# Third sector capacity building: the institutional embeddedness of supply

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## Abstract

Previous articles in Voluntary Sector Review have documented the evolution of third sector capacity building policy (Macmillan, 2011) and addressed the focus on 'market-making', characterised by a discursive shift since 2010 that favours demand-led over supply-led delivery models (Macmillan, 2013). This paper builds on these articles by using data from the National Survey of Charities and Social Enterprises (NSCSE) to investigate the characteristics of third sector organisations on the supply-side of the capacity building 'market'. We argue that the ambitions of the demand-led model need to be understood in the context of the embeddedness of these organisations. This is based on findings that suggest that, immediately prior to the identified discursive shift, a significant proportion of third sector capacity building providers were embedded in the supply-led model through relationships with and funding from the public sector locally and nationally. This, we suggest, could thwart the ambitions of the demand-led model.

## Keywords

Capacity building; Marketisation; Third sector; Embeddedness

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## Introduction

Since the early 2000s successive UK Governments have paid attention to building the capacity and effectiveness of frontline third sector organisations (Macmillan, 2011). In parallel, independent funders such as the Big Lottery Fund have made significant investments in capacity building through their grant funding programmes (Macmillan, 2013). However, policy makers' and funders' views about how capacity building should be delivered have changed considerably during this period. Under Labour governments (between 2004-10), funding was made available for local infrastructure organisations to provide support for frontline organisations free at the point of delivery (HM Treasury, 2002; Home Office, 2004; HM Treasury and Cabinet Office, 2007). Subsequently, the Conservative-Liberal Democrat Coalition government (2010-15) implemented a series of initiatives seeking to put more control over capacity building in the hands of frontline organisations themselves (OCS, 2010; Big Lottery Fund, 2011a). This has given rise to the idea of market-making in capacity building support provision (Macmillan, 2013) and discussion of a discursive shift amongst policy makers and funders from favouring supply-led approaches towards support for a demand-led model.

These developments in third sector capacity building have been discussed in two previous articles in *Voluntary Sector Review* (Macmillan, 2011 and 2013). This paper builds on these articles by exploring the institutional embeddedness of 'supply' in the market for third sector capacity building services. Data from the 2010 National Survey of Charities and Social Enterprises (NSCSE) are used to identify the characteristics of the organisations that provide capacity building support. Our analysis shows that in 2010, when the discursive shift in favour of a demand-led model intensified, a significant proportion of capacity building providers had multifaceted long term relationships with key public sector policy actors locally and nationally. Thus we argue that parts of the supply side of the capacity building market appear to be institutionally embedded. This could thwart the extent to which the ambitions of the demand-led model are realised, and might explain why market-making rhetoric has not yet translated into a major shift in capacity building practice, particularly at a local level.

The remainder of the paper is divided into four sections. We begin by documenting recent developments in third sector capacity building policy. Next, we explain why the embeddedness of economic action is an important theoretical consideration in the analysis of market-making, and posit a hypothesis about how the third sector capacity building market might be institutionally embedded in practice. We then move on to discuss the data used, the methodological steps taken and the main findings of our analysis. Finally, we consider how these findings support our hypotheses about the institutional embeddedness of the supply-side of the capacity building market and discuss the implications for the ambitions of the market-making agenda and the demand-led model.

## Third sector capacity building policy since 2004

### *What do we mean by capacity building?*

Before discussing developments in third sector capacity building policy since 2004 it is important to be clear about what is meant by the term capacity building in a third sector context. In their discussion of the different ways in which third sector capacity building is understood, Cairns et al (2005) highlight a number of different types of organisational capacity that might be 'built', such as programme delivery, programme expansion, or the ability to adapt to (external) environmental pressures (ibid: 872). More broadly, they identify a more general understanding of capacity building as "any kind of action or progress which improves (an organisation's) abilities to perform activities or functions" (ibid: 872). This broader understanding of capacity building is reflected in the definitions applied by key policy actors in this field. For example, the Big Lottery Fund adopted a working definition of capacity building as "efforts to improve performance by developing skills and confidence" (Big Lottery Fund, 2009). In practical terms capacity building has come to be associated with supporting frontline organisations with a series of 'core' needs such as attracting funding, recruiting volunteers and networking with other voluntary and public sector organisations (IVAR, 2010).

However, it is also important to recognise a shift in the literature from 2010 onwards, which suggests a 'capabilities' framework may be a preferable way of framing debates about what capacity building means (Macmillan etc al, 2014). Focussing on capabilities means "thinking about what organisations can do or be, what they want to achieve, and what they need in order to flourish" and "draws attention to the organisation's potential rather than what it lacks in terms of skills or resources" (IVAR, 2010: 94). Capabilities can therefore be thought of as the skills, knowledge and confidence of individuals within an organisation, whereas capacity includes these capabilities, but also other organisational resources, systems and structures (Macmillan et al, 2014). In essence, capacity is how much you can do, and capability is how well you can do it (Ibid)'. This debate is ongoing and highlights the contested nature of capacity building (Craig, 2007), opening up questions about how it is understood, who it is for, what it is supposed to achieve and, fundamentally, who decides these matters: governments, funders, infrastructure organisations or frontline third sector organisations themselves.

