the prime contractor role at the FND phase (and latterly in the Work Programme tender). This decision was made by senior employees as they felt that as an organisation Albase had already successfully developed to the needs of the DWP and the quasi-market<sup>212</sup>. Whilst arguably Albase's managers were required to incorporate greater changes to the organisation due to the changes in the contracting system, the prime contractor approach was stated as their preferred option for the organisation's future. In part this was due to a number of perceived negatives associated with the sub-contractor role that respondents discussed. Drawing on resource dependency arguments it appears that there was an awareness of the potential for new power dynamics (Pfeffer and Salancik, 1977) in the supply-chain model:

*"The debate with the board was could we fit into that [revised quasi-market structure] as a prime contractor, or should we accept that bigger players were coming in, and our role was a subcontractor? Now, part of that was a financial consideration, but it was also - can we control the contract? And if we accept for FND phase one that we are squeezed as a sub, down to the subcontractor level, then it would be difficult to get out of that. So we chose to bid as a prime contractor."*<sup>213</sup>

The decision was based on resources *and* on issues of control and financial risk. Based on their understanding of the current market arrangements and the future quasi-market arrangements under the prime contractor model, managers perceived that their decision was to choose between remaining a, *"small player in a reasonably specialised employability area or go along and compete with the bigger guys...win a couple of those big contracts and fight the battle there."*<sup>214</sup> It appears that there was an

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<sup>212</sup> Respondent Doyle; Respondent Somers

<sup>213</sup> Respondent Somers

<sup>214</sup> Respondent Sutton

awareness of the risks involved in becoming a prime contractor in terms of financial uncertainty which was assessed in opposition to the risks involved with being under the control of a private sector prime contractor<sup>215</sup>. As one respondent said, *“financially, it was quite a risky strategy, but also it was quite risky not to go for it as well.”*<sup>216</sup> Respondents also stated that the role as a subcontractor would be detrimental to the organisation’s development and continued transformation into a *“competitive public service delivery organisation”*<sup>217</sup>.

Respondents also noted concerns about managerial and employee ‘de-skilling’ if the contract management role was no longer their responsibility<sup>218</sup>. The decision that was made did not just apply to the FND contract in 2008. It was also associated with how senior employees understood the welfare-to-work environment and how much choice they wanted for future welfare-to-work programmes based on the investment they had previously made in the organisation’s management capacity<sup>219</sup>. Arguably, these choices were influenced by an understanding of the development of the prime contractor model in future tendering rounds. Respondents mentioned their concerns regarding the impact of being a subcontractor on the organisation’s approach to welfare-to-work programme content and the design of services for job seekers.

*“In discussions with various other potential prime contractors, we realised that we had the potential to lose control of how we delivered the programmes if we went with them. One competitor, for example, was very clear that they had a 4 stage delivery process, that over a year you had a customer for 3*

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<sup>215</sup> Respondent Bonnar

<sup>216</sup> Respondent Madden

<sup>217</sup> Respondent Madden; Respondent Bonnar

<sup>218</sup> Respondent Somers

<sup>219</sup> Anon Doc 15

*months and then you passed it on. The baton changing model as we called it. And they were fixed on that, you know, this is the way they would work. And they had never, at that stage, won a welfare-to-work contract. So, I am using them as an example, but there was a risk that if you went with another prime contractor you had to do it their way.”<sup>220</sup>*

Actors in Albase may also have been aware of the ‘informational advantage’ (Ben-Nur, 2002) that prime contractors for the FND would have in future welfare-to-work contracting, and feared that becoming a sub-contractor at this point would limit their ability to try to become a prime contractor in future tendering events. As the extract below demonstrates:

*“It was also the fact that the prime contractor, had we been a subcontractor, would be controlling the financial side of the contract, possibly the IT, probably performance management. And therefore, we would lose the capacity in those areas, to manage those aspects ourselves. And at the time we had an investment plan to improve our IT, our internal organisational capacity processes to manage contracts, because we were managing other contracts, and we were managing other supply chains, where we had experience of performance managing other subcontractors.”<sup>221</sup>*

#### 8.4 Perceptions of risk

Arguably, the main issue appears to centre on perceptions of risk. The emphasis on uncertain performance based funding (see chapter seven), alongside the use of large, high risk contracts created a number of funding issues for Albase. However, for Albase the threat of a loss of power and control of their services was considered equally risky in terms of their continued organisational development and the

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<sup>220</sup> Respondent Somers

<sup>221</sup> Respondent Somers

availability of future opportunities as a prime provider if they were move to the subcontractor level. Respondents from Albase felt that the subcontractor level could not offer the same surplus generating options or the same opportunities for organisational investment<sup>222</sup> (DWP, 2010b).

However, the prime contractor model introduced a number of new core costs for Albase. The bidding system required subcontractors to negotiate and adapt their services to fit the needs of each bidding prime contractor in their operating area. It is argued here that whilst transaction costs were reduced for the DWP as they had fewer relationships and contracts to maintain (Bruttel, 2004; NAO, 2011), transaction costs increased for delivery organisations. From the data collected this may have been associated with the individualised supply chain and programme design of each prime contractor. Using the data collected from Albase these costs are grouped into three categories; business acquisition costs, market participation costs and transaction costs associated with managing a contract. The acknowledgement of these costs and organisational developments highlights the complexities in welfare-to-work quasi-market involvement for Albase, and the way in which new ways of organizing were adopted in order to comply with the institutions and organisations controlling resources in the organisational field.

## 8.5 Contract related costs

Drawing on neoinstitutional economics, the cost implications of any contractual agreement are most commonly discussed under the banner of ‘transaction costs’ (Scott, 2008). From this perspective, transaction costs are an important component of any contracting process and their implication in public service markets is a key

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<sup>222</sup> Respondent Doyle; Anon Doc 15

factor in government efficiency debates (Freud, 2011). As outlined in chapter three, transaction costs are essentially the management cost (in this case inclusive of risk and upfront capital) associated with either internally producing the service or buying it through contracting the “comparative costs of planning, adapting, and monitoring task completion under alternative governing structures” (Williamson, 1981, p.552-553).

It is argued here that contracting out the delivery of welfare-to-work programmes initially created transaction costs based on the writing of specifications and contracts, evaluation of tenders, publicising the call for tenders, providing information and responding to enquiries from possible contractors, and negotiating the final contract with the winning tender for the DWP. There were also the on-going audit and compliance costs of ensuring that the delivery organisation fulfilled the contract requirements (WPC, 2012). It was openly stated in a number of government documents that the rationale for the move towards a payment-by-results and prime-contractor model was to reduce the DWP’s transaction costs (see NAO, 2011; NAO, 2012b). Drawing on transaction cost arguments, the DWP’s reduction of contracts and exchange relationship was considered a necessary change to ensure that the transaction costs of the quasi-market system were reduced. As without quasi-market reform the problem of transaction costs (and the budgetary impact) may have negated any financial benefits of contracting-out the delivery of welfare-to-work programmes and therefore received less political support for the contracting-out approach (NAO, 2012b; WPC, 2012).

The shift towards the payment-by-results model (where payments to providers were assessed against the future savings of benefit payments to the job seekers) arguably tipped the balance towards contracting-out. This was because, as demonstrated below, the cost of service provision and the success of achieving the

policy goal were transferred to the external provider. It appears that the DWP's prime contractor format was also an attempt to reduce transaction costs that were incurred by the organisation through the arranging and monitoring of numerous contracts and organisations (NAO, 2011; NAO, 2012b). The move towards a top-tier of prime providers meant that the DWP was only directly responsible for a small number of contracts and in theory this reduced its transaction costs.

According to Coase (1937) and Williamson (1981, 1996) two prominent transaction costs theorists, commissioning organisations (in this case the DWP) will experience an increase in transaction costs from issues of limited information and uncertainty as parties to a transaction cannot fully predict all possible future scenarios and as such, they cannot fully specify contracts. From this position, pre-contract preparation and post-contract oversight (high transaction costs) was required to mitigate vendor opportunism and improve compliance. This has included the creation of new audit and regulatory functions as the quasi-market developed in response to concerns regarding fraud and performance measurement (DWP, 2008a; Grayling, 2012). For example, the DWP introduced Merlin standards teams, with responsibility for monitoring provider relationships, and 'provider assurance teams' with responsibility for interrogating providers' behaviour during contract delivery<sup>223</sup> (DWP, 2012c; NAO, 2012b). The procurement process for programmes such as the Flexible New Deal (18 months) and the Work Programme (6 months + ERSS 3 months) involved much preparation and information gathering for bidding organisations in the pre-contract stage (NAO, 2012a). In a report by the National Audit Office (NAO, 2012a) it was estimated that performance monitoring for the Work Programme would cost the DWP at least £8.6million.

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<sup>223</sup> Respondent Evans

It is argued below that as the DWP moved towards a supply-chain model some of these costs were passed on to the prime contractors. For the organisation that won a prime-contractor tender the transaction costs incurred during the process not only included an extended pre-contract period inclusive of bidding documents, negotiations with commissioning bodies, partners and competitors, including research and development of services to match the expectation of the tender (DWP, 2008a), but also the audit and compliance of sub-contractors within their supply chains (WPC, 2012). Whilst some private sector organisations were familiar with these responsibilities and costs from other policy areas, such transaction costs were new to many organisations involved in employment support or the welfare-to-work market (NAO, 2005). Some of these costs were new to Albase despite their welfare-to-work experience. Albase engaged in a period of organisational 'learning on the job' to adapt to these requirements<sup>224</sup> during the transformation period outlined in chapter five. From the data gathered at Albase there were a number of costs involved in the welfare-to-work quasi-market competition. Using the research into Albase, three types of costs associated with resources expended by provider organisations have been identified; 1) market participation costs, 2) business acquisition costs, 3) traditional transaction costs. Each is discussed in turn.

## 8.6 Market participation costs

Market participation costs increased because each organisation was required to expend more resources on gathering competitor information, matching competitor innovations, and marketing their own product or services to commissioning bodies and other institutions or actors associated with the welfare-to-work environment<sup>225</sup>. A number of costs are identified here which were indirectly associated with

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<sup>224</sup> Respondent Sutton; Respondent Madden

<sup>225</sup> Anon Doc 15



acquiring contracts and it is argued that these costs can be attributed to the need for competing organisations to meet the norms and expectations of the quasi-market. For example, Albase invested in “Central Business Support Services” such as HR, Finance, IT and Marketing functions to ensure that the organisation’s development reflected the requirements of the broader welfare-to-work market.<sup>226</sup> There were also costs associated with keeping informed of the work of others in the market and arranging meetings, attending conferences, joining official networks and member groups such as the Employment Related Services Association (ERSA)<sup>227</sup>. An impression was gained during the fieldwork that there was no guarantee that these costs would be recovered<sup>228</sup>.

There were two main areas where Albase dedicated resources to market participation. First, one of the biggest changes for Albase was the staffing implications involved with market participation costs. The organisation sought to improve HR systems to, “ensure that Albase is an employer of choice,<sup>229</sup>” which included the creation of new policies such as a ‘Conflict of Interest Policy’, a ‘Whistle Blowing Policy’, and an ‘Equal Opportunities policy’, revised maternity and paternity leave arrangements and updating recruitment policies, to ensure “the continued good reputation of Albase, which is vital in terms of a sustained market position and growth<sup>230</sup>”. A new pay policy and grading structure was introduced in 2008-2009 to develop the organisation’s ability to attract and maintain staff in the welfare-to-work quasi-market. The organisation also expanded its core staff numbers and moved towards employing more staff on permanent contracts instead of temporary contracts as they had previously (see chapter five). These efforts

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<sup>226</sup> Anon Doc 75, Anon Doc 76, Anon Doc 77

<sup>227</sup> Anon Doc 59

<sup>228</sup> Anon Doc 15

<sup>229</sup> Anon Doc 74, 2007

<sup>230</sup> Anon Doc 75, 2006

appeared to be the outcome of concerns that the organisation required experienced and dedicated staff that otherwise may have been attracted to competitors if they did not improve employment policies<sup>231</sup>

Market participation costs also involved employee resources in terms of time and financial resources involved in generating and maintaining relationships with both partners and competitors and in gathering the required information to make competitive decisions. Alongside the increase in employees with duties and responsibilities dominated by the welfare-to-work quasi-market, one respondent felt that DWP contracts involved, “*much employee time dedicated to keeping an eye on the environment*”<sup>232</sup>.

The second key area where Albase invested resources was their IT and business systems. There was a perceived need from senior management for investment in IT systems to ensure that the organisation’s processes complied with the DWP requirements and that they mimicked the IT facilities offered by competitors<sup>233</sup>. For example, Albase launched an Information and Communication Technology (ICT) development plan in 2006/2007 to “*streamline our systems and information flows between departments*.”<sup>234</sup> In the following three years Albase also secured over £1million of computer software, “migrated to cloud computing, and implemented a substantial and complex Information Security Plan to fulfil DWP requirements...[and] moved to the use of Customer Relationship Management

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<sup>231</sup> Respondent Doyle

<sup>232</sup> Respondent Quinn

<sup>233</sup> Respondent Somers; Respondent Evans; Anon Doc 35

<sup>234</sup> Anon Doc 75

(CRM) software to manage FND phase 1 with 15 subcontractors”<sup>235</sup>. As the extract below demonstrates, in 2010 it was stated in an internal-facing document that the rationale for this investment of resources was to increase Albase’s chances of gaining welfare-to-work income.

