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## Human Services and the Voluntary Sector: Towards a Theory of Comparative Advantage

DAVID BILLIS\* AND HOWARD GLENNERSTER\*\*

### ABSTRACT

This article explores whether human service organisations in the voluntary sector possess characteristics which might assure them of possible comparative advantages over the for-profit and public sectors with respect to certain sorts of users. We argue that there are inherent structural characteristics of organisations in each sector (for example, ownership, stakeholders and resources) which *predispose* them to respond more or less sensitively to different states of ‘disadvantage’ experienced by their users. These states are defined as financial, personal, societal and community disadvantage. We suggest that voluntary organisations have a comparative advantage over other sector agencies in areas where their distinctive ambiguous and hybrid structures enable them to overcome problems of principal–agent gap, median voter reluctance, weak messages from politicians to staff and lack of market interest.

By taking ideas of comparative advantage into account, a coherent case can be developed regarding the strengths and weaknesses of the expanded role of voluntary agencies in welfare provision. In essence, the article contends that a diminution in stakeholder ambiguity, resulting from organisational growth, lowers the comparative advantage of voluntary agencies.

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### INTRODUCTION

It has become a cliché of modern social policy that we now live in a mixed economy of welfare. It was always thus, of course. The state in Britain came relatively late to the provision of human services and only

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since 1945 to a dominant role. The state may be withdrawing but it does not automatically follow that the 'voluntary', 'third' or 'non-profit' sector should take its place. Private markets are growing in sophistication and scale. What room is there for a third sector and of what kind?

Our purpose in this paper is to explore whether – specifically in the realm of human services – voluntary organisations possess characteristics which might assure them of possible comparative advantages over the for-profit and public sectors with respect to certain sorts of users. In this exploration we shall attempt to demonstrate that despite claims that the sectors are 'blurring', the sector concept remains a powerful explanatory tool. We shall not argue that any one has a monopoly of the virtues. Rather our case is that there are inherent 'structural' characteristics of organisations in each sector (for example, ownership, stakeholders and resources) which *predispose* them to respond, more or less sensitively, to the different states of 'disadvantage' experienced by their users. These states are defined as financial, personal, societal and community disadvantage which can lead individuals and groups to a breakdown in independent living.

This article is intended to be first, a theoretical exploration designed to provoke debate and secondly, we hope, an attempt to test the validity of our exploration.

#### DEFINITIONS

Some preliminary definitions are in order. First, we are not seeking to analyse the contribution of all voluntary organisations. Our prime concern is with 'human services', that set of welfare agencies which provide care, cash, education, shelter and support to people, very often with significant personal interaction between the agency and the individual client or user (Donovon and Jackson, 1991; Hasenfeld, 1992). The term is neutral between the sectors that may provide these services – private for profit, state or voluntary.

Second, there is the very notion of a 'sector' and the term voluntary or non-profit. Although boundary lines are difficult to draw, legally, and in terms of the primary stakeholders, there is a very clear difference between agencies which are owned by shareholders and have to make a profit and those which do not. There is also a clear difference between an organisation set up by statute and responsible to an electorate, and private organisations that are not. This is not the place to debate this issue at length. We rest on the structural/functional definition of Salamon and Ahneier (1992, pp. 10–13) which despite some reservations, will suffice as a working definition. That is to say, the voluntary, or what now may

increasingly be called the 'third sector', can be defined as a collection of organisations that are (a) formal or institutionalised to some extent; (b) private – institutionally separate from government; (c) non-profit-distributing – not returning profits generated to their owners; (d) self-governing – equipped to control their own activities; (e) voluntary – involving some meaningful degree of voluntary participation. There is some blurring at the edges, but at their core there is a sector that is distinct in legal, financial and organisational terms.

A third concept, which is discussed fully later, but which is central to our argument is that of 'stakeholder ambiguity'. By ambiguity we mean that the traditional division of stakeholders, such as owners, paid staff and consumers or users is replaced in voluntary agencies by a bewildering complexity of overlapping roles.

#### WHY DOES A VOLUNTARY SECTOR EXIST AT ALL?

This is not a new question, but it is our claim that it has yet to be satisfactorily answered. The standard British social policy texts on the topic are descriptive rather than theoretical. The Wolfenden Report (1978) set out five functions drawn from existing practice: the development of new kinds of service to meet new needs, services to other organisations, liaison between organisations, representation of minority interests and direct service. Yet the state does all these already. So does the private market in many instances. Why should the voluntary sector do them any better? Political scientists are attracted to study the sector because it gives pluralism to an otherwise monolithic state. But there are other ways to achieve pluralism – local state and community or market. In any case, wishing to see institutions exist is not the same as asking why do they exist?