### *2004-10: support for supply-led approaches*

New Labour governments between 1997 and 2010 oversaw a 'hyperactive mainstreaming' of the third sector in public policy (Kendall, 2000), and promoted the development of 'horizontal' support for the sector (Kendall, 2009) through major investments that aimed to strengthen third sector capacity building providers. From 2004 in particular, the field of capacity building in the UK became dominated by a supply-led approach. Two national programmes, from central government and the Big Lottery Fund, were particularly influential in shaping the field in parallel with complementary strategies of numerous local authorities and independent funders.

In 2004 the Home Office launched a ten year strategy for capacity building and infrastructure — *ChangeUp* — with the aim of improving the quality of support provided to frontline organisations. The strategy led to an overall investment of £231 million (NAO, 2009), including the establishment of CapacityBuilders in 2006 to oversee its implementation (Home Office, 2005). Meanwhile, also in 2006, the Big Lottery Fund launched its Building and Sustaining Infrastructure Support (BASIS) initiative with the same broad aims as ChangeUp. BASIS provided £157 million in grants to capacity building providers (Big Lottery Fund, 2011a) and was complemented by other Big Lottery Fund initiatives which together represented over £200 million of funding for capacity building over a ten year period (Big Lottery Fund, 2011a).

These investments boosted the field of third sector capacity building by investing in activities and providers, most notably voluntary sector infrastructure organisations, operating at national, regional and local levels. The underlying assumption was that investment in voluntary sector infrastructure would strengthen capacity building organisations; improve the quality of support they provided; and subsequently make frontline third sector organisations more effective. Towards the end of the New Labour era, however, critiques of this supply-led approach began to emerge which argued that they risked disempowering frontline organisations through an inherent lack of choice and control. The interests of frontline organisations, critics suggested, were subordinate to those of providers, with capacity building characterised as a deficit model (Craig, 2007) which saw frontline organisations lacking in skills which were then to be built up through support provided by external experts (Donahue, 2011; Diamond, 2008). It was suggested that supply-side investments had favoured a certain group of providers - existing infrastructure organisations – who, it was claimed, were "hoovering up the money" (Harris and Schlappa, 2007: 139) but that it was difficult to demonstrate the impact of such investments. Further, as public sector austerity took effect, it became apparent that resources necessary to sustain the third sector infrastructure would become increasingly constrained.

Increasingly calls were made for a move away from a supply-led approach towards a more tailored demand-led approach, with greater focus on frontline organisations who should have more choice and control about what support they need and where they should get it from (see for example Bubb and Michell 2009; Big Lottery Fund, 2011a). Rather than funding for capacity building flowing to support providers, a market based approach was proposed in which frontline organisations would receive funding to buy the support they needed from the supplier of their choice (see Harker and Burkeman, 2007, for an early call for such an approach).

### *2010 onwards: towards a demand-led model*

The final years of New Labour saw the emergence of programmes, such as the Modernisation Fund (see Grant Thornton, 2010), which began experimenting with demand-led mechanisms, including providing bursaries and vouchers to frontline organisations to buy support. Momentum increased under the Coalition government, and has continued under the current Conservative government. In opposition the Conservative Party (2008) had been critical of New Labour's approach for being too complex, centralised and top-down (Macmillan, 2011). In government these criticisms were enacted through the early ending of the ChangeUp strategy and the abolition of Capacitybuilders. An early consultation paper (OCS, 2010) laid out plans to support frontline organisations to 'modernise' and signalled an end to 'top-down initiatives' in favour of demand-led approaches through mechanisms such as vouchers and bursaries (Macmillan, 2011). This was followed by the launch of the Transition Fund in 2010 which provided resources for frontline organisations to pay for support directly, and Transforming Local Infrastructure (TLI) in 2011 which sought to rationalise and reconfigure the supply side of capacity building in support of a shift to a demand-led approach (Big Lottery Fund, 2011b). TLI was explicitly described as the last investment by central government in supply-side infrastructure organisations (*ibid*). Mirroring this new central government approach, a number of local schemes were also launched, including voucher schemes in Sheffield and Worcestershire (see Walton and Macmillan, 2014 for a review).

Meanwhile, also in 2011, the Big Lottery Fund signalled its interest in demand-led approaches with a consultation on its Building Capabilities for Impact and Legacy (Building Capabilities) initiative (Macmillan, 2013). Building Capabilities was not a single programme but a new approach to support for frontline organisations based on demand-led principles that provided additional funding for grant holders to purchase the organisational development support they needed (Big Lottery Fund, 2011).

Together these programmes, and the strategies which underpinned them, represented a gradual shift in preference and emphasis by key policy actors from supply-led to demand-led models. They signified the emergence of an experimental managed market for capacity building support, for which there have been at least two sets of drivers (Macmillan, 2013). Whilst the Big Lottery Fund offers a rationing narrative (*ibid)* in which constrained finances and a crowded field of provision are posited as the drivers for change (see for example Big Lottery Fund, 2011a), central government tends towards an empowerment narrative (Macmillan, 2013*)* in which prioritising the support needs of individual frontline organisations through a choice of and control over providers is presented as the dominant driver for change. Either way, both funders have had a significant influence on the field of voluntary sector capacity building (Cornforth et al, 2008; Walton and Macmillan, 2014) and this influence looks set to continue.