*“In order to position Albase for future growth and deliver on the strategic financial and social objective set, detailed financial analysis has resulted in an up-front investment requirement over the next 3 years.”*<sup>236</sup>

Market participation costs were required to fulfil the basic quasi-market entrance requirements by the DWP and the expenditure on key organisational systems was implemented by Albase in order to meet these requirements. The second set of costs outlined below was additional to this expenditure.

## 8.7 Business acquisition costs

Albase had to satisfy a number of DWP requirements during the tender process in order to qualify to deliver to a welfare-to-work programme (DWP, 2010c). Arguably, as the contract values increased and the DWP passed more responsibilities to delivery organisations with each new major welfare-to-work programme, the information required during the tender stage increased. Information was required from a range of Albase’s internal departments such as the finance and development teams, the existing programme contract managers and the senior management employees. From the data collected these internal resources were involved in the bid preparation process for the majority of the 12 month

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<sup>235</sup> Anon Doc 76, 2009

<sup>236</sup> Anon Doc 77, 2010

tendering period for the larger contracts<sup>237</sup>. As previously mentioned in chapter seven, employees in the development department were required to possess bid writing experience to understand the requirements of the tender and where possible demonstrate previous success<sup>238</sup>. This led to an increase in employees working in the department and a move towards hiring more core staff on permanent contracts which enabled the development and retention of staff with welfare-to-work experience.

Investment in the organisation's financial planning resource was also a key aspect of the bidding process. It appears that this was due to the need to display to the DWP advanced internal financial processes as the contract sizes increased over time<sup>239</sup> (DWP 2008d; DWP, 2010c). Prior to the FND programme each organisation was required to provide their accounts and prove that they were financially solvent. However, they were not required to go into any great detail and as such, one respondent described earlier financial requirements as simple "*tick box processes*<sup>240</sup>." The FND required a more "*rigorous financial assessment*<sup>241</sup>" as it involved providers supplying financial information including the current year forecast, future budgets, and annual accounts (DWP, 2008d). The DWP undertook a financial assessment which involved benchmarking organisations against DWP pre-agreed standards designed to ensure provider viability. This enabled the DWP to provide contractors with a 'growth limit', a maximum amount that each contractor could apply for.

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<sup>237</sup> Anon Doc 15; Anon Doc 77

<sup>238</sup> Respondent Doyle

<sup>239</sup> Anon Doc 1

<sup>240</sup> Respondent Madden; Respondent Evans

<sup>241</sup> Respondent Madden

For the FND competition Albase was informed that they could grow at a maximum of £19million per annum (although post-contract these figures were not constrained)<sup>242</sup>. The DWP concentrated only on DWP contracts so the growth figure only referred to the organisation's turnover growth in relation to DWP contracts<sup>243</sup>. As such, for Albase it excluded growth from sustainability, regeneration and other employability activities. Albase adapted to the increased financial requirements associated with the increase in size and value of the FND and Work Programme (WP) contracts by spending resources on the hiring of accountants, consultants and financial project managers<sup>244</sup>.

## 8.8 Traditional transaction costs

The DWP were not the only organisation to experience traditional transaction costs associated with audit and compliance. Once the bidding organisation was successful in winning a welfare-to-work contract the organisation had to fulfil the contract requirements which involved the cost of contract management (including post-tender negotiations); service delivery (through arrangements with sub-contractors); finance; claims and compliance; reporting to DWP teams; internal audit and monitoring; personnel and payroll functions; staff employment and recruitment policies; and the health and safety of staff and clients (DWP, 2008d; DWP, 2010b; DWP, 2010c). Contractors also had to design and implement management arrangements with subcontractors or partners, which in Albase's case, was often through the use of service level agreements involving quality performance standards, record keeping and reporting expectations and financial arrangements<sup>245</sup>.

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<sup>242</sup> Respondent Somers

<sup>243</sup> Respondent Madden

<sup>244</sup> Anon Doc 15; Anon Doc 59

<sup>245</sup> Anon Doc 18

The audit and compliance costs included the collection of information from service users, ensuring that all data collection processes complied with data standards and in Albase's case, an overhaul of their internal audit processes to mirror those of the DWP<sup>246</sup>.

Respondents said that the attention to audit was, "pretty small, but it started growing dramatically" with the onset of larger welfare-to-work contracts<sup>247</sup>. Whilst the organisation sought to invest in improving audit processes as required by the DWP, one respondent said that they felt that, "government contracts are littered with bureaucracy"<sup>248</sup>. For example, contractors were required to ensure that programme administration paper work was complete (such as New Deal time sheets and personal advisor documents), and that job seekers were provided with the correct information and certificates, all of which had to be regularly evidenced by advisors and administrators (Millar, 2000; Finn, 2010). Due to the requirements set out by the DWP, Albase invested in the development of a centralised system for programme administration and financial claims to process the required paperwork for the DWP contracts in a manner acceptable by DWP audits:

*"Our centralised approach to programme management, administration, claims and reconciliation has resulted in exemplary Financial Appraisal and Monitoring audits over each of the last three years, with a financial claw-back of less than 0.1%."*<sup>249</sup>

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<sup>246</sup> Respondent Bonnar; Respondent Evans

<sup>247</sup> Respondent Madden

<sup>248</sup> Respondent McMahon

<sup>249</sup> Anon Doc 78, 2008

This resulted in Albase investing HR resources into developing an audit and compliance team that over time grew quickly from 3 to 14 people across the business<sup>250</sup>, working on a range of DWP contracts. According to the NAO (2012b), to mitigate against fraudulent behaviour teams within the delivery organisation had to be separated between those achieving an outcome and those reporting it. Albase's audit team had responsibility for keeping up to date with regular changes introduced by the DWP who were, "*continually reorganising themselves and changing their regions and contract managers*<sup>251</sup>." They also invested in a new document management system, which enabled the scanning, management, storage and distribution of paperwork to allow the organisation to forward and share information with local JCP Offices, "*expediting the delivery of critical information*<sup>252</sup>" The DWP introduced a number of IT modifications for the collection of management information and performance outcomes from welfare-to-work programmes in the late 2000's which providers also had to comply with (NAO, 2012b; WPC, 2012).

Internal reports directly mentioned the need to adhere to government formats, such as "*this report is presented in a format that aligns better with the EFQM Business Excellence Framework*" and, "*substantial and complex Information Security Plan approved by DWP*<sup>253</sup>." References to recognised industry standards such as the Scottish Quality Management Systems (SQMS), Membership of Quality Scotland and Investors in People, and demonstrating that internal staff were trained 'EFQM assessors'<sup>254</sup> also appeared to be a necessary component of the tender process and all increased the transaction costs for the provider organisation. Internal documents

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<sup>250</sup> Respondent Evans

<sup>251</sup> Respondent Sutton

<sup>252</sup> Anon Doc 75

<sup>253</sup> Anon Doc 95

<sup>254</sup> Respondent Miller

appeared to show that the organisation spent time and resources adhering to DWP contracting expectations and changing internal processes to mirror the DWP's, which one respondent felt meant that the organisation did not have the choice to design their own processes as the DWP requirements were most important:

*"So actually, what you had to do was, internally, you had to build your internal structure to mirror that nature of those external contracts. Which is stupid because you get no kind of, sum of the parts because everybody is doing their own thing."*<sup>255</sup>

In comparison to business acquisition and market participation costs these transaction costs were often covered in the service fee of the associated contract. Nevertheless, the organisational learning and resource required to meet the expectations of the DWP were an essential aspect of successfully securing and managing DWP contracts:

*"We thought they [compliance, quality and risk processes] existed, I mean, don't say they didn't exist, they did exist to some extent within the management processes we had, but they certainly weren't tight enough, they weren't transparent enough. And we couldn't assure the DWP...so their Provider Assurance team, which is a sort of, quality audit if you like, came in and spent 3 weeks with us. So they went to the level of detail that was about checking every file and making sure that somebody had ticked a box off, checked it and could report that. So it is all these double checking stuff, which does become bureaucratic, you have got to watch that doesn't take over. But that's what they want. And if you want to get in the game with them, to run the contracts for them, you have got to do that."*<sup>256</sup>

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<sup>255</sup> Respondent McMahan

<sup>256</sup> Respondent Somers



Albase's involvement in the welfare-to-work market reveals the financial costs associated with the acquisition of contracts and resources. Table 8.1 below summarises the three types of costs identified above.

Table 8.1: Three types of contract related costs

<i>Market participation costs</i>	<i>Business acquisition costs</i>	<i>Transaction costs</i>
Core staff	Bid writing team	Audit systems
Business investment	Bid writing process	Contract management
Partners and competitor knowledge	Financial capacity	Compliance reporting
Policy awareness and marketing	Leadership resource	

### 8.9 Barriers to quasi-market involvement

The increase in these costs for competing providers highlights the complexity of issues of market participation. First, both market participation and business acquisition costs were expended without any guarantee that contracts would be secured and costs recovered from the service fee<sup>257</sup>. Similar to the payment-by-results difficulties, expenditure on these unsecured investments may increase the financial risks associated with welfare-to-work contracting. Whilst the DWP has reduced its transaction costs, involvement costs for providers have arguably increased. Second, the need to invest in market participation and business

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<sup>257</sup> Anon Doc 15

acquisition costs detracted time and finances from developing other business areas and investment in organisation-led developments. Some respondents felt that Albase had been susceptible to activity drift as internal resources and profit from all programmes became directed towards developing processes to comply with the welfare-to-work quasi-market. As the two extracts below demonstrate:

*“I think that having the Flexible New Deal just sucks in thinking time and energy from the management teams.”<sup>258</sup>*

*“All the energy gets pulled, the centre of the organisation’s income gets pulled to these big programmes.”<sup>259</sup>*

There were implications for ensuring welfare-to-work competitiveness was maintained. Arguably, the size of the costs outlined previously and the amount of resources expended, committed the organisation to the welfare-to-work market and future developments. Moving to other policy delivery areas became more difficult and at each tendering stage the decision to leave the market became more difficult, despite the increase in financial risks associated with the payment-by-results model<sup>260</sup>. This may have been because the organisation’s leaders had already invested heavily in the market and in their organisation to ensure that Albase became ‘market facing’<sup>261</sup> in terms of structure and staff responsibilities.

It became more important to maintain relationships and to continue to secure welfare-to-work contracts in order to sustain (or increase) income levels.

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<sup>258</sup> Respondent Campbell

<sup>259</sup> Respondent Sutton

<sup>260</sup> Anon Doc 15; Respondent McStay

<sup>261</sup> Respondent Collins

Organisations involved in the delivery of DWP contracts for a longer period of time and those which had developed an exchange relationship with the DWP would have had an advantage in the competitive tendering for welfare-to-work programmes compared to new market entrants. As such, according to neoinstitutional economics Albase's experience would have given it a competitive advantage (Williamson, 1995; 1997). This suggests that as the quasi-market developed and became more competitive and instigated greater organisational change, Albase's managers would have remained involved in the quasi-market competitions to retain market advantage. Maintaining the market involvement could have led directly to resource and informational advantage gains over future competitors at a later contracting phase. This meant that Albase's investment in internal development was more likely to be in line with the requirements of the DWP as not investing in key areas of the organisation and subsequently not winning a contract, may have impacted on Albase's ability to bid for future contracts. Competitors with contracts would have continued to invest in their organisation's relationships, at a cost which Albase would not have been able to match.

Arguably, without an income stream during the bidding phase Albase would have been unable to afford the necessary resources (market participation and business acquisition costs), to maintain and progress its involvement in the quasi-market and develop future competitive bids. The high costs associated with entering the welfare-to-work market in phases three and four led to higher entry barriers. However, the investment in DWP requirements (the resources involved in becoming more business-like) also increased the exit barriers for Albase once they had been involved in the quasi-market for some time, as they were unlikely to relinquish the costs already expended. Drawing on neoinstitutional economics it can be argued that because Albase invested in the costs involved with quasi-market

participation, and because it became more 'business-like' it became committed to the market.

### 8.10 Commitment

The level of commitment to the market is also important as the barriers to entry and exit bring into play issues of power asymmetries (Dietrich, 1994). Managing these power relations which accompanied market commitment created a number of micro-level tensions within Albase. First, the organisation control over their front-line employment support content was reduced. Albase was involved in the design of employment programmes in the ILM model (see chapter six). The organisation engaged in problem solving in local neighbourhoods, and learns and shares social problems surrounding unemployment with local agencies. As such, the organisation would feed back to other policy makers and agencies involved in employment support, and engage in idea generation for future programmes and policies. As such, respondents felt that the organisation had a reputation as a 'thinking organisation'<sup>262</sup> due to the links this created with a number of policy makers and politicians who sought to learn from their innovative approaches to employment support. Respondents noted that the culture of the organisation was affected when the welfare-to-work contracts replaced the decreasing EU funds. Some respondents noted that during the transformation period in the 2000's (including a leadership change when the founding CEO1 left the organisation and was replaced by the CEO2) Albase experienced a shift from a 'thinking' organisation to a 'delivery' organisation:

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<sup>262</sup> Respondent Sutton

*“We were about delivery, delivery, delivery. I actually think that is really bad for an organisation ... it is not just about stacking, racking people into work. You have to be thinking about regeneration policy, social policy, welfare policy...If you are not a thinking organisation, you are a bit one dimensional. And I think what’s happening with lots of organisations, is they are getting driven into a very sanitized one dimension thought process with government.”<sup>263</sup>*

Despite such negative perceptions of the impact of the welfare-to-work quasi-market on the culture of the organisation, actors in Albase continued to seek resources from the quasi-market arrangement. It is argued that this was due to the commitment to the quasi-market and because it became increasingly committed to this resource context as it expended resources and invested in internal systems in order to meet the requirements. As such this led to a shift in the activities, structure and management approach of the organisation.