British writing about the voluntary sector has a long and distinguished history and a full review is well beyond the possibilities of this paper. Nevertheless, a brief examination of several of the key texts of the past twenty years provides a necessary introduction to our discussion.

A good starting point is the series of papers and books by Hadley and Hatch (for example, Hadley *et al.*, 1975; Hatch, 1980). Both writers were contributors to the 1977 Wolfenden Report and their book *Social Welfare and the Failure of the State* (1981) represents probably the first serious, albeit brief, attempt to analyse the different organisational characteristics of the various sectors. A more detailed researched-based work is Hatch's study of three English towns (Hatch 1980). Here, the questions are asked: what are voluntary organisations and how can they be classified? Again, the relevance for this paper is the tentative steps taken

to link different types of voluntary organisations – defined as mutual aid, volunteer organisations, special agencies and funded charities – with organisational characteristics and the nature of the beneficiaries.

A new phase of rather more theoretical British voluntary sector writing coincides with the rise of an established body of international scholars, and the establishment of several new academic journals. The key writings can be traced in a number of collected works (Batsleer *et al.*, 1992; Billis and Harris, 1996; Smith *et al.*, 1995). In this new phase several authors have grappled with issues close to our starting question. For example, Paton (1992), who builds a model of the provision of goods and services based on two dimensions: (a) organisational purposes and (b) degree of institutionalisation. ‘Purposes’ range from private profit through to those organisations that exist for the benefit of others. Institutionalisation ranges from small informal organisations to large bureaucracies.

The British literature needs to be complemented by a substantial body of American writings in this area. These works – perhaps because of the very different cultural, institutional, economic and policy context – have often addressed more directly the issue: why does the sector exist? Key contributions are to be found in the work of Weisbrod, Hansmann, Salamon and Kramer (see DiMaggio and Anheier, 1990 for a review of the sociological and other literature).

Weisbrod (1986) is a good starting point: he begins with a model in which people in society ‘behave rationally in pursuit of their individual objectives of utility maximization’ (1986, p. 22). This drives their voting behaviour. Some want more collective goods and some less. Only the median voter is fully satisfied. Some will be sufficiently dissatisfied to join organisations that provide more. ‘Voluntary organisations come into existence as *extra governmental providers of collective-consumption goods*’ (p. 30, italics in original). Thus non-profits come into being to provide the extra high quality collective goods that the for-profit sector cannot.

The difficulty with this explanation is that voluntary organisations, do not primarily seem to be providers of collective goods. Moreover, human services with which we are concerned are essentially private goods, though with some public good elements to them. A more general interpretation of the Weisbrod thesis is that not only do markets fail but so do governments (Le Grand, 1991; Wolf 1979; and in a different tradition Hadley and Hatch, 1981). Voluntary organisations therefore come into existence to meet human service needs that are not met by the ordinary market, but at which governmental services are inefficient. Government failure is the result of centralised monopoly provision, self-interested

providers and professionals, much discussed in the public choice literature. Once again, however, it is not clear why the voluntary sector provides the only or main answer. Decentralised state services and quasi-markets between public providers are recent alternatives. The voluntary sector may provide additional and more varied competition and hence improve the market choice, but just why this should be the case is not obvious or, at least, not explicitly discussed.

The original collective goods deficiency theory of Weisbrod was criticised by Hansmann (1980, 1987). He also observed that most non-profits were not providing collective or public goods. Building on earlier work by Nelson and Krashinsky (1973) he approached the question not from the point of government failure, but from market failure. Contracts of certain kinds (for example, aid to the starving in Africa) are very difficult to police. Donors are more likely to trust non-profits with gifts. This is what he calls the 'non-distribution constraint': those who control the organisation have less incentive to take advantage of their customers. Voluntary organisations therefore have a comparative survival advantage, providing the value of such protection outweighs their evident 'inefficiencies' (1987, p. 29). This may explain why voluntary groups serve very vulnerable people. But why should they be any better at it than the state sector? Moreover, are voluntary agencies so free from the distribution constraint – the capacity to distribute donors' money to paid staff, even if there are no shareholders? A for-profit agency might compete successfully on low administration and high trust qualities. The differences between for-profit and voluntary agencies are not captured in the Hansmann thesis.