But what evidence is there that a demand-led approach leads to better outcomes, for organisations and/or their beneficiaries, than a supply-led approach? Further, what evidence is there that there is sufficient adaptive capacity within the market – from either the supply or demand side – for the necessary transformation to occur? A recent review (Macmillan et al, 2014) suggests more evidence is needed to make firm conclusions and there is limited evidence about the scale and nature of capacity building demand or provision. To begin addressing this gap this paper investigates what can be gleaned from national survey data about the supply-side of the market in 2010, immediately prior to the discursive policy shift in favour of demand-led approaches. We set these data in the context of an international literature on the embeddedness of economic action, a literature that we turn to next.

**Theorising the third sector capacity building market as embedded**

Embeddedness is a central concept in economic sociology whose origins lie in Karl Polanyi's 1944 book *The Great Transformation.* Polanyi argued that markets are limited by the institutional regulations through which they are connected to society, and that they should be understood in the context of the wider social systems in which they are located (Polanyi, 1944; Barber, 1995; Beckert, 2007). Embeddedness theories, therefore, provide a counterpoint to the *neoclassical* economic proposition that market economies and their institutions are disconnected from social institutions and embody their own distinct operating logics. The concept has since been developed by Granovetter who posited that economic action is "embedded in concrete, ongoing systems of social relations" (1985: 487) and gave rise to a rich strand of research on social networks and the way they influence market exchange and facilitate social action. This network approach has, however, been criticised for moving away from Polanyi's institutional understanding of embeddedness (Krippner, 2001). By not taking account of the attributes of actors and institutional rules it fails to explain how the social relations influence economic exchange in the context of a wider social system (Uzzi, 1997; Beckert, 2007).

Application of embeddedness theory to third sector capacity building, therefore, requires a broader institutional understanding of embeddedness (Zukin and DiMaggio, 1990), in addition to Granovetter's (1985) agent-centric structural embeddedness, in order for embeddedness to be applied to organisational settings. In this vein several authors have approached embeddedness as a multifaceted institutional phenomenon. For example Gulati and Gargiulo (1999) argued that organisations tend to be embedded in multiple organisational networks and that these alliances may be embedded relationally, structurally and positionally, while Hess (2004) proposes three categories of embeddedness through which to understand institutions and institutional actors: societal, network and territorial. Societal embeddedness refers to how actors' social connections affect and shape their behaviour (ibid, p 176); network embeddedness refers to the networks of actors an individual or organisation is involved in and the stable relationships that they embody (ibid, p177); territorial embeddedness refers to the extent to which these actors and organisations have relationships that are anchored to a particular geographic area. Because these types of embeddedness are interlinked, their influence is dynamic (Hughes et al, 2008), and they can be viewed as structural determinants in the behaviour of organisations and their actors (Lee and Restrepo, 2015).

Although the concept of embeddedness has not been given a great deal of consideration in literature on the third sector some attention has been given to third sector organisations' socio-political legitimacy and its relationship with their success (or failure) (Hager et al, 2004; Baum and Powell, 1995). It is argued that a third sector organisation's 'life chances' are enhanced if it conforms to the norms and expectations of its institutional environment (Meyer and Scott, 1983), and that by developing ties to important actors and institutions in that environment it can achieve legitimacy, support for its work and approbation from key stakeholders (Galaskiewicz, 1985; Baum and Oliver, 1992). The importance of social-political legitimacy is reinforced by Rumbul (2013) who argues that third sector organisations can become embedded in particular funding streams due to their existing institutionalised relationships and that this can lead to comparative advantages over other third sector organisations who become excluded from accessing such funds.

Third sector organisations' socio-political legitimacy is therefore a product of their embeddedness in social, political and spatial networks, and can have an important influence on their ability to attract funds, engage in policy debates and, ultimately how successful they are. These issues are particularly pertinent to the field of third sector capacity building for, as the previous sections have illustrated, the supply-led model that has dominated capacity building is the product of policy objectives and funding strategies at national and local level that have persisted over a number of years[1] and through which long term strategic relationships have developed between key actors in policy and practice. As such, the field of third sector capacity building is likely to be characterised by high levels of socio-political legitimacy between supply-side organisations and funders and policymakers at a national and local level. This leads us to the starting point for our empirical analysis, which is the hypothesis that in 2010 the supply side of the third sector capacity building market was institutionally embedded in the following interlinked ways:

(1) *Positionally*, in the funding streams of key policy actors who shape the capacity building policy agenda, and that this will be evident in the way supply-side capacity building providers are funded.

(2) *Territorially*, in particular at a local authority level, due to the place-based nature of many capacity building providers and their embeddedness in local policy networks.

(3) In *institutional relationships*, as funding and territorial factors reinforce, and are reinforced by, the relationships between and shared social ties of key policy actors and capacity building providers at different geographic levels.

In combination, these factors associated with the capacity building market mean, in 2010, it was likely to be configured around a supply-led model, characterised by strong interorganisational relationships between capacity building organisations and key policy actors, locally and nationally. But what evidence is there that the market was embedded in these ways? We use data from the 2010 National Survey of Charities and Social Enterprises (NSCSE) to address this question, by investigating the defining characteristics of the supply-side of the capacity building market in 2010.