### 8.11 Resource diversification

In this section it is argued that Albase were not only committed to the market but also displayed resource dependency tendencies. It argues that resource dependency was a risk for Albase as having just one (or a few) funding sources meant that if funding was withdrawn or became inaccessible then the organisation was likely to struggle. Organisations which exclusively depend on one or few resource providers are likely to experience their constraining influences (Palmer and Randall, 2002), it is possible that the reasons for the extent of organisational change in Albase to the DWP requirements can be associated with issues of resource dependency. However, organisations can try and manage resource dependency through diversifying income streams (Kramer, 1981) and there is some evidence that Albase has sought to

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<sup>263</sup> Respondent Sutton

do this whilst continuing to deliver welfare-to-work programmes. Consequently, following the discussion of dependency is an analysis of Albase's attempts to diversify resources.

It is argued in this section that resources available through devolved policy areas (through the Scottish Government) were a key aspect of Albase's resource diversification strategy. In fact, whilst devolved funding provided resources to develop third sector organisations, it also provided alternative employment support, regeneration and environmental funding which Albase sought to access as part of its diversification strategy. The section concludes by considering the limitations of the resource diversification strategy employed, and the difficulties associated with acquiring resources from a number of sources, including goal conflict (DiMaggio, 1986b), and financial costs associated with issues of commitment and transaction costs outlined previously.

As outlined in chapter three the fundamental assertion of resource dependence theory is that, "the key to organisational survival is the ability to acquire and maintain resources" (Pfeffer and Salancik 1978, p. 2). Drawing on Froelich (1999 p.248), "the degree of dependence experienced by an organisation is determined by the importance and concentration of resources provided. Organisations that rely on few sources for vital inputs become highly dependent on and beholden to those providers for survival." Furthermore, resource scarcity results in multiple organisations competing for the same or similar sets of scarce resources, leading to competition and uncertainty.

Albase became dependent on DWP resources and when these became scarcer, it incorporated organisational changes in order to access contracts, even though the

required changes possessed a number of issues already discussed in chapter seven and earlier in this chapter. It is argued here that resource dependency occurred over a number of years as ILM programmes gradually declined and DWP contracts became more financially rewarding. Whilst Albase continued to deliver some ILM activities throughout the research period (1983-2010), from approximately 2000 the main income and activities operated by Albase involved the delivery of welfare-to-work programmes (as outlined in chapter five). Where the ILM programmes involved a range of funders from different agencies and government departments, welfare-to-work contracts were administered by a single government department. As such, the move from delivering projects with multiple funding sources to delivering welfare-to-work contracts from the DWP (at times) may have created issues of resource dependency for Albase.

Before further discussion of this point it is worth noting that in this case resource dependency was a variable state as Albase's numerous activities and funding partnerships continually changed over the time period studied. However, the main argument presented here is that DWP income was much greater than other sources, the surplus was an important resource feature of DWP contracts, and as already mentioned Albase became dependent on the surplus for organisational development in order to access future DWP contracting. Therefore, whilst Albase was not completely and solely dependent on DWP funding, it was arguably the most influential and important funding for the organisation post 2000.

During the data collection process there were a number of indications of the importance of DWP funding for the on-going operations of Albase. Furthermore, there were open conversations between employees, the management, and the board about resource dependency. In the extract below the respondent states that the

number of income streams and customers (the funding source) reduced during the transformation period:

*"I remember one time you probably had 60 income streams from different projects and about 130 customers. You are probably down to 10 income streams with 4 customers now."*<sup>264</sup>

Whilst the process of moving towards DWP funding and away from the ILM model took a number of years, it appears that a crucial resource dependency issue occurred between 2005 and 2007. Whilst Albase was involved in the welfare-to-work quasi-market and contract delivery since 2000, in 2005 they still delivered a number of ILM and local employability programmes. In 2006 approximately £7.6million (37.5 per cent of all income in the year), could be attributed to the Employment Zone, New Deal, and New Deal Disabled People contracts<sup>265</sup>. Although some evidence existed that there was not too much of a concern about this arrangement<sup>266</sup>, in terms of the impact on organisational change it was arguably a factor in the change process experienced since Albase's involvement in welfare-to-work contracting. At this point Albase continued to receive income from other sources than the DWP, but this was starting to decline. Within two years the organisation's management and financial employees became concerned about how much of the financial income could be attributed to DWP contracts:

*"We want to make sure we're less dependent on DWP and employability, and we want to make sure we get a more balanced spread across the business..."*<sup>267</sup>

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<sup>264</sup> Respondent McMahan

<sup>265</sup> Anon Doc 79

<sup>266</sup> Anon Doc 35, 2007

<sup>267</sup> Respondent McMahan



In 2010 the organisation continued to demonstrate concern about resource dependency:

*“In recent years the majority of income has been earned from employability services, and a significant source of this has been generated from DWP contracts and whilst this is likely to continue to be a major income source for the organisation within employability, the strategy aims for growth in the other areas of business to ensure there is not dependency on single sources of income.”<sup>268</sup>*

Analysis of Albase documentation and interview responses revealed that resource diversification was a concern and strategies were created to try and reduce the dependency on the income from the DWP in order to create a “more balanced portfolio.”<sup>269</sup> By this point (2010) Albase had already undergone the change processes outlined in chapter seven, and it appears that some senior managers had acknowledged the increasingly competitive welfare-to-work quasi-market<sup>270</sup>. By creating a resource diversification strategy, Albase may have been attempting to reduce resource dependence and maintain its autonomy (Pfeffer & Salancik, 1978; Thompson, 1967). Arguably, rather than relying on a narrow set of resource sources, Albase sought to buffer itself with activities and income where it could exercise greater control over the stability and predictability of income.

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<sup>268</sup> Anon Doc 77, 2010

<sup>269</sup> Anon Doc 77, 2010

<sup>270</sup> Anon Doc 15

### 8.12 Access to alternative resources

It appears that Albases 'buffer' was based on three alternative resource tactics associated with public funding which was devolved to the Scottish Government. First, they continued to deliver some ILM activity using devolved funding. Whilst this was a smaller percentage of their income and activities than previous years it was a somewhat consistent resource stream. Second, they drew on Scottish Government funding to build organisational capacity which assisted Albases to acquire welfare-to-work funding, but also to develop alternative revenue streams. Actors also focused on funding aimed at the third sector. Finally, they sought to make new relationships with private sector organisations by building on their image as a social enterprise with third sector contacts and experience in Scotland. Each of these approaches is discussed below to demonstrate how Albases attempted to influence or exert some control over their financial income.

First, they continued to deliver ILM activity using devolved funding. In Chapter Seven it was argued that a number of factors had led to the decline in support for ILMs. This chapter argued that due to the rise of workfarism, contractualism and the quasi-market model, ILMs became less financially viable for Albases. It was also noted that the decline in funding occurred despite the support of some influential commentators such as Gregg (2008) and the interest of political actors such as Houghton (2006) who both produced reports which supported the ILM model as an appropriate support approach. However, one area in which ILMs received some practical funding and policy support was in the devolved policy streams by the Scottish Government. The support of the Scottish Government enabled Albases to continue a relatively small percentage of its ILM activities. Whilst these projects did not generate surpluses in the way that DWP programmes did (see chapters seven and eight), Albases operated a somewhat diversified financial portfolio which arguably slightly reduced their dependence on DWP contracts.

Second, in the time period covered in this research, policy areas related to welfare-to-work programmes (such as social security, economic planning and welfare reform) were centralized and the responsibility of the UK government. The Scottish Government was however responsible for a number of policy streams which included the provision of policies aimed at reducing unemployment or which sought to improve local economies (Carlisle, 2010; Keating, 2010; McCarthy, 2010). Devolved policy streams which were beneficial to Albase included regeneration, social exclusion, skills and training, neighbourhood renewal, housing, and the environment (Scottish Government 2011). All of these streams were associated with the ILM model and the programmes Albase operated.

Albase also accessed resources from these devolved policy areas to develop specialist or localised employability programmes<sup>271</sup>. In chapter six it was argued that one of the problems Albase faced in regards to the continuation of ILM projects was the UK government's shift in the approach to the provision of training and skills development for jobseekers. However, Albase was able to continue some ILM activity through accessing training funding from Scottish Government sources. For example, whilst training funding was reduced in the national agenda, the Training for Work (TfW) programmes remained operational by the Scottish Government. Albase also developed separate training support programmes (such as in-work training) funded through Scottish Agencies (such as Skills Development Scotland) which provided small amounts of alternative revenues<sup>272</sup>. Whilst TfW did not provide all the funding required for complete ILM projects, if other sources could be

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<sup>271</sup> Anon Doc 75

<sup>272</sup> Anon Doc 15

found (such as EU funding and resources from Housing Associations) it was a valuable source of funding.<sup>273</sup>

Devolved policies affected the delivery of localised employment support through the development of policies and funding options aimed at supporting the development of the social economy and the use of TSOs in public service delivery (Scottish Government 2008; Alcock, 2009; McTier *et al*, 2012). The support of TSOs is arguably a political orientation regarding the contracting-out process (Keating, 2010). Albase was able to benefit from the political ideas which were active at the devolved policy level and although this cannot be discussed in great detail in this thesis, consideration is given to one particular policy area which impacted on Albase's resource diversification options.

One of the key policy adaptations which ensured the continuance of some ILM and local employment initiatives appears to be based on the use of a policy tool called 'Community Benefit Clauses'. The Scottish Government's 'Community Benefit Clause' (CBC) policy was introduced to affect public procurement and impact on training, employment and investment in a local community in anticipation that this would assist longer term regeneration (Scottish Government, 2008). The clauses were intended to be used as a tool to ensure public sector spending. The Local Government in Scotland Act 2003 (Scottish Executive, 2003b) conferred, "well-being" powers on local authorities meaning that public service contracts could include legal provision to address local social and environmental considerations. Public procurement was still obliged to meet the requirements of EU procurement

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<sup>273</sup> Respondent Dalglish

rules and general EU law; in particular, clauses should not cause direct or indirect discrimination” (Scottish Government, 2011b, no page number).

CBCs were arguably a policy tool aimed at increasing the regeneration of deprived areas through directing resources and influencing contractor behaviour. It was proposed by the Scottish Government that CBCs were a pragmatic approach to ensuring successful community benefit programmes which “can lead to the permanent employment of formerly non-working people leading to a positive cycle of experiences for these people” (Scottish Government, 2008, p.5). CBCs were also a way in which the Scottish Government directed resources towards the third sector and its regeneration and employment priorities. Albase supported the use of CBCs as they provided revenue opportunities for the remaining neighbourhood and ILM project work. As the extract below demonstrates:

*“Procurement processes/social clauses are critical if social enterprises are to be given the opportunity to participate in public service delivery. Critical to this is a wider definition of “value” without a sole emphasis on cost as the main indicator.”* <sup>274</sup>

In 2005 Albase reported that funding from Local Authorities had gradually reduced over the previous three years, but it had been matched by an increase in funding from Housing Associations<sup>275</sup>. Albase also continued to access funding for housing based ILMs through maintaining and creating contacts with Housing Associations (HAs), which used CBCs in their procurement of construction projects<sup>276</sup>. This shift

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<sup>274</sup> Anon Doc 8

<sup>275</sup> Anon Doc 14

<sup>276</sup> Respondent Madden

reflected the changes to housing policies in Scotland during this time and the transfer of housing from local government organisations to a range of HAs (see Daly *et al*, 2005). These changes impacted Albase in two ways. First, these wider governance issues regarding the transfer of social housing affected the organisation's decision making and encouraged decision-makers towards DWP resources as local government housing resources became less accessible and more fragmented during the transfer process. However, the second impact of the transfer on Albase was that new relationships were created with HAs which created funding opportunities from non-DWP sources. As outlined in the extract below:

*“Funding from LA [local authority] sources has steadily reduced, from 30% in 2002, to 18% in 2003, and 14% in 2004. The reduction is concurrent with an increase in income from Housing Associations and Communities Scotland which made up 11% in 2004, compared with 7% in 2003 and in 2002 only 3%”<sup>277</sup>*

Regeneration funds were often made available to HAs and these new relationships provided alternative revenue strategies for ILM programmes, or for new local regeneration or employability programmes<sup>278</sup>. Funding from the Scottish Government aimed at regeneration and social inclusion activities could be accessed through HAs or through CBCs to provide some funding for the creation of or continuation of a small number of ILM programmes<sup>279</sup>.