In contrast, Salamon (1987) presents a theory of 'voluntary failure': previous theories, he claims, have failed to differentiate between government's role as a provider of funds and deliverer of services, and have failed to acknowledge the reality of third party government. According to this view it is the government and market which should be regarded as the residual mechanism in the provision of collective goods: collective action on community problems is best done on a voluntary basis by the voluntary sector. Unfortunately, the voluntary sector, for all its strengths, cannot generate enough resources: it is vulnerable to particularism and favouritism of the wealthy, paternalism and amateurism – hence voluntary failure. However, it is not clear from this why any voluntary organisations should survive long term.

In short, we have a sequence of economic theories that point to the weakness of whole systems: market failure, government failure and voluntary failure. Voluntary organisations thus end up doing things that they are relatively least bad at – a theory of comparative disadvantage.

These theories tend to be system-wide, focused on the supply side and to concentrate on a system's negative characteristics.

A more positive approach is to be found in the substantial corpus of work by Kramer which stretches back to the early 1960s. His seminal *Voluntary Agencies in the Welfare State* (1981) focused on the individual agency and – amongst other things – explored the basic characteristics, unique functions and vulnerabilities of voluntary agencies. He draws attention to 'prominent features' of agencies. For example, they are interest groups and they have considerable discretion in their use of resources. Their unique functions are: (a) specialisation in a problem, a group of people or a method of intervention; (b) advocacy; (c) consumerism and other forms of volunteerism; and (d) service provision, which is seen as the most pervasive and least distinctive function.

Traditional social policy discussion in Great Britain has tended to take a line much nearer to the Kramer view, but it has emphasised the pioneering role of the sector. The sector is a path finder and experimenter with new services or newly recognised groups in need (Wolfenden, 1978). The underlying assumption is that the state will step in when the experiment is seen to work and the service becomes part of the mainstream welfare state. This is a line of argument largely absent in the United States and not at all part of the rationale advocated by the New Right in the 1980s. Once again it leaves relatively untheorised the reasons for the sector's supposed advantages in being innovative, as well as at what point it becomes beneficial to move to state provision.

It is true that these early American theories have moved on to some degree (e.g., James, 1989; Kramer *et al.*, 1993; Mason, 1984; Salamon in Clotfelter 1992; Young, 1983). One of the core works (Hansmann, 1980) has not been 'revisited' by Steinberg and Grey (1992). Nevertheless, the reasoning remains largely concerned with the supply-side characteristics of voluntary agencies. Any full theoretical discussion ought surely to be as concerned with the users as the providers, the demand as much as the supply side.

#### TOWARDS A THEORY OF COMPARATIVE ADVANTAGE

While grateful for the above corpus of work, we remain unconvinced that it provides an answer to the question with which we began. Our first complaint is that it does not differentiate clearly enough between the sectors and the incentive structures that differentiate them. Our second complaint is that it does not incorporate the users of human services and their characteristics or the interaction between users and organisations.

We begin with a brief look at the core organisational characteristics of

TABLE 1

Sector	Driven by	Structure	Core Finance	Workers
Public	Median voter and re-election	Bureaucratic	Taxes	Paid: some volunteers
Private	Shareholder and profit related goals	Bureaucratic	Sales	Paid
Voluntary	Multiple stakeholders	Ambiguous	Taxes Donations Charges	Paid and volunteers

the different sectors. This is then followed by a section which considers the types of demand put on the agencies by different categories of client. We conclude that some kinds of deprivation may be more effectively responded to by agencies in one sector rather than another.

*Sector characteristics: the supply side*

We wish to posit several key organisational features which we believe are characteristic of each of the sectors. Table 1 attempts to display organisational characteristics of the sectors. We divide these for simplicity into the stakeholders (who and what is the organisation driven by), the formal organisation structure, the core finance or resources and who the workers are.

In Table 1 we have laid out just a few main factors which highlight the enduring differences in sector organisation, hence justifying its continued use as a powerful metaphor. Such factors cannot be ignored in any consideration of differential response or comparative advantage. Even this modest outline takes us immediately into deep water and we are aware both of the debates that surround some of the components of the model, and other factors that might have been included. We are merely trying to highlight some distinctive features of the sectors.

Put crudely, *public sector* agencies are driven by what politicians believe will secure them the necessary votes for re-election (for an account of the median voter approach see Dunleavy and O'Leary, 1987). Despite the criticism of this approach we nevertheless agree that: 'The median voter theory is a factor which no elected government can afford to ignore for long . . .' (Self, 1993, p. 106). We are reminded of the power of the approach in the UK, when, faced with what appeared to be a humiliating defeat in the European election, the prime minister attempted to strike a chord with voters by making a strident attack on homeless people and calling for the removal of 'beggars' from the streets. The structure of most UK governmental human service agencies is that of the large

bureaucracy of paid staff organised into accountable managerial hierarchies with a clear division between those who control the agency (A), the paid staff or bureaucrats (B) and the users or clients (C); what Billis (1993b) elsewhere has called the ABC division. The core financial basis (Glennerster, 1997) is derived in one way or another from taxation, despite the growth of sales and even charitable contributions to, for example, hospitals. The core staff are paid, notwithstanding the substantial number of volunteers used in hospitals (often overlooked in the debate).