**Methodology**

This paper uses the NSCSE (UK Data Archive Study Number 7347) as it is one of the only sources of nationally representative data on the third sector in England. The survey itself is based on a stratified sample of the total population of 154,851 charities and social enterprises whose records are held by national registrars such as the Charity Commission and Companies House (Ipsos MORI, 2013)[2]. Questionnaires were distributed to 108,427 organisations, of which 44,109 submitted responses. The analysis is therefore based on returns received from 41 per cent of the organisations which were surveyed, and from 28 per cent of the total population of registered charities and social enterprises.

The NSCSE was the most appropriate data source for understanding the supply-side of the market for third sector capacity building for a number of reasons. First, it enabled capacity building provider organisations within the market to be identified with a high degree of certainty as respondents were asked about the types of work they were involved in. Second, it included questions on organisational form, function, operational scale and sources of funding that enabled the characteristics of supply-side organisations to be investigated thoroughly. Third, it was the most comprehensive and recent data set available on the third sector in England. Although the survey has not been repeated since 2010 this was not a concern for this paper, as 2010 represented the point at which the discursive shift in capacity building policy took hold. As such the survey provided a snapshot of a key point in time against which the prospects for the demand-led model could be assessed.

Despite these advantages it is important to be aware of a number of limitations of the NSCSE. First, it only provided data on formal third sector organisations, yet it is widely accepted that a significant proportion of the sector exists 'below the radar' (Soteri-Proctor and Alcock, 2012), and is made up of large numbers of informal and unincorporated groups and associations that could be providing forms of capacity building support. In addition, the provision of capacity building support is not limited to third sector organisations, with private sector businesses and sole traders understood to be providing significant levels of support (Macmillan et al, 2014). As such an unknown segment of the market is missing from the data. Second, there are methodological limits to the survey. For example, it was cross-sectional so can only provide a snapshot of a point in time (Autumn 2010) and does not provide evidence of how the sector, and the provision of capacity building support, has changed over time. In addition, although the response rate is acceptable for this type of survey, its reliability is affected by non-response (Clifford et al, 2013). Although weights can be used to adjust for variations in the probability of responding to the survey between different organisational forms and local authority areas, it was not possible to adjust for variations in the response rate according to whether respondents provided capacity building support as the population size is unknown. However, unless there were any major variations in response probability between capacity building provider organisations and the wider third sector, any comparative analysis presented should be internally and externally valid. Finally, although the NSCSE questionnaire included a number of questions that can be used to identify provider organisations within the capacity building market, it was not designed for this purpose. As such, there is potential for the analysis to present an over-simplified snapshot of supply, which is likely to be both complex and fluid. It remains, however, the best available dataset for exploring our hypothesis.

The analysis is presented in two stages. First we discuss the provision of capacity building support within the NSCSE data, describing the process of creating a variable through which providers of capacity building support were identified, and providing a descriptive statistical overview of capacity building provider organisations. Then, we move on to present our analyses of embeddedness, focussing on three areas as proxies for embeddedness - receipt of public sector income, most important sources of funding, and direct dealings with local statutory bodies - to highlight the ways in which the supply-side of the market appears to be embedded compared with the wider third sector.

**Analysis**

***Support provision in the third sector capacity building market***

The NSCSE questionnaire included six questions that could be used to identify third sector organisations providing capacity building support. These questions encompassed two question types, an overview of which is provided in table 1 which also provides an overview of the numbers and percentages responding to each question. .

The high numbers of respondents answering positively in the unlimited response option questions (Q1, Q3 and Q5) suggest that these were too broad to identify organisations for which capacity building was a key role. Furthermore, Q1 and Q2 did not specifically relate to capacity building, and further analysis indicated that respondents involved in a wide range of service provision responded positively to these questions. Therefore, detailed analysis focussed on a composite variable that identified respondents who indicated that capacity building was part of their *main* activity: they said it was a main area of work (Q4) and/or a main role (Q6). An overview of responses is provided in table 2. The unweighted data provide the actual survey response; the weighted figures provide an estimate for the total population of charities and social enterprises in England, applying survey weights to adjust for variations in response by organisation type at a local authority level. Table 3 breaks down the three capacity building categories by income size to provide an overview of the scale of the organisations involved.

### Table 1: Overview of NSCSE supply side capacity building responses

| NSCSE question no. | Question Text | Option Text | Response | |
|---|---|---|---|---|
| | | | *Count* | *Per cent* |
| 1 | Which of the groups listed below are clients/users/ beneficiaries of your organisation? (unlimited responses per question allowed) | Other charities, social enterprises and/or voluntary organisations | 11,058 | 25 |
| 2 | Which are the main clients/users/ beneficiaries of your organisation? (responses limited to three main categories) | | 3,614 | 8 |
| 3 | In which of the areas listed below does your organisation work? (unlimited) | Capacity-building and other support for charities, social enterprises and/or voluntary organisations | 6,496 | 15 |
| 4 | Which are the main areas in which your organisation works? (three main categories) | | 2,344 | 5 |
| 5 | Which of the roles listed below does your organisation undertake? (unlimited) | Capacity building and other support to charities, social enterprises and/or voluntary organisations | 5,407 | 12 |
| 6 | What are the main roles your organisation undertakes? (three main categories) | | 2,220 | 5 |