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<sup>277</sup> Anon Doc 14

<sup>278</sup> Anon Doc 15; Respondent Dalglish; Respondent McClair

<sup>279</sup> Respondent Madden; Respondent Dalglish

### 8.13 Devolved funding for implementing organisational change

It is argued in this section that Albase also drew on Scottish Government funding to build organisational capacity. This funding assisted Albase to acquire welfare-to-work funding, and also enabled Albase to develop alternative revenue streams. It appears that Albase focussed on TSO funding and the concept of the social economy to improve their likelihood of gaining this resource. The extract below provides an indication of the diversification strategy that employees in Albase considered possible through the use of funding aimed at TSOs:

*“There is a strong view throughout the management team that there is a significant opportunity to develop a social enterprise arm to our business, and provide capacity building support to other social economy organisations by providing core services, in line with [Scottish] Government objectives. A business plan will be developed during 2010 specifically for this area of the business. The aim is to generate income of £0.5m per annum from social economy services by 2013.”<sup>280</sup>*

It is argued here that actors in Albase focussed on its image as a ‘social enterprise’ in order to create a position for itself within this policy context. In particular, Albase sought to demonstrate that because it was a social enterprise it could offer more than private sector organisations. Arguably, this approach enabled the organisation to draw on a broader social perception of the legitimacy of social enterprises in the delivery of public services:

*“As we are not profit driven, we can focus resources on the more difficult to reach customer groups such as the long term unemployed, lone parents, people with addictions and the homeless; resources which private sector organisations*

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<sup>280</sup> Anon Doc 77, 2010

*might divert to shareholders. We have proven by our performance that our approach works.”<sup>281</sup>*

Some respondents (interviewed prior to the Work Programme bid) felt that along with the history of the organisation, being a social enterprise helped it to win mainstream welfare-to-work contracts during the early phase of the market:

*“I think that the fact that we are a social enterprise helps us win the employability contracts.”<sup>282</sup>*

Some respondents also felt that the value of promoting the organisation as a social enterprise was their ‘unique selling point’ (compared to private sector bidders), and that it enabled Albase to straddle a number of policy areas and funding bodies<sup>283</sup>. For some respondents the concept of ‘social enterprise’ was not just a view on how the organisation was legally structured (i.e. without shareholders), it was arguably a normative position accompanied by resource opportunities:

*“And what our [unique selling point] USP was...that we are a social enterprise. And that is how we rebranded.”<sup>284</sup>*

Respondents from Albase felt that it operated in a field where there were few social enterprises. Arguably, they considered it a USP only because they were regularly competing against private sector organisations in welfare-to-work contracting. It

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<sup>281</sup> Anon Doc 12

<sup>282</sup> Respondent Campbell

<sup>283</sup> Anon 2; Respondent Doyle; Respondent Somers

<sup>284</sup> Respondent Collins



would possibly not be considered in the same way if they were still predominately competing for ESF funding where there were strict eligibility criteria (i.e. private sector organisations or those with specified turnovers were not eligible to apply) and their competitors would be other non-private sector organisations (i.e. charities, other TSOs and public sector bodies).

Respondents commented that the perception from Albase's partners and funders of the concept of 'social enterprise' was important. It appears that this was because the concept offered possible income sources from organisations which preferred to contract to non-private sector organisations. For example a HA included in its contracts to private sector construction contractors a CBC which prescribed bidders to work with local social enterprises. Similarly, as the extract below demonstrates, actors in HAs may have also chosen to contract work to social enterprises rather than private sector organisations:

*"For example, we have major repairs programmes, cycle maintenance programmes etc, where you are spending significant sums of money each year. So it might be the case of saying, well actually, we want to take the painting contract and we want some sort of social enterprise to deliver it for us."*<sup>285</sup>

Consequently, Albase's positioning as a social enterprise enabled the organisation to attract resources from alternative policy areas. Arguably, for Albase it was beneficial to make the discursive and narrative shift from a charity to a social enterprise. The shift in the policy environment to promote out-sourcing and the use of social enterprises as delivery partners enabled the organisation to accept and benefit from the generic positive image of social enterprise. Albase adopted the associated image

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<sup>285</sup> Respondent Madden

of a 'social enterprise' published from other sources without having to publish their own extra material to project an image of contract management and financial proficiency.

#### 8.14 Access to funding through the social enterprise concept

So far the discussions have focused on the accessibility of funding for social enterprises (i.e. through Community Benefit Clauses) and the above discussions focused on how Albase used the concept of Social Enterprise as a way of attracting resources in a competitive environment. Below it is argued that the concept of Social Enterprise was also used to increase resource diversification as Albase 'carved out' a role for itself within the third sector policy context. As an extract from a publicity document demonstrates:

*"Albase considers itself to be a prime example of the potential for Social Enterprise development in Scotland, and we believe that we can play an active role in promoting the wider development of the sector."*<sup>286</sup>

As outlined above, a variety of alternative resources existed for the organisation, although none as lucrative as welfare-to-work contracts. In recent years Albase moved towards *representing* the sector, whereby it acted as a key example within the sector of 'what works' and promoted this idea.<sup>287</sup> Whilst it is not suggested here that Albase used the social enterprise concept purely to gain resources or legitimacy in other funding environments, it appears that the approach opened-up a new area of resource opportunities, notably from private organisations seeking to access the

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<sup>286</sup> Anon Doc 35, 2007

<sup>287</sup> Anon Doc 77; Anon Doc 88

third sector as customers. As such, Albase became involved in supporting the exchange between private sector organisations and TSOs because the third sector was seen as a marketplace of consumers and customers requiring resources such as IT and infrastructure. Albase offered itself as connected, it supported the idea of TSO organisational change, and it appears it encouraged others in the third sector to adopt change processes<sup>288</sup>. An example of this is the recent relationship with a multinational organisation, which has been given the pseudonym Multi-tech, in the extract below:

*“So, rather than working with a council this time, we’re working with Multi-tech ... But their rationale is slightly different... They are not investing in this and saying, by doing good things there’s a broad impact that helps our profile and brand. This is more about them supporting the third sector as a market and recognising Albase’s position within that market, and thinking that that’s the strongest partnership they can have.”*<sup>289</sup>

Albase also applied for the Scottish Government’s Capacity Building Fund which funded internal IT improvements in 2008; and the contract for the delivery of a Scottish Government funding programme for the TSO capacity building in 2011. By 2010 the organisation had identified the prominence of social enterprise funding and activities more broadly in public sector outsourcing and actively incorporated social enterprise activity as a key part of the business plan. In this way it appears that the concept of ‘social enterprise’ was not simply an identity for external audiences. It is argued here that drawing on the concept acted as a resource strategy. Drawing on resources aimed at social enterprises or targeting the third sector as a marketplace enabled Albase to achieve some resource diversification. As the extract below demonstrates:

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<sup>288</sup> Respondent McStay

<sup>289</sup> Respondent Doyle

*“The Scottish Government announced a significantly increased budget for social enterprises generally and a new £30 million investment fund. Discussions are focusing on scaling up activities that meet the Government’s objectives, a series of longer-term development opportunities, and an investment package for improvements to property, business systems and research and development.”<sup>290</sup>*

Albase employees attempted to exercise some control over their resource opportunities from third sector funds by emphasising their social enterprise credentials and despite their involvement in public service contracting with private sector organisations, it was a key organisation in the third sector in Scotland. Managers pursued a strategy which coupled the organisation with the concepts of ‘third sector’ and ‘social enterprise’. For example, when Albase were awarded a contract or grant this was portrayed not simply a success for Albase, but for the whole of the third sector. As the extract from a newspaper below demonstrates;

*“CEO3, chief executive of Albase said the announcement was a vote of confidence in the social enterprise sector, and would involve the creation of some 200 jobs within the group itself to handle the five-year contract. “I think it is very important for social enterprise. It demonstrates that we can compete with large multi-national private businesses on quality, price and delivery.”<sup>291</sup>*

Albase also aligned itself with member organisations and umbrella groups that supported the social enterprise image. This included the membership of sector and issue based groups which arguably became an important way through which the organisation created networks with others within the third sector and maintained

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<sup>290</sup> Anon Doc 97

<sup>291</sup> Anon Doc 27

and enhanced the image of their 'social value'<sup>292</sup>. The extract below is from a discussion about the Social Enterprise 100 event:

*"The SE100 was about collaboration between lots of different social enterprises to put on an event...We have actually mentored a number of other organisations who have been putting events together. We are assisting in some later awards ceremonies later in the year, and we will be advising on that. So it is about collaborative collaboration in the social enterprise sector...It is taking on that from the inspiring social enterprises, inspiring. It is about helping other social enterprises en route to success."* <sup>293</sup>

Another method which Albase utilised to develop its social enterprise identity and its legitimacy as a leading social enterprise was through the Social Accounting process (for further information see Mook, Quarter and Richmond, 2003). Social Accounting is a way through which firms can report on their environmental and/or social activities<sup>294</sup>. The Social Accounting process provided the organisation with support to their claims that they were different to private sector organisations, possessed values other than financial, and demonstrated 'adding the social' to enterprise<sup>295</sup>. Arguably it detracts from the profit-making aspect of its work and operating rationale, supported the USP, and enhanced its social claims. However, Albase's employees were also aware of the economic value to social accounting in the competitive contracting environment and used the social accounting process to support resource acquisition from all aspects of their organisational field:

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<sup>292</sup> Anon Doc 74

<sup>293</sup> Respondent Collins

<sup>294</sup> Anon Doc 74

<sup>295</sup> Respondent Collins

*“Producing our first set of Social Accounts is a useful first step towards fully expressing our value in a context where we are increasingly competing with large, profit orientated and at times multi-national organisations. Our unique selling point is the added value of what we do, and it is vital that we are able to demonstrate this in an objective and verifiable way. Central to Albase’s strategy and vision is improving the way in which we operate, ensuring that we provide the best quality service for our clients as well as being a partner and employer of choice”<sup>296</sup>.*

### 8.15 Diversification limitations

Options for diversification included a reconsideration of the ILM model based on historical experience, partnerships and relationships. It appears that employees considered this a plausible option as it would not require overly expending resources which entering a new market or policy context would<sup>297</sup>. Senior management also considered increasing Albase’s environmental activities and growing this arm of the business<sup>298</sup>.

However, despite the concerns about limited resource streams, action to rectify this through resource diversification was overshadowed by the need to allocate organisational resources (staff and financial resources) to the acquisition of welfare-to-work funding. For example, in 2007 Albase prioritized acquiring more immediate funding opportunities from the FND ahead of investing in a diversification strategy<sup>299</sup>:

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<sup>296</sup> Anon Doc 74

<sup>297</sup> Anon Doc 15

<sup>298</sup> Respondent Sutton

<sup>299</sup> Respondent Doyle

*“Before Flexible New Deal came out Albase’s strategy was to be less dependent on DWP type contracts, and start to kind of grow the business around regeneration and sustainability...because at that point employability, DWP type contracts, were probably something like 50% of the funding and the other two areas were split into maybe 25/25<sup>300</sup>.”*

Due to the possible benefits and surplus that could be obtained through the FND<sup>301</sup>, and arguably because of the investments already made in welfare-to-work contracting, Albase prioritized welfare-to-work developments over resource diversification. As the extract below demonstrates:

*“Flexible New Deal came along and, resource wise, kind of, stamps all that out because you’ve only got a resource that you can concentrate on a certain area, so probably the opposite happened [than diversification]. We became more dependent on DWP type contracts, even within the employability section itself, the majority of the money was then coming from DWP type contracts.”<sup>302</sup>*

So whilst (Pfeffer and Salancik, 1978) argue that revenue diversification has dependence reducing properties, producing and achieving diversification required internal resources to be reallocated away from DWP exchanges and towards other policy contexts. Funds would have been required to develop and cultivate relationships and gain information about new resources. Therefore, it appears that diversification strategies brought additional constraints. Albase weighed-up the anticipated benefits of diversification against the costs involved at this point in time. Drawing on Froelich (1999) diversification costs may also be limited because the maintenance the dependency relationship (Albase’s reliance on DWP funding) was

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<sup>300</sup> Respondent Madden

<sup>301</sup> Anon Doc 15

<sup>302</sup> Respondent Sutton

also expensive. As discussed in section 8.2, this income stream required considerable management effort for continued success in welfare-to-work contracting competitions.

As discussed in chapter five, Albase operated a number of activities at the same time as the delivery of DWP contracts. Some of these were in policy contexts such as the environment (the provision of environmental and energy advice services); justice (through the delivery of specialist employment support for ex-offenders); and regeneration (including the continuation of some ILM activities). Over time Albase was involved in relationships with a number of external funders associated with these projects. These included (but were not limited to) government agencies, such as Scottish Enterprise or Skills Development Scotland; local government organisations; housing associations; and other charitable groups. Whilst these networks and relationships enabled Albase to deliver a range of activities and receive income from sources other than the DWP, each relationship involved resource expenditure as funding bodies had a variety of needs and demands which had to be accommodated to sustain the exchange relationship. According to Froelich (1999), satisfying the criteria of one provider may preclude satisfying another and resulting goal conflicts and organisational tensions can be difficult to manage (DiMaggio, 1986b). Consequently, it is argued here that diversifying resources whilst being involved in the welfare-to-work quasi-market posed a number of predominately resource based difficulties for Albase.

### 8.16 Summary

This chapter has focussed on the tensions and difficulties Albase experienced whilst adapting to their institutional environment. The first section considered how Albase adapted to the payment-by-results aspect of the quasi-market and discussed the



difficulties with adapting to income uncertainty. It argued that Albase was in a position where it expended resources without certainty of income as welfare-to-work contracts became centred on outcome based payments and Albase expected to make a surplus in the latter years of the larger contracts. The outcome of this arrangement for Albase was an increase in concern regarding financial risk. Due to the limitations for TSOs (and Albase in this instance) in accessing capital (compared to private sector organisations), Albase's exchange relationship with the DWP became less favourable than previous welfare-to-work programmes in the early 2000s.

The shift towards a risk based business-planning process suggests that Albase had not influenced the principal (DWP) and been able to influence the exchange relationship in their favour over the last ten years of market participation. Resource dependency theory offers this relationship as a power based interaction and as such it appears that Albase became less powerful in the exchange relationship as the structure shifted towards a system less appealing.