UK *private sector* human service agencies have until recently been a minor feature of welfare provision, although the growth of private health care provision and residential homes for the elderly have begun to change the picture. Ignoring for the moment the 'principal-agent problem', that is to say 'how to get one person or organisation to act on behalf of another' (Milgrom and Roberts, 1992, p. 214), we assume private sector agencies to be driven by shareholders and the need for profit. Other goals are present but they must be consistent with sufficient rewards to shareholders to ward off potential take-overs. They too are bureaucratically organised with the ABC division, as previously discussed. They are primarily financed by sales of services and would not use volunteers, although volunteers may well be active in the private sector's community programmes. Again, we acknowledge the complications presented by the small family concern, but their relatively tiny role in overall UK service provision provides some justification for bypassing this problem at this juncture.

Voluntary human service organisations, as defined at the start of this paper, present a far more complex challenge for analysis, and represent another of the founding puzzles of the field. This is evident from the start when we attempt to examine what drives their missions and policies. In this analysis we have no choice but to short-cut the discussion and present our own case that such missions and policies are driven by multiple stakeholders. Whether it be 'entrepreneurs', any combination of Board and staff, funders of whatever sort, members, volunteers, users or even the dead hand of past charismatic leaders, we suggest that multiple stakeholding is the general dominant characteristic. We also suggested that stakeholder 'ambiguity' is a key distinguishing feature of voluntary agencies, e.g., they can share the characteristics of public and private bureaucracies as well as the features of the pure membership association. The resource complexities have been well charted (Gronbjerg, 1993), and the use of volunteers is a critical feature.

The supply side that we postulate is thus more complex than that

which often appears to underpin the purely economic approaches which take organisational structures as given. Voluntary agencies may be the more effective suppliers in some situations, and for some clients, precisely because they are ambiguous and complex. Similarly, unambiguous bureaucratic structures accountable to median voters and shareholders may not be the best suited to meet the needs of different types of clients. It is to a discussion of a number of these different client types that we now turn.

*The demand side: states of client disadvantage*

Our main contention is that it is not possible to understand the comparative advantage or disadvantage of sectors or organisations without looking at the characteristics of the clients and their interaction with the supply characteristics of different agencies. Most services provided by the for-profit sector and most services provided by the state are used by utility-maximising individuals and can be analysed in terms that are familiar to economists and political scientists. However, human service organisations are our main concern, and they are frequently dealing with people disadvantaged in one form or other. We have therefore found it useful to relax the central assumption that underpins much of traditional economic writing which posits individuals as all being rational self-interested utility maximisers. Likewise, political science theories, particularly those of the newer public choice tradition, posit voters as self-interested utility maximisers.

Our alternative approach is to group the various states of severe welfare problems that might beset citizens and lead them to be incapable of benefiting from traditional supply mechanisms. In this section we offer initial definitions and a brief statement of some questions to be addressed.

In the first place individuals may have little or no money and find it difficult to survive. They may be *financially disadvantaged*, lacking the purchasing power to seek solutions in the market. In practice the position is often more complex, since the individual may not be able or willing to use the market in a responsible way for themselves: they may, in other words, be demonstrating an additional form of disadvantage (see below). They may also be expected to act as agents on behalf of others, particularly children, and here we encounter another version of the principle-agent problem.

Quite separate from financial disadvantage might be those individuals who are in what we might call a state of *personal disadvantage*. They are potential users who cannot articulate a coherent preference from the organisation in question. This group would include people with learning

difficulties, or mental health problems, young children and confused elderly people. Even if they had the money, they would be unable to exercise their preferences on the organisation. They cannot be 'rational utility maximisers'.

Third, there may be individuals and groups who are, at any particular time, *societally disadvantaged*. In other words they are 'blamed' or stigmatised. They may be perfectly capable of exercising their 'exit' and 'voice' functions (they are not personally disadvantaged), but society chooses not to listen or makes it difficult for them to achieve economic power. Their entry into the job market may be limited and politicians may lose votes if they support their cause. In the UK this has been the case with gay people, ethnic minorities and single mothers in recent years.