Base: 44,109

Source: National Survey of Charities and Social Enterprises, Ipsos MORI, Cabinet Office

### Table 2: Overview of supply-side organisations

| Involvement in capacity building | Unweighted | | Weighted | |
|---|---|---|---|---|
| | *Count (survey n)* | *Per cent* | *Estimated population n* | *Per cent* |
| Group 1: No capacity building undertaken<br>*Capacity building **not** a main area (Q4) of work or a main role (Q6)* | 40,593 | 92 | 142,399 | 92 |
| Group 2: Some capacity building undertaken<br>*Capacity building **either** a main area of work (Q4) **or** a main role (Q6)* | 2,468 | 6 | 8,708 | 6 |
| Group 3: Capacity building a key function<br>*Capacity building a main area of work (Q4) **and** a main role (Q6)* | 1,048 | 2 | 3,744 | 2 |

Base: 44,109

Estimated population of Charities and Social Enterprises: 154,851

Source: National Survey of Charities and Social Enterprises, Ipsos MORI, Cabinet Office

**Table 3: Overview of supply-side organisations by income size**

| | Involvement in capacity building support (per cent) | | | All respondents |
|---|---|---|---|---|
| | *1.None provided* | *2.Some provided* | *3.Key function* | |
| Micro (£10k or less) | 35 | 29 | 20 | 34 |
| Small (£10k-£100k) | 31 | 34 | 25 | 31 |
| Medium (£100k-£1m) | 17 | 20 | 35 | 18 |
| Large (£1m or more) | 5 | 6 | 13 | 5 |
| Missing | 12 | 11 | 7 | 12 |
| Total | 100 | 100 | 100 | 100 |
| Column n | 40,593 | 2,468 | 1,048 | 44,109 |

Base: 44,109

Source: National Survey of Charities and Social Enterprises, Ipsos MORI, Cabinet Office

The data demonstrate that overall, 8 per cent of NSCSE respondents were involved in capacity building: 6 per cent provided *some* capacity building and for 2 per cent capacity building was a *key function*. This suggests that in 2010, across the population of charities and social enterprises there were more than 12,000 organisations providing some level of capacity building support. The data also show that capacity building providers, particularly those for which it was a key function, were more likely to be medium sized or large (according to their income) than the wider third sector: almost half of respondents for which capacity building was a key function (48 per cent) had an annual income of more than £100,000 compared with only a quarter (26 per cent) who did some capacity building and even less (22 per cent) who did none.

### *Understanding embeddedness*

Through an initial exploratory analysis of the NSCSE data[3] we identified four groups of variables that were a 'best fit' as proxies for the different types of embeddedness referred to in our hypothesis, along with proxies for multiple embeddedness. An overview of these proxies is provided in table 4.

Table 5 provides descriptive statistics for each aspect of embeddedness: for each a figure is provided for the percentage of NSCSE respondents for which capacity building was a key function, the percentage who undertook some capacity building, and the percentage who did none. A figure for the total percentage of NSCSE respondents under each category is also provided for comparative purposes along with a Pearson's Chi-square test statistic to identify statistically significant differences between the three capacity building categories. It shows some clear statistically significant differences in the apparent embeddedness of capacity building providers when compared the wider third sector population.

**Table 4: Overview of NSCSE embeddedness proxies**

| Type of embeddedness | Proxy | Rationale | NSCSE question nos |
|---|---|---|---|
| Funding | Funding relationships with local and national public sector bodies | Capacity building providers positionally embedded in public sector networks are likely to receive funding from the public sector | 13, 15, 26, 28 |
| Territorial | Direct dealings with local public sector bodies | Capacity building providers embedded at a local area level are likely to have direct dealings with local public sector bodies | 24 |
| Institutional relationships | Good relationships with local and national public sector bodies | Capacity building providers relationally embedded in local and national public networks are likely to have good quality relationships with the public sector | 16, 23, 29 |
| Multiple | Where the above proxies for embeddedness exist in combination, locally and/or nationally | The 'most' embedded organisations will exhibit signs of network, territorial and social embeddedness | 15, 23, 24, 28, 29 |

*Embeddedness in funding relationships*

NSCSE respondents for which capacity building was a key function were more likely to be positionally embedded in funding relationships with the public sector than the wider third sector. This was evident through their receipt of public sector funding and their success in applying for funding in the five years prior to the survey. This pattern was repeated across national and local public bodies although the differences were more pronounced at a national level. Half of organisations for which capacity building was a key function (50 per cent) received local public sector funding and more than two-fifths (42 per cent) received national public sector funding. By comparison, less than a third of organisations in the wider third sector (32 per cent) received local public sector funding and less than a quarter (22 per cent) received national public sector funding. Similarly, two-fifths of organisations for which capacity building was a key function (40 per cent) had been successful in applying for local public sector funding in the five years prior to the survey and more than a third (34 per cent) had been successful nationally; whereas around a quarter of organisations in the wider third sector (27 per cent) had been successful locally and less than a fifth (19 per cent) had been successful nationally.