This brings to the fore questions regarding why Albase remained involved in a system which increased risk and was less favourable. It was argued here that because costs were already expended in previous contracting rounds Albase was committed to the market and this affected the decision to remain involved. Furthermore, it was suggested that because resources were tied up in the involvement in welfare-to-work contracting, Albase was unable to develop and invest in diversifying its resource base. Thus, it became more committed to and dependent on the welfare-to-work contracts. It was also argued that Albase had experienced isomorphism and adapted to the DWP requirements which affected the senior manager's decision to remain involved in, and incorporate more changes, in order to remain in the quasi-market.

This chapter also highlighted how Albase continued to deliver some ILM activity funded through devolved policy areas. The diversification strategy employed by Albase focused predominately on Scottish Government funding sources for employment, regeneration, and social enterprises.



# CHAPTER 9 - CONCLUSION

This research was based on an analysis of organisational change in a TSO given the pseudonym 'Albase.' Albase is an organisation which delivers employment support programmes in Scotland and Northern England. It participated in an ESRC funded CASE studentship programme in partnership with the University of Edinburgh. The findings in the thesis are the outcome of this arrangement.

This chapter draws together the main arguments and critical reflections from this research. It provides a summary of the previous chapters and the main arguments which have been put forward. It is structured as follows. The first section discusses the policy context and research area. The research questions are revisited and the theoretical framework is described. The following section draws together the findings from the empirical chapters. The third section of this chapter focuses on the theoretical framework and the theories are discussed in turn with a consideration of the strengths and weaknesses in this research. The final section revisits the main aims of the thesis and discusses the theoretical, methodological and empirical contribution of this work. The chapter concludes with a note on future research agendas based on the findings produced here.

## 9.1 Policy context

The introduction of the Labour government's welfare reform agenda in the late 1990s aimed to change two things from the existing policy arrangement in the UK. The first and by far the most well researched and discussed aspect of welfare reform centred on activating benefit claimants and increasing the numbers moving into the labour market (Campbell, 2000; Scott, 2006). The employment programmes which

were introduced to realise this aim were known as welfare-to-work programmes. The second part of the reform agenda focussed on the administration of welfare policies. The government shifted the provision and delivery of welfare services and employment support from the state to a quasi-market arrangement involving public, private and third sector organisations. The new arrangement was based on contracts, competition and payment-by-results (Finn, 2005b; Bredgaard and Larsen 2007). The institutional framework included a new government agency, the Department of Work and Pensions (DWP), which was created to bring together the responsibility for employment support and social security benefit payments. It was also given the responsibility to administer contracts through the creation of a quasi-market system through which welfare-to-work contracts were administered (Finn, 2000).

Both third sector and private sector organisations have been involved in the quasi-market since 1997. The welfare-to-work quasi-market includes a large number of private sector organisations, and a range of third sector organisations. In 2008 it was estimated that 600 organisations were involved in the delivery of a DWP welfare-to-work contract (Armstrong et al, 2010). Despite the fast growth of this policy area and the volume and value of the welfare-to-work programmes which have been administered through it, little research has been published on how TSOs have adapted to the new quasi-market governance arrangements. This thesis sought to explore this aspect of welfare reform and public service out-sourcing.

In chapter two the critical review of the literature demonstrated that there was very little empirical research focussing on the delivery organisations involved in the welfare-to-work quasi-market. From a review of the publications by the DWP it was argued that the literature on welfare-to-work programmes has predominately focussed on the impact on jobseekers and governance systems and not on the

delivery organisations involved in the quasi-market. The academic literature was also limited on this aspect of welfare reform, and in terms of the contracting system existing literature was restricted to discussions of how contracted organisations partake in 'gaming behaviour' (Courty and Marchke, 1997; Bredgaard and Larsen, 2008; Finn, 2011). The behaviour of providers has occupied the attention of many academics concerned with welfare-to-work contracting (both in the UK and in similar market based arrangements in Australia and the Netherlands- see Considine 2003; see Bredgaard et al, 2005, Grub 2006; Jahn and Ochel, 2007).

Similarly, in research focussed on the third sector none had considered the welfare-to-work quasi-market in detail. Drawing from a broader range of literature on TSOs in public contracting contexts a number of themes were identified. For example, the use of markets in the provision of public services led to delivery organisations becoming more commercially orientated and the large scale 'marketisation' of TSOs (Dart, 2004, p.414). Others noted that TSOs dependent on public service contracts are 'forced' by the government to conform to its norms of bureaucratic behaviour (Schmid, 2003, p.319-320).

The review also found that whilst there was an extensive amount of literature on TSOs in public service contracting contexts, there was a tendency in third sector focussed research to focus on mapping and identifying organisational types by employing survey methods or comparative case studies. In welfare-to-work literature researchers mainly employed document analysis and policy level comparative methods in their efforts to better understand the contracting and quasi-market process. Where research employed a single case study method, it tended to contribute to management literature and present change processes in a 'how-to' approach, focussing on individual agency and implementing change, rather than looking at the institutional level and identifying the drivers of organisational change

from a contracting environment (Austin and Carnochan, 2002). Whilst there is still little published on the UK welfare-to-work quasi-market and the organisations involved, since this research project commenced in 2008 there has been an increase in interest from academic and research sources. To date, they have noted that the involvement of TSOs in the quasi-market constitutes an empirical blind-spot (Macmillan, 2010; Damm, 2012). It was the aim of this thesis to produce findings which could fit into the empirical gap- a study of a TSO in the welfare-to-work quasi-market which employed a longitudinal single case study strategy in order to explore organisational change.

The thesis was based on the following research questions:

- 1. How and why has Albase's core activity (the delivery of ILM programmes) changed and adapted to the introduction of competitive contracting into the organisational field?*
- 2. To what extent has the introduction of a competitive contracting environment affected organisational change (structure, culture, ways of organizing)?*

## 9.2 Empirical findings

The thesis included a theoretical framework which explored the use of an 'adaptational mechanism' (Barnett and Carroll, 1995, p.217) approach to understand organisational change in Albase whilst it was involved in the welfare-to-work quasi-market. The three theories which were included in the framework were; neoinstitutional sociology; resource dependency theory; and neoinstitutional economics. The decision to adopt this framework was based on two main factors. First, in 2008 at the start of the research programme very little was known about

how the quasi-market functioned and the relationships, behaviour, and even types of organisations involved. There was no existing research where the object of the study was a TSO operating in this context. As such, the main aim of this thesis was to provide an exploratory research study. The three theories proposed had already been drawn on in some research in the wider literature and one of the aims of the case study strategy was to explore the possible theoretical prisms for this policy context and type of research strategy.

The second factor which affected the theoretical framework decision came from the literature review. A number of previous studies have drawn on two or more of these theories to explore issues of third sector organisational change. The inclusion of neoinstitutional economics was justified on the basis that the quasi-market context has been discussed in terms of the economic rational-choice theory, and on the belief that organisations and markets are embedded in an institutional framework. It was anticipated that including an economic perspective to understanding organisational change within this framework may provide alternative explanations for change more suited to this policy context. As so little was known about the welfare-to-work quasi-market, and the organisational change process in Albase, it was anticipated that this theoretical approach may offer an exploratory outcome. The strengths and weaknesses of each theoretical position are discussed separately later in this chapter along with a consideration of the outcome of employing this theoretical framework.

This research was conducted using a qualitative mixed methods case study strategy. The recorded fieldwork took place over two years period and involved interviews with twenty employees, the collection of 150 internal documents and external-facing documents, and 20 years worth of accounting texts. It also included an ethnographic research period. The research covered 27 years of Albase (1983-2010). The decision



for the timeframe was based on an epistemological position on the concept of 'organisation' and 'change' as discussed in chapter four. The adopted view was that organisations are composed of processes and are always changing. The natural state of organisations is to change, that is, there is not a fixed state. Therefore with this in mind, the research sought to explore whether the changes enacted whilst Albase was involved in the delivery of welfare-to-work programmes significantly differed from the processes and behaviour which was visible prior to the welfare-to-work quasi-market. In effect, did the welfare-to-work quasi-market alter the change path which Albase may have been on if it was not delivering welfare-to-work programmes and did it impact on how the organisation was previously arranged. Change, therefore is viewed in relation to the institutional environment, or as conceptualised here, the organisational field (DiMaggio and Powell, 1983).

As noted in the literature review chapter there is an empirical blind spot in terms of the academic knowledge on TSOs in welfare-to-work policy. There does not appear to be other studies on welfare-to-work policies in the UK which have accessed and analysed the quantity and quality of data on one welfare-to-work delivery organisation as used in this study. Therefore, the uniqueness of the depth of data which was collected from Albase suggests that this research is an important contribution to the existing knowledge in both the welfare-to-work field and the literature on third sector organisational change more generally. It is also anticipated that the research findings will be of use to individuals within Albase, as this research has also produced a historical document on the development of the organisation.

Problems around data collection processes in organisations are a popular topic in organisation studies (see Buchanan and Bryman, 2009). In this research project the data collection process was not as straight forward as anticipated during the design

phase, despite the uniqueness of the research arrangement with Albase. As mentioned in chapter four, there were limitations in terms of the accessibility of historical records from within Albase, and at times there were difficulties arranging interviews with respondents and gathering the desired information due to the workload and activities occurring in the organisational field. In practical terms some of the difficulties were related to the changes in the CASE studentship arrangement when the supervisor from Albase left the organisation (prior to the data collection stage). Shortly afterwards the research department was restructured and the responsibility for the CASE studentship was not transferred to another member of staff creating a 9 month period where there was no supportive access to respondents. Once a new arrangement was made it was possible to undertake the fieldwork, albeit much later in the PhD programme than anticipated.

In terms of the research context, the complexity of the range of funding relationships, partners, activities and alternative employment support programmes was overwhelming, and drawing together an accurate longitudinal map of how the funding activities had changed over time was not possible as not all programmes had been as well recorded as others. Similarly, as outlined in chapter five, prior to the consolidation period much of Albase operated in distinct units and projects, or even in separately constituted organisations. This increased the data collection difficulties and in future research on similar TSOs researchers may need to increase the data collection and analysis period in the research timetable. It is believed that the strength of the exploratory approach in this research project is the breadth of data and competing explanations which were considered whilst answering the research questions. However, data handling and analysis complexities also transpired as the project progressed.

This research is the first longitudinal case study of organisational change in a welfare-to-work delivery organisation in the UK. Furthermore, the theoretical framework and the way this was operationalised through the use of a mixed methods strategy appears to be a novel approach to exploring welfare-to-work organisations, and organisational change in general. The thesis used a time period from 1983-2010 to explore the impact of the welfare-to-work quasi-market in relation to organisational change process which occurred in Albase prior to the market. This has not been done in the context of organisational change and the impact of public sector markets. It provides a holistic understanding of the way the organisation changed taking into account the institutions and agents in the organisational field.

Chapters five, six, seven, and eight of this thesis presented the empirical research findings. Chapter five presented a descriptive outline of the organisational change experienced by Albase from 1983-2010. It described the traditional activities of Albase and discussed the Intermediate Labour Market (ILM) model which was a popular approach to managing unemployment during the 1980s. The ILM model involved the creation of temporary employment positions predominately in environmental, housing, and regeneration projects. The rationale of the model was that long term unemployed jobseekers required an extended period of work experience and training. The model replicated real work place practices such as discipline and wage payments. Albase's ILM programmes were funded via a range of public sector and EU funding schemes and employment positions generally lasted 12 months, although this became shorter when the ILM model became intertwined in welfare-to-work funding in the late 1990s and 2000s. The chapter outlined how key features of Albase changed over the time period. It described the shift in activities from ILM projects to welfare-to-work programmes as the main activity which Albase was involved in. It demonstrated how the financial aspect of Albase had experienced change over time. It also demonstrated that from this

financial analysis it appears that Albase experienced financial difficulty prior to the introduction and involvement in welfare-to-work programmes and that for a number of years in the early welfare-to-work contracts Albase was able to generate more income than had previously been possible in the ILM approach. This information was used later in the thesis to argue that Albase became resource dependent, and that this dependency expedited the structural and managerial change processes.

Following this chapter, chapter six, seven and eight, sought to consider the change process in relation to the organisational field. Chapter six discussed the decline of Albase's ILM activities. It demonstrated that whilst these activities overlapped during the start of the welfare-to-work quasi-market, the ILM approach became less feasible in the funding and policy environment and by the mid-2000's Albase's main activity was the delivery welfare-to-work programmes. The chapter traced the history of Albase's activities and used Bonoli's (2010) Active Labour Market Policy distinctions to frame the shift in job search and support. By using this as a framework it was evident that whilst Albase's activities continued to centre on the provision of employment support, the administrative, political and economic context affected the type of activities delivered.

The chapter argued that the change in employment support activities was intrinsically linked to the organisational field as national employment policy became less focussed on training and work experience provision and more concerned with workfirst and less expensive contracted employment support. Using this approach provides an extra element to traditional arguments of mission-drift whereby researchers have identified whether TSOs activities and outcomes shift in response to environmental pressures. What we can see from this chapter is that Albase adapted its traditional activities to its environment. In terms of its mission, it

did not drift, it continued to provide employment support services for long term unemployed jobseekers.