Finally, there are those who suffer primarily from the fact that they live in a particular community – they are *community disadvantaged*. They live in areas where the market, political and civil structures have broken down. 'Respectable' firms will not wish to risk opening shops in such areas or providing work. The usual political parties have more or less ceased to operate: voters in other parts of the town have no interest in allocating taxes to those living in those areas. This is a situation ripe for the entry of the anti-state illegal organisations, the mafias and the local criminal fraternities.

We have so far questioned the extent to which the concept of the 'rational utility maximising individual' provides a sophisticated enough explanation for understanding the role of the voluntary sector. We have introduced a 'cross industry' approach, and an initial categorisation of states of disadvantage in order better to understand the puzzle. We have also noted that we believe that the different structures of the agencies in the different sectors have implications for their predisposition and ability to respond to different categories of disadvantage. We turn now to examine this in slightly more detail.

#### *Where may the comparative advantages be?*

If this approach is to be fruitful we need to examine the manner in which the structural features of 'typical' agencies in each sector might cause them to align with particular categories of disadvantage – or the way in which disadvantage attracts specific organisational response. However, it will shortly become evident that *combinations* of disadvantage are likely to provide a more satisfying explanation than simple correlations between one disadvantage and a specific sector response.

In the case of *financial disadvantage* by itself, the state in most instances can, if the need is deemed justified, provide the cash and thus remove the

disadvantage. If the money is going for a purpose for which there is a general consensus in society, the state provides the money, the politicians know what they want, and the clear (ABC) accountability structure of their agencies can enable services to be offered in accordance with political and median voter wishes. In summary, unless combined with another disadvantaged condition which, as we have noted, may well be the case, it is difficult to see what comparative advantage today's UK voluntary agencies have in this area. By itself, 'poverty' is probably too blunt a concept to have much explanatory power. Giving financial help is suited to a public agency with clear rules and clear lines of accountability to political representatives of the taxpayer. This is a role which the British social security system carries out well. However, where it has to deal with vulnerable, stigmatised individuals, it is much less successful. This category is discussed below.

Those who are *personally disadvantaged* require *others* (parents, guardians) to act on their behalf. Contract failure offers an explanation for situations in which rational consumers cannot evaluate the service accurately. But what if the consumer requires 'others' that do not exist, do not care or whose interests conflict with those who are disadvantaged? In these instances also, the private sector is unlikely to be seen to have any comparative advantage. The state service delivery agency is an obvious possible alternative solution but median voter pressure is likely to be weak, and the organisation is likely to receive weak messages from politicians in defining their goals and standards. Normal practice will be therefore to leave it to the 'professionals' to act as the interpreter and guardian of the personally disadvantaged person. (We shall use the term professional to refer to a member of staff, who in a governmental agency would usually be paid, and who employs a recognised body of knowledge.)

The long history of abuse and scandal in UK public institutions suggests that reliance on professional training and codes is not necessarily enough. Professionals are accountable to politicians who are not necessarily the best equipped to fulfil the role of 'guardians' of personally disadvantaged people since such politicians may lack the required *motivation, sensitivity and knowledge*. Here we contend that the multiple stakeholder and ambiguous structure of the voluntary agency can offer comparative advantages.

Our concept of stakeholder ambiguity draws on the research undertaken by one of the authors since 1978 with voluntary agencies in the UK. During this period more than 20 in depth case studies have been undertaken, and some 300 agencies have participated in research workshops

and courses in which the material has been tested and refined. This UK material is reinforced by a further study of 14 non-profits in the United States. (Much of the history and details of this research and the full exposition of the concept can be traced in Billis, 1993a, 1996.) The concept of stakeholder ambiguity, which utilises the ideas of Leach (1976), was originally developed in response to the distinctive organisational problems presented by participants in the early research programme. Those problems were not fully addressed by traditional theories which were primarily concerned with the large bureaucracies of the private and public sectors. The idea of stakeholder ambiguity also provides, we believe, a persuasive response to the long-standing scholarly puzzle, found in the various academic disciplines which have studied the voluntary sector, of sector overlap, 'fuzziness' or 'blurring' (Billis, 1993c). (Perhaps the most concentrated body of writing on this subject is to be found in the 1987 special edition of the former *Journal of Voluntary Action Research* (vol. 16, no. 1 and 2).

In essence, the notion of ambiguity begins by positing that there are four 'worlds' within which social problems can be resolved: governmental and private sector bureaucracies, associations and the personal world. Each of these worlds has its own *unambiguous* and well-known rules of the game. Thus bureaucracies (organisations which employ paid staff) rely on the managerial command system, associations on concepts of membership and voting; the personal world rests on unbounded ideas of commitment, love and affection. In so far as the word 'owners' can be applied to all these worlds, each has its own distinctive structure of ownership. Since this paper is concerned with organised policy responses to widespread and often severe problems we have in Table 1 only considered the 'unambiguous' private and public sector worlds. For simplicity therefore we have not brought the associational and personal worlds into the picture.