**Table 5: Proxy measures of embeddedness**

| | Involvement in capacity building support (per cent) | | | All respondents (per cent) | Pearson Chi-square |
|---|---|---|---|---|---|
| | *1.None provided* | *2.Some provided* | *3.Key function* | | |
| **Embedded in funding relationships** | | | | | |
| *Whether public sector funding received:* | | | | | |
| Local funding received | 33 | 32 | 50 | 33 | 145.975* |
| National funding received | 19 | 22 | 42 | 20 | 386.356* |
| Any public funding received | 37 | 38 | 61 | 38 | 238.588* |
| *Successful in applying for funding (last 5 years):* | | | | | |
| Local public bodies | 26 | 25 | 40 | 27 | 107.563* |
| National public bodies | 16 | 19 | 34 | 16 | 272.527* |
| **Embedded territorially** | | | | | |
| *Dealings with local statutory bodies:* | | | | | |
| A great or fair amount | 26 | 29 | 46 | 27 | 222.185* |
| A great amount | 6 | 6 | 18 | 6 | 291.700* |
| **Embedded in institutional relationships** | | | | | |
| *Local level:* | | | | | |
| Satisfied with local public funding arrangements | 14 | 13 | 19 | 14 | 17.708* |
| Feel local public sector a positive influence | 18 | 19 | 28 | 18 | 77.472* |
| *National level:* | | | | | |
| Satisfied with national public funding arrangements | 9 | 10 | 18 | 9 | 120.681* |
| **Multiple embeddedness** | | | | | |
| *Local level:* | | | | | |
| Successful in applying for local funding (last 5 years), and a great or fair amount of dealings with local statutory bodies, and feel local public sector a positive influence. | 9 | 10 | 20 | 9 | 166.110* |
| *National level:* | | | | | |
| Successful in applying for local funding (last 5 years), and satisfied with national public funding arrangements | 8 | 9 | 16 | 8 | 106.117* |
| *Local and/or national:* | | | | | |
| Embedded according to local and national proxies | 2 | 3 | 7 | 3 | 82.614* |
| Embedded according to local or national proxies | 14 | 16 | 30 | 14 | 206.121* |

*Differences between capacity building categories statistically significant at 99 per cent confidence interval (P<0.01)

Base: 44,109

Source: National Survey of Charities and Social Enterprises, Ipsos MORI, Cabinet Office

*Territorial embeddedness*

Third sector organisations responding to the NSCSE for which capacity building was a key function were more likely than the wider third sector to appear territorially embedded at a local authority level through direct dealings with local statutory bodies. Almost half of these organisations (46 per cent) had a great or fair amount of dealings with the local statutory sector compared to just over a quarter (27 per cent) of the wider third sector. The difference was even more pronounced for those organisations whose relationship with local statutory bodies was most embedded, with just under a fifth of organisations for which capacity building was a key function (18 per cent) reporting a great amount of direct dealings with the local statutory sector compared to only six per cent of the wider third sector.

*Embeddedness in institutional relationships*

NSCSE respondents for which capacity building was a key function were more likely to be embedded in institutional relationships, through their satisfaction with public sector funding arrangements, compared to the wider third sector population, but the differences were not as great as for the previous two types of embeddedness. At a local level, around a fifth of organisations for which capacity building was a key function (19 per cent) were satisfied with public sector funding arrangements and more than a fifth (28 per cent) felt the local public sector was a positive influence on their success. By contrast, only about one in seven organisations in the wider third sector (14 per cent) were satisfied with local public sector funding and less than a fifth (18 per cent) felt local public bodies were a positive influence on their success. At a national level, almost a fifth of organisations for which capacity building was a key function (18 per cent) were satisfied with public sector funding arrangements compared to less than one in ten organisations in the wider third sector (9 per cent).

*Multiple institutional embeddedness*

Overall, third sector organisations responding to the NSCSE for which capacity building was a key function were more likely to exhibit the characteristics of institutional embeddedness we explored in combination than the wider third sector, at both a local and national level. At a local level, a fifth of these organisations (20 per cent) were embedded through their funding, territorially and institutional relationships compared to less than one in ten (9 per cent) organisations in the wider third sector. At a national level, around a sixth of organisations for which capacity building was a key function (16 per cent) were embedded in funding and institutional relationships compared to less than one in ten (8 per cent) in the wider population of third sector organisations. Although very few third sector organisations exhibited the characteristics of local and national embeddedness in combination, respondents for which capacity building was a key function were more likely to be embedded locally or nationally than the wider third sector. Almost one in three of these organisations (30 per cent) displayed multiple signs of local or national embeddedness compared to around one in seven (14 per cent) organisations in the wider third sector.

*The relationship between embeddedness and organisation size (income)*

Our analysis of NSCSE proxies clearly indicates that supply-side capacity building organisations, particularly those for which capacity building was a key function, were more likely to be institutionally embedded than the wider third sector. However, as table 6 demonstrates, there were also some significant distinctions within the sub-population of organisations for which capacity building was a key function, when income size is taken in to account. Large (income over £1 million) and medium sized (income £100,000-£1 million) organisations made up around three quarters of multiply embedded organisations at an national and local level (between 72 per cent and 75 per cent) even though they represented less than half of the overall population of these organisations (48 per cent).