However, through a consideration of the organisational field it became evident that the shift in Albase's activities was fairly substantial in terms of the way services were delivered, the length of support and type of training offered, and the ways in which jobseekers were viewed by actors within Albase. As such, the longitudinal change process approach appears to penetrate into the way activities and services change and discover shifts which a survey method approach may not. For example, the accounts included the mission statement, and although the section was mildly changed over time, it consistently stated that Albase supported jobseekers into employment. A survey of CEOs which asked whether the mission had formally changed on documents, whether their activities had shifted or their client group, would not reveal the nuances of change which this longitudinal exploratory case study approach has. Chapter six provides a valuable insight into the processes involved in organisational change and the way that Albase experienced pressures and undertook adaptational processes in response to the environment. Chapter seven benefits from the insight of the previous chapter and focused on how Albase became more businesslike. This chapter sought to answer research question two.

In these discussions there was a detailed consideration given to the concept of workfare and it was demonstrated that whilst workfare ideas were active in the field during the 1980s and 1990s Albase did not support or provide mandatory activities, unpaid work experience, and sanctioning measures on jobseekers. However, with the introduction of the welfare-to-work quasi-market some of these features typical of workfare policies appeared to be displayed in the data collected from Albase. It appears that in order to access welfare-to-work resources there was a shift in organisational position on these key issues of employment support.

As the object of this study was the experience of Albase, this chapter provided a different view of the relationship between ILM programmes and welfare-to-work programmes. The findings could contribute to existing discussion of the role of job creation programmes in welfare-to-work and contractualist contexts (Gregg, 2008; Houghton, 2009).

Building on chapter five the findings here suggest that the demise of support for the ILM in the organisational field pushed actors in Albase to find alternative resources for its traditional activities. As there was some programme overlap in the early welfare-to-work contracts Albase successfully adapted some of the ILM model to some of the welfare-to-work programmes. However, this was only possible in welfare-to-work programmes which stipulated a work experience of temporary employment option, and which also included funding to cover this. In welfare-to-work programmes which did not stipulate temporary employment, it was more difficult for Albase to adapt the ILM programmes due to the workfirst approach and the outcome payments based on moving individuals quickly into employment. This led to an internal division in terms of the structure, management and activities included in the delivery of programmes on one hand from the ILM approach and on the other the welfare-to-work programmes.

The purpose of chapter seven was to answer research question two. This chapter has focussed on the managerial and structural changes which occurred in Albase since the introduction of the welfare-to-work quasi-market in 1997. It began by arguing that whilst the DWP promotes both TSOs and private sector organisations in policy documents, the administration of welfare-to-work programmes has included a number of quasi-market rules, regulations and organizing features which are more aligned with typical private sector characteristics. Through a detailed discussion of the quasi-market documents which demonstrated the DWP's emphasis on

'business-like' features, it was argued that the payment schedule prioritises two sets of characteristics; finance and resources, and contract management and performance. Furthermore, as resources and contract attainment became weighted towards these characteristics, it was argued that the DWP bestowed legitimacy on the organisations which demonstrated these features in the contract competition process.

The chapter considered these two features in more detail and identified the importance of the payments-by-result mechanism in creating the 'business-like' concept. The use of this payment approach increased competition and risk for Albase and arguably this aspect of the contracting system, which requires on upfront capital, further demonstrates that the system was designed with preference for private sector qualities.

Albase adapted to these rules, regulations and legitimating processes in the organisational field by establishing new managerial processes, in particular through controlling and managing activities through the use of targets. It was noted that some of these processes extended beyond the reach of welfare-to-work programmes and similar systems were established in areas of the organisation without the same organisational requirements. It was suggested that this transfer of managing ideas supported ideas of isomorphic behaviour and legitimacy. It was also noted that in terms of the ability to change Albase's experience demonstrated a transitional process due to the use of target based management in other funding sources.

It was argued that the contract management characteristic required by the DWP led to new roles and employment positions in the organisation, and new ways of organizing work activities. The change was attributed by respondents to the rules

and regulations of the field, and not to the economic rationality of actors. Daily, monthly, and annual reporting became a new aspect of the workplace and was directly attributed to the influence from the quasi-market.

Attention was given in this chapter to the emphasis on competition in the quasi-market and the idea of earning income. It was demonstrated that earning income was a core characteristics of the quasi-market and is rooted in NPM ideas of competition and innovation. The shift in the field from FCR to a shopping relationship was considered in more detail and how Albase adapted to this shift was covered. During the transformational period identified in chapter five it appears there was a gradual adaptation to the shopping relationship approach but this became more difficult as welfare-to-work contract values and competition with larger organisations increased. It was noted that Albase required financial investment in internal processes to shift to the new financial planning processes and questions of whether missions and values would erode in this process were raised by some respondents.

In order to manage the new organisational field, Albase undertook a number of organisational changes. This included professionalizing human resource processes and there was evidence that these changes included an emphasis on commercial qualities, recruitment background and target driven environments (section 7.2.2). It was noted that this adaptation to the contracting environment led to led to more employees working on permanent contracts, and an increase in staff core staff which created cash flow difficulties if contracts finished. Transition from fragmented staff to 'coherent' staff and resource uncertainties for these costs, and this may suggest that the changes demonstrate mimetic isomorphism as the leader of Albase sought to demonstrate and possess the same organisational qualities as competitors.



It was also argued that the change processes meant that different skill sets were required for the leadership team and the employees in the development team. There was also evidence of a shift in the way performance was measured for these employees with an emphasis on contract value and income generation for Albase. Whilst there was some evidence that Albase had implemented performance based payments in the delivery of welfare-to-work contracts, this appeared to be a temporary approach in the mid 2000's which did not continue. However, all front-line staff worked to people into jobs targets.

Finally, the changes which occurred in the way actors within Albase communicated with others in the organisational field suggest that there had been a shift from focussing on communicating with jobseekers (and local actors) to competitors and resource holders in the quasi-market. This may suggest that resource dependency theory and idea that Albase was trying to influence others within the field to maintain and gain resources, has some relevance in explaining the change process. However, there was also some evidence of mimetic isomorphism in terms of how the image of a professional welfare-to-work provider was imagined and created. An issue which will be discussed in more detail in chapter eight is the concept of social enterprise in the change process and how the adoption of this term may demonstrate Albase's efforts for resource diversification. However, this chapter highlighted how Albase's rebranding process involved shifting terminology from ILM or charity to social enterprise in an effort to be considered as an efficient and more business-like organisation. Arguably, the shift was more than a discursive one due to the associated structural and operational changes implemented in the efforts to be considered as business-like, and may therefore be part of a legitimacy seeking strategy.

Throughout the chapter it was demonstrated the organisational change process appeared to be in response to the concept of 'business-like' and the importance this concept played in the allocation of resources and power (in terms of the prime-contractor model) by the DWP. In sum, the transformation phase in which Albase became less associated with its previous structural and organisational arrangements and processes arguably occurred due to isomorphic pressures from the DWP. However, there also appears to be some strength the resource dependency arguments, and whilst transaction cost theory does not seem to explain this transformation overly well, some aspects of change (such as the transformation of the service design process) appear to be part of a rational-choice model to reduce costs and risks associated with DWP exchanges.

Thus far the thesis has outlined the change processes and transformation of Albase in terms of its activities, structure and managing processes. Bringing together the findings here with those in chapter six it appears that due to the need to find new resources to replace ILM activities which became less favourable in the organisational field, Albase became heavily involved in welfare-to-work funding. This created an exchange relationship with the DWP, and as demonstrated in chapter five, over time it became dependent on funding from this source. Whilst the welfare-to-work funding originally suited Albase's traditional employment support activities, as it became more market orientated it created a number of organisational change demands for Albase. Albase adapted to DWP requirements which increasingly emphasised 'business-like' behaviour. Albase therefore became more 'business like' and emphasised the concept of 'social enterprise' over charity, actors incorporated new processes in order to gain resources and legitimacy within the market. It appears that the extent of these changes suggests that Albase experienced resource dependency in the welfare-to-work quasi-market relationship.

The final chapter focussed on the tensions and problems which Albase faced in adapting to the welfare-to-work quasi-market. It suggested that the payment-by-results aspect of the quasi-market increased risk and uncertainty. It was argued that Albase expended resources without certainty of income as welfare-to-work contracts became centred on outcome based payments and Albase only expected to make a surplus in the latter years of the larger contracts. Due to the limitations for TSOs (and Albase in this instance) in accessing capital (compared to private sector organisations), Albase's exchange relationship with the DWP became less favourable than previous welfare-to-work programmes in the early 2000s. This aspect of the contracting process may be particularly interesting to those academics interested in the composition and dynamics of the quasi-market as it suggests that over time the market has become more suited to private sector organisations. This point is discussed in more detail in the future research section of this chapter.

The shift towards a risk based business-planning process suggests that Albase had not influenced the principal (DWP) and been able to influence the exchange relationship in their favour over the last ten years of market participation. Resource dependency theory offers this relationship as a power based interaction and as such it appears that Albase became less powerful in the exchange relationship as the structure shifted towards a system less appealing. This brings to the fore questions regarding why Albase remained involved in a system which increased risk and was less favourable. It was argued here that because costs were already expended in previous contracting rounds Albase was committed to the market and this affected the decision to remain involved. Furthermore, it was suggested that because resources were tied up in the involvement in welfare-to-work contracting, Albase was unable to develop and invest in diversifying its resource base. Thus, it became more committed to and dependent on the welfare-to-work contracts. It was also argued that Albase had experienced isomorphism and adapted to the DWP

requirements which affected the senior manager's decision to remain involved in, and incorporate more changes, in order to remain in the quasi-market.

This chapter also highlighted how Albase continued to deliver some ILM activity funded through devolved policy areas. The diversification strategy employed by Albase focused predominately on Scottish Government funding sources for employment, regeneration, and social enterprises.

### 9.3 New institutional space

What has been discovered through this research is that the shift from commissioning employment support for the ILM projects and the in-house delivery of support by the employment service, to the contract based quasi-market created a new institutional space. This space was dominated by the DWP which controlled all the resources. As these resources were administered in a competitive contracting system based on outcome payments, and which measured performance through targets the administrative shift created isomorphic pressures for Albase. These pressures were mainly transported through the contracts directly, but also via the processes involved in tendering, competing and negotiating its position within the quasi-market structure. It appears that the outcome was a shift in the way Albase managed its activities and how it was internally organized in terms of teams, departments, and responsibilities.

The way actors interpreted the demands from the DWP and the interaction with the transaction costs in the decision-making for service provision was bound by the wider governance rules in the quasi-market. Organisational change became interlinked with quasi-market demands and Albase became more like the DWP's

concept of 'business-like.' Whilst the growth in financial income was viewed as a positive outcome for Albase's leaders, the surplus became a necessity. The requirements of the quasi-market ensured that Albase's surplus was continually reinvested in its organisational processes and systems to meet the institutional requirements. The continued investment in these systems committed Albase to the market and diversification efforts were less well resourced. Whilst some respondents stated that the surplus helped fund other less profitable areas of activity, the dominant ideas of welfare-to-work permeated beyond the welfare-to-work departments and became the dominant ideas of how to organize across the organisation. There was a constant interplay with the quasi-market which affected how changes were put in place. Planned growth and change was often responsive to the quasi-market requirements. As such when new welfare-to-work programmes (such as the FND and Work Programme) introduced minimum size requirements, or further shifted to outcome payment schedules, Albase increased the speed of adaption in order to continue to compete, despite concerns of risk, cash-flow difficulties, and a tension in management and HR pressures.

#### 9.4 Theoretical contribution

The following section revisits the theoretical framework to reflect on the contribution of the three theories.

- Neoinstitutional sociology

Throughout the empirical chapters it was suggested that some of the changes experienced by Albase were attributed to pressures in their environment. Some of the pressures were financial but it was argued in chapter seven and eight that some were cultural. It appears that neoinstitutional sociology was able to identify isomorphic pressures in the organisational field and how these interacted with the

change processes in Albase. There was evidence of coercive isomorphism in terms of the competitive framework and the way in which delivery organisations were forced to abide by DWP regulations in order to compete. This appeared to lead Albase's managers into a change process which prioritised the regulations created by the DWP. Competition was also a leading influence on the creation of mimetic isomorphism. The uncertainty within the organisational field due to the types of new competitors and the continue changes introduced to contracting processes by the DWP arguably encouraged Albase's leaders to adopt an adaptation process based on a perceived understanding of what a welfare-to-work provider should look like. As the discussion of HR and publicity shifts demonstrated (chapter seven) the concept of mimetic isomorphism could explain the strategy employed by Albase. Similarly, as discussed in chapters seven and eight there was a shift towards the concept of 'social enterprise.' It appeared that the change processes reflected ideas of legitimacy and dominant ideas of ideal types in terms of TSOs competing in quasi-market contexts.

There appeared to be little to suggest that normative isomorphism was a strong pressure in Albase's experience. Whilst there was some evidence that employees had needed particular skills such as change management, or contract management skills, there did not seem to be any influence from cross-organisation professions or of the influence of previous knowledge gained from education and training. This isomorphic pressure was not as evident as the coercive and mimetic. It may be an area for future research, particularly because part of the contracting-out agenda involves the transfer of public sector employment into the third and private sectors.

- Resource dependency theory

Resource dependency theory is a popular approach to exploring organisational change in TSOs. Returning to the hypotheses presented in chapter three, resource

dependency theory does not provide as much detail on the change processes as the other two theoretical positions. Arguably, this is because in the context of the quasi-market the power-based relationship is not solely between the principal and the agent. In fact, from the data collected here whilst resource dependency did appear to explain the extent of change in terms of why Albase became committed to becoming business-like, it does not give enough attention to the competitive dynamics of the quasi-market structure. As outlined in chapter seven and eight, a number of organisational changes appeared to be the result of decision makers within Albase responding to competitive performance offers, increasing risk, and competitive pressures.