We contend that there are many organisations that are *ambiguous*: that although their roots and ownership rest firmly in one sector, they nevertheless possess some of the structural features of other sectors. Of these, the most interesting in our context are those organisations which have associational roots and are neither owned by the government nor by the private sector, but yet have adopted the key characteristic of bureaucracies and have employed paid staff. These organisations are what we might call voluntary *agencies* as distinct from voluntary membership associations. Again, for ease of exposition, we have simply referred to these in Table 1 as the 'voluntary sector'. Hence it is important to bear in mind that despite the fact that 'agencies' may represent the fastest growing part of the sector and are the focus of current UK

policy attention, there is nevertheless a vast and mainly unexplored territory of genuine membership associations.

The key characteristic of the ambiguous voluntary agency is the complexity of overlapping roles. This has been particularly identified in the governance structure where there is often overlap in the roles of governing bodies and paid staff. A striking example of this is provided by the Pre-school Playgroup Association (Brophy, 1994, p. 162):

From their inception playgroups were organised by mothers, some groups employed a paid leader but most were dependent on (unpaid) mothers working alongside the paid leader. Thus, the providers of the service, the users of the service and its managers were all mothers and frequently the same mothers doing all tasks.

Our research has demonstrated that whereas in private and public sector bureaucracies where, in the main, there is clear-cut differentiation between employer and employee, employee and non-employee, provider and recipient, chairperson and director, director and subordinate, Board or management committee and staff, owners and others, in voluntary agencies all these categories can overlap in every possible combination. And for the voluntary agency, these are not idiosyncratic and temporary aberrations, but a fundamental, structural characteristic resulting from their occupation of both the associational and bureaucratic worlds. It is not surprising therefore that stakeholder ambiguity is often accompanied by deeper tensions between the demands of the bureaucratic paid staff command structure and requirements of the democratic membership association based on voluntary effort. (In passing we must note the proliferation of organisational forms which, whilst they have their roots and ownership in the governmental sector, have adopted characteristics more usually associated with the voluntary sector, for example hospital 'trusts'.)

Moving on to consider the implications of stakeholder ambiguity for our analysis, we suggest that one consequence, for example, is that the gap between users and those in authority *can be* less given the potential for greater motivation, sensitivity to, and knowledge about client need. However, ambiguity can also lead to poor communication, with a governing body that is secure in its own ignorance.

Stakeholder ambiguity can mean that members of the governing body are expected to raise or donate funds for the operational purposes of the agency, or they can perhaps be there because they have personal knowledge of a particular disadvantaged state. Volunteer service deliverers may well be a widespread source of labour, and they too may be on the governing body. They may also be present or past sufferers from a

particular disadvantage and therefore may be more sensitive to disadvantaged people. The critical point is that the political market failure and the formal hierarchy failure we identified earlier in public bureaucracies *can* be overcome within the informality of an ambiguous and relatively small voluntary organisation.

There is a price to be paid. Professionals (both paid and volunteer) in voluntary agencies can find themselves in disagreement with other stakeholders. Relationships between professionals and governing bodies are notoriously difficult in parent-run agencies. We must also bear in mind that, except for children, a state of personal disadvantage may well be lifelong. The resource demands, say, for residential care are likely to be huge. In this case the voluntary agency, unless it has very substantial independent funding, is likely to have a narrow definition of eligible groups or has to become heavily engaged in pressure group activity to persuade voters and governments to change any negative attitudes. But, all in all, there is a *prima facie* case to argue that voluntary agencies may have a real competitive advantage in restricted but important areas of human service provision, where their structures produce incentives for more sensitive service.

Stigmatised individuals and groups, those we have referred to as *societally disadvantaged* – again by definition – are unattractive customers for public sector agencies. If they have the money such customers can utilise certain very expensive private clinics for alcoholics, drug users, etc. but one exception to the general failure of governmental agencies to enter this particular field is that of the UK National Health Service (NHS), which is still large enough, and carried sufficient public esteem, to deal with drug addicts and Aids victims, as part of its general work. This part of its remit rarely comes to public attention and little is known with respect to user needs and preferences. The advantages of stakeholder ambiguity, argued in the case of personal disadvantage, hold here also, but they are not absolute. The for-profit agency can comfortably deal with those who have the money and are capable of expressing their preferences. Voluntary agencies will have an advantage particularly when societal is combined with financial disadvantage.