**Table 6: Overview of multiply embedded capacity building organisations by income size**

| **Type of multiple embeddedness** | **Organisation income size (per cent)** | | | | | | **Pearson Chi-square** |
|---|---|---|---|---|---|---|---|
| | *Micro (£10k or less)* | *Small (£10k-£100k)* | *Medium (£100k-£1m)* | *Large (£1m+)* | *Missing* | *Total* | |
| *Local* | 7 | 14 | 57 | 18 | 5 | 100 | 78.730* |
| *National* | 8 | 12 | 44 | 28 | 8 | 100 | 68.192* |
| *Local and national* | 7 | 13 | 54 | 21 | 6 | 100 | 22.841* |
| *Local or national* | 7 | 13 | 50 | 23 | 7 | 100 | 122.277* |
| **All capacity building providers**** | 20 | 25 | 35 | 13 | 7 | 100 | |

*Differences between capacity building categories statistically significant at 99 per cent confidence interval (P<0.01)

Base: 1,048 (**organisations for which capacity building was a key function)

Source: National Survey of Charities and Social Enterprises, Ipsos MORI, Cabinet Office

## Discussion: the institutional embeddedness of third sector capacity building providers

Overall, our analysis shows that organisations on the supply side of the third sector capacity building market were far more likely to be institutionally embedded than the wider third sector. However, it also indicates that these organisations might not be as embedded as our initial hypothesis suggested, as for most proxies a majority of capacity building providers did not actually exhibit any of the embeddedness characteristics we explored, and even fewer exhibited these characteristics in combination. However, this does not mean that institutional embeddedness is not an important consideration for the prospects of the demand-led model. In this final section, therefore, we revisit each hypothesis in turn before drawing out some of the key implications that arise from our analysis.

### *The prevalence of embeddedness*

The prevalence of capacity building providers' embeddedness in *funding relationships* was explored through their receipt of funding from local and national public sector bodies. A majority of organisations for which capacity building was a key function had some current funding from the public sector, with funding from local bodies more common than from national bodies. Although fewer than half of capacity building providers reported being successful when applying for public funding over the preceding five years, the number that had been successful still accounted for a significant proportion of the supply side of the market. The extent to which capacity building providers were *territorially embedded* was explored through their direct dealings with local statutory bodies. Close to half of organisations for which capacity building was a key function had regular dealings with the local statutory sector and could be considered territorially embedded to some degree. The prevalence of embeddedness in *institutional relationships* was explored through capacity building providers' satisfaction with public sector funding arrangements and the extent to which they felt the public sector was a positive influence on them. Less than a fifth of organisations for which capacity building was a key function were satisfied with funding arrangements and less than a third thought the public sector a positive influence, suggesting only a small minority of providers were socially embedded.

To reflect the interlinked nature of these different types of embeddedness and their dynamic influence (Hughes et al, 2008), the concept of *multiple embeddedness* was also explored where our measures of embeddedness existed in combination. Around a third of organisations for which capacity building was a key function were found to be multiply embedded either locally or nationally, with multiple embeddedness more prevalent locally than nationally. As with each individual type of embeddedness capacity building providers were more likely to be multiply embedded than the wider third sector. Additional analysis by organisation (income) size revealed that larger capacity building providers (with the greatest annual income) were much more likely to be multiply embedded than smaller ones. This distinction between larger and smaller organisations is important as proportionately, due to their size, larger organisations will have received far more of the funding provided for capacity building activities and are also likely to have supported greater numbers of frontline organisations. Although we cannot estimate the total volume or overall proportion of capacity support being provided by embedded organisations in 2010, it is likely to have accounted for a significant proportion of activity, locally and nationally.

Overall, we argue that there is sufficient evidence to conclude that a degree of funding and territorial embeddedness was evident within the population of capacity building providers, as was the phenomenon of multiple embeddedness. Although none of these forms of embeddedness characterised a majority of organisations, they are prevalent enough to be considered distinctive features of the market as whole at this time, particularly when compared to the wider third sector and when the size of the most embedded organisations is taken into account. By contrast, embeddedness in institutional relationships was less evident. This may, however, be due to the utility of the proxy measures used, such as the perceived quality of an organisation's relationship with public sector bodies. This will be affected by an array of external factors, in particular public sector funding cuts and procurement regulations, many of which are outside of the control of local public sector bodies.

***Implications for the demand led model***

If, as has been demonstrated through this paper, important parts of the supply side of the capacity market are embedded, then this has implications for the market-making aspirations of the demand-led policy agenda discussed earlier in this paper. Although further research is needed to understand how this plays out in practice, it is possible to draw out some further hypotheses by referring back to the rationing and empowering narratives identified as important drivers of change (Macmillan, 2013).

The rationing narrative emphasises constrained finances and a crowded field of provision on the supply side of the market (ibid, 2013). Our analysis highlights the importance of public sector funding for capacity building at both local and national level. This means that the way public bodies decide to fund capacity building (i.e. whether they favour supply-led, demand-led, or a mix of both), and the amount of funding they commit to it, will be an important influence on shape and scale of the market. Although there is clear evidence of national funders changing their approach (OCS, 2010; Big Lottery Fund, 2011a) our analysis has highlighted the importance of the local dimension in the funding of capacity building. As yet, the extent to which local funders are adopting a demand led approach remains unclear: despite some notable examples of experimental initiatives (Walton and Macmillan, 2014), it does not appear to be happening on a wide scale. What is clear is that both nationally and locally, as priorities change, there will be less public sector funding available for capacity building, be it provided through supply-led or demand led approaches. This is likely to lead to a reduction in the overall scale of capacity building provision.