Chapter six demonstrated that ILM programmes were transformed in order to attract and maintain resources from external parties, although some of the key features such as the provision to pay a wage and the voluntary nature remained key positions for Albase. The ILM programmes were adapted to match the funding framework of the welfare-to-work programmes such as the New Deal programmes. However, key organisational changes in terms of structure and management processes are less well explained through this theory.

- Neoinstitutional economics

Through this lens it became evident that the welfare-to-work contracts acted as policy tools for administering and controlling the behaviour of delivery organisations. Contracts in this policy context were used as devices to coordinate organisations within the quasi-market. The emphasis from this perspective of the role the DWP played in managing opportunistic behaviour provides an interesting insight into the organisational change process and the impact of welfare-to-work contracting. Albase's change process became determined by the institutional framework in which it was embedded. Managing decisions, risk, service delivery

and even the diversification strategy were bound within the quasi-market which had the role of a 'governance structure' on those operating within in.

It was identified that for Albase this created new operational boundaries in terms of how services were designed and that targets and financial regulations were considered as the controlling boundaries in the new systems. Consequently, adaptations to the quasi-market rules and regulation appeared to be part of a rational-economic choice to reduce transaction costs and economic risk, and could also be attributed to the coercive isomorphic nature of the tendering and contracting process.

An original contribution from this research is the idea that previous and anticipated transaction costs actually increase commitment and dependency in the welfare-to-work context. Neoinstitutional economic research which has focussed on the principal in the exchange relationship has tended to suggest that high transaction costs reduces the commitment to a market based arrangement. However, from focussing on the agent (Albase) it appears that the market participation, transaction and business acquisition costs increases the commitment to future market exchanges, and reduces resource diversification opportunities. Much has been written on transaction costs for the DWP and 'gaming' as an outcome of contracting, but less has been written on the exchange relationship and third sector organisations.

One public policy tension which becomes visible from using the neoinstitutional economics approach centres on how to monitor public services and ensure delivery organisations provide services to all referred jobseekers without an increase in



transaction costs that exclude or limit the involvement of TSOs, or changes them into other types of hybrid organisations (Billis 2010)?

By reflecting on the theoretical framework involved it appears that this type of research can benefit from a framework drawing on a range of (somewhat interrelated) perspectives. This is because of this hybrid institutional setting which the quasi-market appears to represent. There are important insights from the approach adopted; first, it appears that Albases change process can be attributed to resource dependency (decline of ILM funding) and that there appears to be some evidence of isomorphic changes mainly due to the mimetic and coercive pressures from the DWP.

There also appears to be some evidence that due to the uncertainty of moving into this new area of work in the early 2000s Albases adopted processes from others in the environment. As such, whilst resource dependency theory speaks to why and how an organisation may become dependent on a resource and concludes that the organisation can be coerced into changing, the process of changing and what the organisation changes into or to look like is better explored through neoinstitutional sociology- the cultural and isomorphic aspects in particular. However, there is value in considering the exchange relationships in terms of transaction costs and contracting institutions as this provided an explanation of why Albases continued to change when the exchange became less favourable. It offered the explanation of commitment and dependency and the quasi-market operates a governance structure where transaction cost exchange patterns are dominant. It was the intention to adopt an exploratory theoretical framework as the limited existing literature did not offer a testing option, and there was not enough known about the welfare-to-work quasi-market when this research began.

## 9.5 Future Research

It is anticipated that the findings from this research can contribute to the discussions of the role and impact of contracting-out on third sector organisations. There are also a number of possible future research agendas that can be identified from the work presented here. First, one of the interesting and unanticipated findings from this research was the role of devolved funding both in terms of how this interacted with employment support policy that remains centralised, and how devolved funding sources provided Albase with resource diversification options (see chapter nine). The argument was made that because Albase had other funding options outside of the quasi-market, it could utilise these to develop internal systems and remain competitive in the quasi-market. It could also use devolved funding sources as alternative revenue streams and as such in theory Albase was less dependent on the DWP funds than if the devolved funding was not available. This raises a question of whether devolved funding reduced the rate of change for Albase and if devolved funding had not been available, would Albase have become more 'business-like' than it already had? Without the resources aimed at the social economy, would Albase have emphasised its social enterprise image without third sector dedicated income sources? Do third sector organisations in England for example, experience organisational change in the welfare-to-work context the same way Albase did? Future comparative research may shed light on how TSOs adapt to quasi-market systems by drawing on other non-marketised policy areas.

Similarly, there is room for more research to look at the interplay between contracting-out and quasi-market rules and regulation regarding competition, and the politics of public service delivery in devolved contexts. How does devolved funding and political ideology at the regional level affect organisational development and competition in quasi-markets operating at the UK level? There is room for some further exploration into this aspect of the welfare-to-work quasi-market. There appeared to be a tension between the DWP's market regulator role

and its efforts to increase competition in the bidding stage for regional and local contracts, and the public policy context where part of the rationale for contracting out suggests that TSOs have community histories, local knowledge, and better outreach to disadvantaged groups.

The second future research area of interest is whether there are a number of 'myths' in this organisational field? By 'myths' I refer to unchallenged and unevidenced statements of how the quasi-market operates and how competition and contracting-out impact on service delivery. The first 'myth' of interest is the role of TSOs in public service contracting and the added benefit that they can bring. What the research suggests here is that the TSOs are transforming in order to compete. The findings here impact on the debates briefly mentioned in the literature review regarding 'types' of third sector organisations. What type of TSO was Albase? What type has it become? Has it become more like a private sector organisation, a public sector organisation, or a new hybrid form? Whilst some of this discussion has been covered in this thesis in chapter seven, there is much more that could be explored. It was argued that Albase become more like the DWP's concept of 'business-like' due to the regulatory isomorphic pressures, but how have other organisations responded and is there any convergence? Can a new 'type' of organisation be identified in this policy context? Similarly, do all the TSOs which have remained active in the welfare-to-work quasi-market consider themselves social enterprises? Are private sector organisations faced with the same coercive isomorphic pressures from the regulatory environment and the transaction costs involved in the competitive contracting?

The second research area based on the idea of policy 'myths' may focus on the idea of improved efficiency due to the use of a quasi-market system. This thesis has been able to demonstrate that welfare-to-work involvement was resource intensive.

Whilst the existing literature has often discussed the ways in which delivery organisations cream and park jobseekers (Bruttel, 2004; Struyven and Steurs, 2004; Jahn and Ochel, 2007) in order to make as much profit as possible, it has not directly discussed the expenditure involved in market competition and contract delivery. Chapter eight's insight into the transaction costs involved in the market opens up a new avenue for understanding welfare-to-work contracts. At the present time the DWP expenditure on welfare-to-work programmes has not been analysed to differentiate between service delivery expenditure, and quasi-market costs. Further insight into the costs involved in competition, market involvement, and contract management for both the DWP and the organisations involved would add substantially to the wider debates of efficiency and waste in public service delivery.

Finally, the story of Albase's experience in the welfare-to-work quasi-market raises a number of questions regarding the regulation and rules which the DWP has introduced over time whilst attempting to reform the quasi-market (and as argued in chapter eight) reduce their transaction costs. The shifts towards payment-by-results and the prime contractor model invoked changes within Albase which were (arguably) uncomfortable and required quick implementation. Respondents recognised risk and growth problems, and although Albase qualified to compete for the Work Programme as it had met the minimum turnover requirements, it is interesting how the rules and regulations of the market became more suited to multi-national and large contract management organisations rather than an organisation such as Albase with over 20 years employment support experience. Future research from a neoinstitutional sociologist perspective may focus on the interactions within the quasi-market between different types of providers, the DWP, and the public policy decision makers. This may provide a fruitful research area to explore competitive and institutional isomorphism.

## 9.6 Contribution to the literature

This thesis was based on a single-case study of a third sector organisation delivering welfare-to-work programmes in the UK. It sought to explore the organisational field, and the impact that changes to the administration of employment programmes had on Albase's activities, structure and ways of organizing. Using a novel theoretical framework and a qualitative mixed methods data collection strategy this research was able to contribute to the wider discussion on the impact of public service markets on TSOs. It found that Albase did experience organisational change and that this change was directly related to the rules and regulations of the welfare-to-work quasi-market. The requirements of the DWP appeared to affect the way in which managers in Albase designed and controlled the day-to-day delivery of employment services. It also found that the competitive pressures in the quasi-market and the uncertainty that respondents identified influenced how Albase changed and the way it introduced systems and processes which would make Albase look like and act like competitors in the organisational field. It was argued that the changes were enacted in an effort to gain legitimacy and resources, and that the resource pressure was due to the decline in funding and political support for the ILM model, and the increasingly expensive costs associated with welfare-to-work contracting. The thesis has provided an original insight into the welfare-to-work quasi-market and the change process of Albase.

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## APPENDIX ONE

All respondents have been renamed and anonymised and accompanied by basic details on each respondent's position within Albase and their time at the organisation. Details are limited to ensure respondent confidentiality.

Table 9.1: Anonymised table of interview respondents

<b>Respondent</b>	<b>Anon name</b>	<b>Role in Albase</b>	<b>Time at Albase</b>
1	Sutton	Senior manager	More than 10 years
2	Campbell	Mid-level manager	More than 15 years
3	Doyle	Mid-level manager	More than 15 years
4	Madden	Employee	Less than 5 years
5	McMahon	Senior manager	More than 5 years
6	Somers	Senior manager	More than 10 years
7	Quinn	Employee	More than 5 years
8	Hamilton	Senior manager	More than 15 years
9	McStay	Senior manager	More than 10 years
10	Collins	Senior manager	Less than 5 years
11	Delaney	Employee	Less than 5 years
12	Thomson	Employee	Less than 5 years
13	Bonnar	Senior manager	More than 5 years
14	Beattie	Senior manager	More than 5 years
15	Evans	Mid-level manager	More than 5 years
16	Stein	Employee	More than 15 years
17	Lennox	Mid-level manager	More than 15 years
18	Murdoch	Mid-level manager	More than 5 years
19	Connelly	Senior manager	More than 10 years
20	DalGLISH	Employee	More than 15 years
21	McClair	Employee	More than 5 years
22	McGhee	Employee	More than 15 years
23	Morris	Employee	Less than 5 years
24	Aitken	Employee	Less than 5 years
25	Miller	Senior manager	Less than 5 years

Table 9.2: List of Anonymised Documents with analysis categories

Anon Ref	Category	Sub-Category	Year
Doc 1	External Facing Document	Welfare-to-work tender	n.d.
Doc 2	External Facing Document	Welfare-to-work tender	2005
Doc 3	External Facing Document	Scottish Funding Source	2004
Doc 4	External Facing Document	Regeneration Funding	2002
Doc 5	External Facing Document	Scottish Funding Source	2006
Doc 6	External Facing Document	Welfare-to-work tender	2004
Doc 7	External Facing Document	Consultation response	1997
Doc 8	External Facing Document	Consultation response	2008
Doc 9	External Facing Document	Published study	2007
Doc 10	External Facing Document	Published study	1997
Doc 11	External Facing Document	Published study	2007
Doc 12	External Facing Document	Welfare-to-work tender	2005
Doc 13	External Facing Document	Regeneration Funding	2000
Doc 14	Internal Facing Document	Business Strategy	2006
Doc 15	Ethnographic notes	Welfare-to-work tender	2010
Doc 16	Internal Facing Document	Business Strategy	2009
Doc 17	External Facing Document	Consultation response	2005
Doc 18	Internal Facing Document	Business Strategy	2005
Doc 19	External Facing Document	Published study	2005
Doc 20	Ethnographic notes	Marketing	2010
Doc 21	External Facing Document	Published study	2004
Doc 22	External Facing Document	Published study	2000
Doc 23	Internal Facing Document	Business Strategy	2007
Doc 24	Internal Facing Document	Business Strategy	2008
Doc 25	Internal Facing Document	Business Strategy	2007
Doc 26	External Facing Document	Published study	1999
Doc 27	External Facing Document	Published study	1993
Doc 28	External Facing Document	Published study	1999
Doc 29	External Facing Document	Published study	1996
Doc 30	External Facing Document	Published study	2009

Doc 31	Internal Facing Document	Business Strategy	2004
Doc 32	Internal Facing Document	Business Strategy	2007
Doc 33	Internal Facing Document	Business Strategy	2005
Doc 34	Internal Facing Document	Business Strategy	2005
Doc 35	Internal Facing Document	Business Strategy	2007
Doc 36	External Facing Document	Funders report	2009
Doc 37	Internal Facing Document	Organisational document	2009
Doc 38	External Facing Document	Funders report	2005
Doc 39	External Facing Document	Marketing	2008
Doc 40	External Facing Document	Funders report	2006
Doc 41	Internal Facing Document	Organisational document	2006
Doc 42	Internal Facing Document	Organisational document	n.d.
Doc 43	Internal Facing Document	Organisational document	n.d.
Doc 44	External Facing Document	Welfare-to-work tender	2005
Doc 45	External Facing Document	Published study	1997
Doc 46	External Facing Document	Accounts	1999
Doc 47	External Facing Document	Accounts	2000
Doc 48	External Facing Document	Accounts	2001
Doc 49	External Facing Document	Accounts	2009
Doc 50	External Facing Document	Accounts	2002
Doc 51	External Facing Document	Accounts	2003
Doc 52	External Facing Document	Accounts	2004
Doc 53	External Facing Document	Accounts	2005
Doc 54	External Facing Document	Accounts	2006
Doc 55	External Facing Document	Accounts	2007
Doc 56	External Facing Document	Accounts	2008
Doc 57	External Facing Document	Accounts	1986
Doc 58	External Facing Document	Accounts	1987
Doc 59	External Facing Document	Accounts	2009
Doc 60	External Facing Document	Accounts	2010
Doc 61	External Facing Document	Published study	2001
Doc 62	External Facing Document	Accounts	1988
Doc 63	External Facing Document	Accounts	1989