Those facing *community disadvantage* suffer from an absence of the normal institutions of civil society. Shops, together with other signs of a market economy, have disappeared along with public services. The state has the resources and may intervene when a riot looms, offering a flower festival or some other colourful short-term intervention to satisfy the average voter that something is being done. But intervention, in the main, has been short term and incoherent. These deprived areas are now

TABLE 2. *Comparative advantages of sectoral provision*

Disadvantage	Financial	Personal	Societal	Community
<i>Sector</i>				
Public	+	+ -	-	+ -
Private for-profit	-	+ -	-	-
Voluntary	-	+	+	+ -
<i>Key</i>				
Strong +				
Either + -				
Weak -				

one of Europe's major chronic problems, to which neither the state nor the market have been able to respond. Self-help and community mobilisation, despite the resource constraints, appear to be one of the few ingredients of a possible upwards cycle (Power, 1993). The churches may have a particular role, both in helping to recreate a true civil society, but also through its encouragement of human service agencies in these areas. The argument so far may be summarised in Table 2.

It is not the purpose of this article to test our theory exhaustively. That must wait longer-term research, although a review of available evidence on the effects of Community Care plans and voluntary organisations (after also noting the absence of empirical data and conceptual clarity), agrees with the general thrust of this paper in questioning the appropriateness of traditional economic theory (Mocroft and Thomason, 1993). Nevertheless, some preliminary evaluation is possible. If we take the first column and ask how far the various sectors respond to the financial needs of the poor, it is fairly clear that the state does provide the bulk of this activity. There are private money lenders who make very expensive loans to the poor, but such provision is insignificant compared to the vast scale of state activity. Interestingly, the voluntary sector did, in the nineteenth and earlier centuries, make an important contribution to relieving poverty with cash aid. The work of the Charity Organisation Society and other cash giving agencies not only declined as state cash-giving grew, but also increasingly took on the task of relieving personal disadvantage. Cash giving is now an insignificant part of the tasks of the voluntary sector. While there is no systematic UK research in this area, the withdrawal of American non-profits from the relief of poverty is analysed by Salamon (1993).

When we turn to the column headed 'personal disadvantage', we predict a large voluntary sector component and we do find these organisations exceptionally well represented. A higher share of their total activity may fall under this heading than any other. Again, although systematic

UK research is absent, a glance through the publicity of the Charities Aid Foundation (1995) demonstrates their significant role amongst human service organisations: Barnardos, NSPCC, MENCAP, National Childrens Home, to name but a few of the largest agencies. The state is clearly important in this field too, but its scope is more widespread. Organisations that deal exclusively with the stigmatised are to be found almost exclusively in the voluntary sector. Here are to be found hundreds of often smaller organisations, such as local groups of MIND, Community Drug Helpline, Turning Point, Phoenix House, Bow Mission, etc. The specialist treatment of groups like AIDS patients by the state typically has a public health rationale as a significant element, rather than care and compassion as such. Finally, our own experience of working in the most deprived communities suggests that churches and self-help and voluntary groups are often the last resort, when even the main stream public services have given up.

Clearly these impressions need to be thoroughly assessed. There are counter examples. But it seems to us there is enough of a case here to be worth fuller examination and testing. It does seem that we find a higher proportion of human service activities dealing with personal, societal and community disadvantage. This framework does provide a rationale for considerable voluntary non-profit activity. The extent will vary through time. One society may hold certain disabilities to be stigmatic, another may not. The definition of disadvantage is after all social. So must be the comparative advantages and disadvantages of the voluntary sector.

#### CONCLUSIONS AND QUANDARIES

Our intention has been to open up a line of enquiry which brings together the supply side characteristics of welfare agencies in the different sectors with the demand side characteristics of a number of different categories of disadvantage. The general thrust of our argument has been that it is the very complexity or ambiguity of voluntary organisations which *can* provide them with comparative advantages.

Moving rapidly through the disadvantaged states, we suggest that where the problems are well understood and supported by the general public, and political messages to professionals are clear (as with problems of general *financial* disadvantage), the governmental bureaucratic service agency should have a comparative advantage. We are not convinced that in the UK in these types of situations, public sector 'welfare bureaucrats' are primarily motivated by their own interests and unwarranted organisational growth (Tullock, 1965; Niskanen, 1971). Our own experience (for a critique of public choice theories see Self, 1993: 34) leads us to believe that this can be a phenomenon present in any sector.