The empowerment narrative prioritises the support needs of individual frontline organisations by emphasising choice of and control over providers (Macmillan, 2013). The analysis presented in this paper is less helpful for explaining how this might play out. However, the broader analysis undertaken in support of the paper (see Dayson and Sanderson, 2014) shows that demand-side transactions (in the form of income from trading) were identified as an important income source by fewer than one-in-ten capacity building organisations. What this paper does show is the extent to which capacity building providers are embedded in local and national policy networks through which decisions about the future of publicly funded capacity building are likely to be made. Importantly, these capacity building providers are more likely to be embedded than the wider third sector, including the types of frontline organisations the demand-led model seeks to empower. Ultimately, this apparent power imbalance could hinder the empowerment ambitions of the demand-led model, particularly if capacity building providers utilise their embedded resources to resist changes to their funding model and the interests of demand-side frontline organisations are not similarly represented. In such circumstances it seems likely that the supply-led model will continue to predominate, particularly if policy advocates of the demand-led model continue to limit their market-making interventions to 'light touch' experiments with funding instruments rather than enacting radical or wholesale change.

***Embeddedness as an agenda for future research?***

This paper has used the data that are available in the NSCSE but it is clear that further research is needed if our understanding of the institutional embeddedness of third sector capacity building market is to be enhanced. Although the NSCSE is a very large national dataset it was not designed to measure capacity building or embeddedness. As such we have relied on a series of proxy measures that provided a way of identifying capacity building organisations responding to the survey and best fit with the different aspects of embeddedness referred to in our hypothesis. We acknowledge that the embeddedness proxies used might only provide only a weak illustration of institutional embeddedness and that the limits of the NSCSE for research into the embeddedness of third sector capacity building may have been reached. Further investigation is likely to require new data sources and different methods. A start point might be in-depth qualitative inquiry to better understand the implications of institutional embeddedness for the market-making agenda, including the balance of power between funders and actors on the supply and demand sides of the market, and how this changes over time in response to policy developments. Furthermore, the embeddedness of the third sector, and voluntary action more generally, merits further research. We know that there are geographic variations in third sector organisations' receipt of public sector funding (Clifford et al, 2013) and it follows from this that the extent of embeddedness will also vary by area, as well as by other characteristics such as organisation size and field of work.

**Conclusion**

This paper has used national survey data to identify the embedded characteristics of the third sector capacity building market, in the context of a step change in the dominant policy discourse which now privileges demand-led approaches over a previously dominant supply-led approach. Our contribution to the literature on third sector capacity building is threefold. First, we have made an empirical contribution, by identifying for the first time some of the defining characteristics of the supply-side of the capacity building market, focussing in particular on funding from and relationships with the public sector. Second, we have made a theoretical contribution, by using our empirical findings to highlight the extent to which capacity building providers are institutionally embedded in funding provision, territorial spaces and institutional relationships. Third, we have made a policy contribution, by discussing the implications of these embedded characteristics for the aspirations of the demand-led model, considering both the rationing and empowerment narratives that underpin it. Although we have focussed on capacity building for this paper, our findings ought to resonate with other areas of third sector activity, in particular where it involves close working relationships with the public sector. We therefore suggest there is considerable scope for further research on the embeddedness of the sector through broader quantitative and qualitative inquiry.

**Endnotes**

[1]Although the 2004-2010 period saw the supply-led model reinforced in policy discourse, supply-led capacity building at a local level had actually been the norm for at least 30 years (Rochester, 2012; Wolfenden, 1978).

[2]The sample was stratified at local authority level based on the population of charities and social enterprises in each area according to national registrars. 42 upper-tier local authority areas with large numbers of organisations (n >= 929) were classified as non-census areas and a sample was selected, using two-stage random stratification: first, the sample was stratified by organisation type (registered charity, CIC, CLG or IPS), and then according to six annual income bands (£0-£10,000, £10,000-£250,000, £250,000-£1 million, £1 million plus, and no financial information). At the time of selection, income information for non-registered charities and social enterprises was limited, and therefore CLGs, CICs and IPS were not stratified according to income. The remaining 109 upper-tier local authorities had fewer numbers of organisations (n < 929) and were classified as census areas, with all registered charities and social enterprises invited to take part in the survey. The overall aim of this process was threefold: to ensure the final response sample was representative of the population as a whole, at both an area and national level; to ensure area level comparability with an earlier wave of the survey undertaken in 2008, with an estimated confidence interval of +/-3 percentage points; and cost-efficiency, as sending out more than 150,000 surveys would have been prohibitively expensive. More information on the sampling strategy and wider methodology for the NSCSE is provided in the following technical report available from the UK Data Archive (study number 7347):

Ipsos MORI (2013) *National Survey of Charities and Social Enterprises Technical Report*.

[3]This broader analysis has been published in the following report for the Big Lottery Fund: Dayson, C. and Sanderson, E. (2014) *Building capabilities in the voluntary sector: A review of the market*. TSRC Working Paper 126, Birmingham: TSRC.

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