Doc 64	External Facing Document	Accounts	1990
Doc 65	External Facing Document	Accounts	1991
Doc 66	External Facing Document	Accounts	1992
Doc 67	External Facing Document	Accounts	1993
Doc 68	External Facing Document	Accounts	1994
Doc 69	External Facing Document	Accounts	1995
Doc 70	External Facing Document	Accounts	1996
Doc 71	External Facing Document	Accounts	1997
Doc 72	External Facing Document	Accounts	1998
Doc 73	Internal Facing Document	Organisational document	n.d.
Doc 74	External Facing Document	Published study	2007
Doc 75	Internal Facing Document	Business Strategy	2006
Doc 76	Internal Facing Document	Business Strategy	2009
Doc 77	Internal Facing Document	Business Strategy	2010
Doc 78	External Facing Document	Welfare-to-work tender	2008
Doc 79	External Facing Document	Accounts	n.d.
Doc 80	External Facing Document	Consultation response	2007
Doc 81	External Facing Document	Marketing	2010
Doc 82	External Facing Document	Organisational document	2000
Doc 83	External Facing Document	Organisational document	2001
Doc 84	External Facing Document	Organisational document	2002
Doc 85	External Facing Document	Organisational document	2003
Doc 86	External Facing Document	Organisational document	2003
Doc 87	External Facing Document	Marketing	1998
Doc 88	External Facing Document	Marketing	2009
Doc 89	External Facing Document	Marketing	1998
Doc 90	External Facing Document	Marketing	1997
Doc 91	External Facing Document	Marketing	1997
Doc 92	External Facing Document	Consultation response	2008
Doc 93	External Facing Document	Consultation response	2010
Doc 94	External Facing Document	Marketing	2009
Doc 95	External Facing Document	Marketing	2010
Doc 96	External Facing Document	Welfare-to-work tender	2001

Doc 97	Internal Facing Document	Business Strategy	2008
Doc 98	Internal Facing Document	Business Strategy	n.d.
Doc 99	External Facing Document	Funders report	2005
Doc 100	External Facing Document	Funders report	2006
Doc 101	External Facing Document	Funders report	2007
Doc 102	External Facing Document	Funders report	2008
Doc 103	Internal Facing Document	Business Strategy	2007
Doc 104	External Facing Document	Funding tender	2002
Doc 105	External Facing Document	Funding tender	2002
Doc 106	External Facing Document	Funding tender	2005
Doc 107	External Facing Document	Welfare-to-work tender	2005
Doc 108	External Facing Document	Welfare-to-work tender	2004
Doc 109	External Facing Document	Welfare-to-work tender	2004
Doc 110	External Facing Document	Welfare-to-work tender	2004
Doc 111	External Facing Document	Scottish Funding Source	2005
Doc 112	External Facing Document	Welfare-to-work tender	2005
Doc 113	External Facing Document	Welfare-to-work tender	2005
Doc 114	Internal Facing Document	Business Strategy	2005
Doc 115	Internal Facing Document	Business Strategy	2007
Doc 116	Internal Facing Document	Organisational document	2007
Doc 117	External Facing Document	Welfare-to-work tender	2007
Doc 118	Internal Facing Document	Welfare-to-work tender	2007
Doc 119	Market Document	Welfare-to-work tender	2006
Doc 120	Internal Facing Document	Welfare-to-work tender	2005
Doc 121	Internal Facing Document	Welfare-to-work tender	2005
Doc 122	External Facing Document	Welfare-to-work tender	2005
Doc 123	Internal Facing Document	Welfare-to-work tender	2005
Doc 124	Internal Facing Document	Business Strategy	2002
Doc 125	External Facing Document	Scottish Funding Source	2004
Doc 126	External Facing Document	Scottish Funding Source	2002
Doc 127	External Facing Document	Scottish Funding Source	2004
Doc 128	External Facing Document	Scottish Funding Source	2004
Doc 129	External Facing Document	Funders report	2006



Doc 130	External Facing Document	Funders report	2006
Doc 131	External Facing Document	Funders report	2006
Doc 132	Internal Facing Document	Business Strategy	2006
Doc 133	Internal Facing Document	Business Strategy	2006
Doc 134	Internal Facing Document	Business Strategy	2005
Doc 135	Internal Facing Document	Business Strategy	2004
Doc 136	External Facing Document	Scottish Funding Source	2004
Doc 137	External Facing Document	Marketing	2006
Doc 138	Internal Facing Document	Organisational document	2008
Doc 139	Internal Facing Document	Business Strategy	2008
Doc 140	Internal Facing Document	Business Strategy	2008
Doc 141	Internal Facing Document	Business Strategy	2007
Doc 142	Internal Facing Document	Business Strategy	2001
Doc 143	Internal Facing Document	Business Strategy	2002
Doc 144	Internal Facing Document	Business Strategy	2003
Doc 145	Internal Facing Document	Business Strategy	2007
Doc 146	Market Document	Welfare-to-work tender	2008
Doc 147	Internal Facing Document	Business Strategy	2009
Doc 148	Internal Facing Document	Business Strategy	2007
Doc 149	External Facing Document	Published study	2005
Doc 150	External Facing Document	Published study	2000

## APPENDIX TWO

Table 9.3: Income from DWP Contracts 2005-2010 (used in Figure 5.4)

Programme/Year (£m)	2005	2006	2007	2008	2009	2010
Employment Zone	1.65	2.21	2.97	3.45	3.26	3.44
New Deals	4.09	5.41	7.38	5.74	5.55	3.72
FND					2.76	11.97
ESF	3.83	3.82	2.70	0.25	0.39	0.76
<b>Total</b>	<b>9.57</b>	<b>11.44</b>	<b>13.04</b>	<b>9.43</b>	<b>11.96</b>	<b>19.88</b>

Table 9.4: Employee Information (used in Figure 5.5 and Figure 5.6)

Year	Number of		
	Employees	Temporary	Permanent
1986	264	254	10
1987	403	376	27
1988	537	-	-
1989	493	-	-
1990	442	336	106
1991	503	356	147
1992	560	394	166
1993	567	382	185
1994	719	461	258
1995	740	476	264
1996	789	524	265
1997	801	545	256
1998	820	549	271
1999	835	559	276
2000	1,004	636	368
2001	871	567	304
2002	968	636	332
2003	1,107	741	366
2004	1,054	653	401
2005	949	528	421
2006	830	399	431
2007	766	352	414
2008	542	168	374
2009	573	153	420
2010	871	355	516

Table 9.5: Financial Information – Total Income 1986 – 2010 (used in Figure 5.7)

<b>Year</b>	<b>Total Income (unadjusted for inflation)</b>	<b><i>Inflation Adjustment Factor</i></b>	<b>Total Income (adjusted for inflation)</b>
<b>1986</b>	780,446	205%	1,601,759
<b>1987</b>	2,052,015	198%	4,063,188
<b>1988</b>	2,091,919	190%	3,977,635
<b>1989</b>	2,734,623	181%	4,960,672
<b>1990</b>	4,238,895	172%	7,295,278
<b>1991</b>	5,008,088	165%	8,271,030
<b>1992</b>	5,819,153	160%	9,329,683
<b>1993</b>	5,808,282	156%	9,041,586
<b>1994</b>	8,868,922	152%	13,461,312
<b>1995</b>	13,465,020	148%	19,874,069
<b>1996</b>	8,523,519	143%	12,219,706
<b>1997</b>	12,610,935	140%	17,674,088
<b>1998</b>	14,078,605	138%	19,428,389
<b>1999</b>	16,627,432	135%	22,449,928
<b>2000</b>	16,656,074	131%	21,757,263
<b>2001</b>	15,292,895	127%	19,423,876
<b>2002</b>	17,042,408	125%	21,311,442
<b>2003</b>	19,535,479	122%	23,887,210
<b>2004</b>	19,762,938	119%	23,533,380
<b>2005</b>	20,079,687	115%	23,127,008
<b>2006</b>	20,299,353	112%	22,649,386
<b>2007</b>	21,731,000	108%	23,575,298
<b>2008</b>	16,858,000	104%	17,612,489
<b>2009</b>	20,759,048	105%	21,765,567
<b>2010</b>	32,181,460	103%	33,197,277

Table 9.6: Financial information from Albase's accounts (used in Figure 5.8)

Year	Turnover (sales revenue £)	Operating Income (funding £)	Total Income (£)	Income from Funding (% of total)	Inflation Adjusted (to 2011 Prices)			
					Inflation Adjustment Factor	Turnover (sales revenue £)	Operating Income (funding £)	Total Income (£)
1986	598,193	182,253	780,446	23%	205%	1,227,709	374,049	1,601,759
1987	1,193,444	858,571	2,052,015	42%	198%	2,363,135	1,700,054	4,063,188
1988	1,635,556	456,363	2,091,919	22%	190%	3,109,893	867,742	3,977,635
1989	2,678,878	55,745	2,734,623	2%	181%	4,859,550	101,123	4,960,672
1990	2,927,256	1,311,639	4,238,895	31%	172%	5,037,904	2,257,374	7,295,278
1991	3,333,998	1,674,090	5,008,088	33%	165%	5,506,213	2,764,817	8,271,030
1992	4,694,906	1,124,247	5,819,153	19%	160%	7,527,209	1,802,473	9,329,683
1993	4,585,618	1,222,664	5,808,282	21%	156%	7,138,300	1,903,286	9,041,586
1994	7,063,188	1,805,734	8,868,922	20%	152%	10,720,556	2,740,756	13,461,312
1995	7,412,577	6,052,443	13,465,020	45%	148%	10,940,798	8,933,271	19,874,069
1996	7,871,402	652,117	8,523,519	8%	143%	11,284,801	934,905	12,219,706
1997	6,067,771	6,543,164	12,610,935	52%	140%	8,503,915	9,170,173	17,674,088
1998	7,021,177	7,057,428	14,078,605	50%	138%	9,689,181	9,739,207	19,428,389
1999	7,481,238	9,146,194	16,627,432	55%	135%	10,100,974	12,348,954	22,449,928
2000	8,179,935	8,476,139	16,656,074	51%	131%	10,685,171	11,072,092	21,757,263
2001	7,478,649	7,814,246	15,292,895	51%	127%	9,498,813	9,925,063	19,423,876
2002	8,659,859	8,382,549	17,042,408	49%	125%	10,829,108	10,482,334	21,311,442
2003	9,460,806	10,074,673	19,535,479	52%	122%	11,568,299	12,318,911	23,887,210
2004	7,859,774	11,903,164	19,762,938	60%	119%	9,359,289	14,174,091	23,533,380
2005	6,432,712	13,646,975	20,079,687	68%	115%	7,408,949	15,718,059	23,127,008
2006	4,325,226	15,974,127	20,299,353	79%	112%	4,825,952	17,823,433	22,649,386
2007	4,623,000	17,108,000	21,731,000	79%	108%	5,015,351	18,559,946	23,575,298
2008	3,681,000	13,177,000	16,858,000	78%	104%	3,845,745	13,766,744	17,612,489

Table 9.7: Financial information and ratios (used in Figure 5.9 and Figure 5.10)

Year	Current Assets (£)	Current Liabilities (£)	Current Ratio
1998	7,907,098	5,762,953	1.37
1999	9,430,471	7,785,999	1.21
2000	5,936,444	5,967,393	0.99
2001	5,336,489	6,464,064	0.83
2002	5,622,499	4,438,579	1.27
2003	4,895,946	3,610,462	1.36
2004	5,879,075	4,668,944	1.26
2005	6,434,933	4,683,437	1.37
2006	6,580,768	3,949,065	1.67
2007	7,772,000	3,286,000	2.37
2008	6,053,000	2,146,000	2.82

Year	Trading Income (total incoming resources £)	Trading Costs (£)	Trading cost ratio
1998	13,067,022	12,866,954	1.02
1999	16,443,579	17,247,258	0.95
2000	16,584,897	17,545,843	0.95
2001	15,505,838	15,189,449	1.02
2002	16,787,514	16,543,470	1.01
2003	19,259,132	19,283,148	1.00
2004	19,140,928	19,384,396	0.99
2005	19,810,374	19,694,610	1.01
2006	20,030,167	19,768,473	1.01
2007	21,695,000	20,368,000	1.07
2008	16,924,000	17,648,000	0.96

Item	Trading Income (total incoming resources)	Trading Costs	Trading cost ratio
1998	13,067,022	12,866,954	1.02
1999	16,443,579	17,247,258	0.95
2000	16,584,897	17,545,843	0.95
2001	15,505,838	15,189,449	1.02
2002	16,787,514	16,543,470	1.01
2003	19,259,132	19,283,148	1.00
2004	19,140,928	19,384,396	0.99
2005	19,810,374	19,694,610	1.01
2006	20,030,167	19,768,473	1.01
2007	21,695,000	20,368,000	1.07
2008	16,924,000	17,648,000	0.96

### APPENDIX THREE

An illustration of Albase's activities and its involvement in different policy contexts.



Source: Author's impression gained during fieldwork, not based on quantitative data.