As we have tried to indicate earlier, voluntary agencies may well have a comparative advantage in responding to those people who are in what we have called a state of *personal disadvantage*. However if they have the money, 'guardians' may choose private sector agencies (clinics and homes, etc.). The particular conditions whereby guardians with independent resources choose voluntary rather than for-profit agencies for those for whom they have responsibilities are as yet unexplored. Voluntary organisations of course often suffer from a less reliable resource base, and this must be juxtaposed with their advantages of sensitivity and motivation.

A similar argument can be employed when examining *societal disadvantage* and the comparative advantages of the different sectors, particularly government and voluntary, the two main competitors in this area of need. The stronger the political consensus and the greater the resources demanded, so too will the governmental agency have greater advantages. Voluntary agencies have advantages where motivation and sensitivity are in scarce supply. As long as the NHS has wide based public support, with a committed staff and an ample supply of potential nurses and doctors, with many thousands of people prepared to volunteer for work in hospitals (a phenomenon sometimes overlooked in sector analysis), and many members of the general public prepared to donate money in addition to paying their taxes, then it is difficult to see much scope for a renewal of voluntary sector activity. Following this line of argument takes us to questioning whether the recent opted-out hospital trusts can really be treated as part of the voluntary sector. More likely, in our view, is that this is an attempt to steal some of the voluntary sector's organisational clothes, whilst remaining in all key respects public sector institutions.

We have included in our analysis the state of *community disadvantage*. It appears to us to be the most intractable problem for UK public policy. We believe that voluntary agencies do have an advantage in this area. Indeed, talk of 'comparative advantage' may be too optimistic where there may be little other organisational alternative. Certainly the track record of government is so far pretty dismal.

Our general argument is that voluntary agencies have a comparative advantage over other sector agencies in areas where their distinctive ambiguous and hybrid structures enable them to overcome problems of principal-agent gap, median voter reluctance, weak messages from politicians to staff and lack of market interest. We must emphasise again that we have considered only severe welfare problems. We have not discussed the pervasive, less severe states of discomfort. We have a strong

belief that in this area of need the voluntary organisation reigns supreme, and that this area certainly warrants further research.

We are not sanguine regarding notions of comparative advantage. It is perhaps best to see advantages as intrinsic characteristics which in the real world may, or, as we have hinted several times, may not be fulfilled. Moreover, theories that attempt to explain why any sector exists run the risk of defending the status quo, of building the theory on the basis of current situations. Whilst theories of the sector must naturally relate to the world as it is, or more often a specific country, they should also help resolve or shed light on current dilemmas or even perhaps at future minefields. The final part of this paper raises several issues of concern.

### *Quandaries*

Our line of reasoning leads to one central quandary facing UK voluntary agencies, the question of their expanded role in welfare provision (Lewis, 1993; Billis and Harris, 1992). Again it is not a new problem, but we suggest that by taking ideas of comparative advantage into account, a coherent case can be developed. Put simply, we argue that the less the stakeholder ambiguity, the lower the comparative advantage. For example, if increased size leads to increased differentiation and separation of stakeholder roles, we contend that comparative advantage begins to diminish. If paid staff, governing body and users are all quite separate, all the problems faced by agencies in other sectors begin to appear. If service volunteers begin to depart the agency and/or begin to move out of any governance roles as well, then ambiguity diminishes. So whilst sympathetic to the general tenor of papers that are also worried about voluntary sector scandals and erosion of legitimacy, it is far from certain that the solution lies in the design of 'practical criteria for the identification of stakeholders' (Ben-Ner and Hoomissen, 1994: 412). Stakeholder ambiguity cannot be eliminated without destroying comparative advantage. On the other hand, we would not wish to give the impression that ambiguity necessarily implies a confused organisation – rather it implies a flexible, changing and informal structure.

The other main advantage of the voluntary organisation is its lack of reliance on the voter market place, driven by the concerns and prejudices of the median voter. The more voluntary organisations become the vehicle for state money, the less this will be true.

To sum up. We have put forward initial thoughts regarding a theory of comparative advantage which takes into account both the organisational features of human service agencies and the different states of user disadvantage. Following this approach leads us to question the long-term

viability of voluntary agencies that attempt to respond to large-scale needs outside the core areas of personal, societal and community disadvantage. Their very real advantages are likely to be particularly seen where personal and societal needs are combined, and where they are not overwhelmed by resource constraints. Seen in this light, organisational growth, for example as a result of contracting with public agencies, is certainly a phenomenon to be carefully monitored by those who are interested in the public policy role of voluntary agencies, and also by those who are concerned to ensure a healthy voluntary sector. Over eager 'privatisers' may be destroying the very comparative advantages the sector has to offer.

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