



Background paper 1: Defining the third sector

The PARTS (Pathways to Advance a Robust Third Sector) project uses the term “third sector” as a generic term for not for profit, non-state organisations. The scientific literature debates the term, with some seeing it narrowly as third sector bodies which deliver services that might otherwise have been delivered by state or private sector. This is the context in which Etzioni who coined the term in the 1970s in the United States. European commentators argue the importance of history and geography in creating very different manifestations of the third sector in different countries, but with a major difference between the US and Europe, with a much wider range of entities comprising the third sector. There are very significant differences in how the third sector has evolved in different regions and countries.¹ Both prior to devolution, but more significantly since, Scotland has developed a distinctive approach to the engagement of the third sector and central (Scottish) and local government.

We will return to a contextual consideration of Scotland in a subsequent background paper.

What is the third sector?

According to Taylor 2011² the third sector comprises “self-governing associations of people who have joined together to take action for public benefit. They are not created by statute, or established for financial gain. They are founded on voluntary effort, but may employ paid staff and may have income from statutory sources. Some, by no means all, are charities. They address a wide range of issues through direct service, advocacy, self-help and mutual aid and campaigning.” Alexander³ defines it as “not part of the government, any profits are usually reinvested for social, environmental or cultural aims, and participation is largely voluntary.” The Scottish Council for Voluntary Organisations (SCVO) sees the third sector more broadly as including “small local grassroots community groups, arts and sports clubs, pre-school day care and village halls, to culture and arts venues, all major housing, health and social care providers” (SCVO, 2018, p.3)⁴. In essence the third sector represents the full range of formal and informal institutions grounded in civil society and including charitable organisations. In considering the third sector in rural West Aberdeenshire, it is very important that we go beyond recognition of the high profile third sector providers of goods and services and also recognise the myriad local groups, some free standing and others affiliated to national organisations, all of which add to the richness of life in the area.

¹ For example: McMullin, C., Roy, M.J. and Curtin, M., 2021. Institutional logics as a framework for understanding third sector development: an analysis of Quebec and Scotland. *Policy & Politics*, 49(4), pp.615-632.

² Taylor, M. 2011. *Public policy in the community*. 2nd ed. London: Palgrave Macmillan

³ Alexander, C., (2010), *Third Sector*, in *The Human Economy, a citizens' guide*, (eds.) Keith Hart, Jean-Louis Laville and Antonio David Cattani, Cambridge: Polity Press.

⁴ SCVO. 2018. *State of the sector 2018: Scottish voluntary sector statistics*. [Online]. Edinburgh: SCVO.

A very important distinction must be made between those third sector bodies which deliver normal services (such as social care, social housing, retailing) on a not-for-profit basis but under contract to local government or in a market setting and which have often been relatively robust financially, from other types of third sector entity such as say food banks or local clubs which are much less robust financially and rely on continuous contributions from the public to continue to exist. Some of these more precarious organisations deliver goods and services which support basic needs while others provide a wide range of leisure and cultural services. In between these two extremes of robustness and precariousness are many types of third sector organisation.

The organisation of social and economic activity in mature capitalist societies was until relatively recently conventionally separated into just two types of provider: the market and the state. However, it is widely acknowledged that households provide what has been called shadow work, which comprises unpaid subsistence that enables the other bits of the socio-economic system to stay afloat. The household economy is not unchanging. It used to provide a good part of the subsistence needs as well as home maintenance and caring functions for children and elderly people, but a variety of factors have led to a significant reduction in some of these functions and a greater degree of provision by state or private sector. Over a long period of time, a third sector has evolved, which tends to operate as both social movements which lobby for change and as a form of agency which delivers club goods and services and public goods which are under-delivered by the state and which also provides public and private sector key services (such as food) when the other provisioning systems fail to deliver.

Any market based socio-economic system is sustained by the combined actions of private sector, state sector, third sector and household sector, with the mix at any time being a function of a range of political choices (e.g. privatisation of public services), economic demands (IT services, ready prepared meals), technical change (dishwashers, washing machines), penetration of profit-making activities into new markets (caring activities for young children and elderly people, financialisation), social choices (women in the workforce).

Over time there can be very distinct shifts in the provision of particular services. In the UK, electricity provision started as a mixed municipal/private service, was nationalised in the post second world war period, and was subsequently privatised. Its privatised state was “opened up” by regulatory change which created space initially for the third sector (community energy) and further regulatory change has enabled municipal engagement in electricity supply. Finally, many people now own their electricity production in the form of solar panels or small turbines and, with new storage technology, are increasingly repatriating electricity supply as a household function.

Even if these changes are framed by political choices, we cannot say that they are simply a function of policy. They are also shaped by social and cultural changes and technical changes. This has led people to look at modes of provision in the context of socio-technical systems

If we use an ecological metaphor, these different types of provision can be seen as occupying different niches in an ecosystem. Over time there can be a succession from one dominant species to another and shocks and disturbances can open up niches to new species. The idea of an ecosystem of provision, vulnerable to shocks and disturbances which may create extinctions and offer new niches is a potentially illuminating metaphor.

In mature market economies, the third sector can be seen in part as a manifestation of the core values of community action and as an expression of the will and willingness to act of civil society actors in forming societies, trusts, clubs and other community organisations. It arises because of the

charitable intent of individuals who are willing to support those in need or work collectively to meet particular interests. It arises in the form of social movements that push for changes ranging from women's emancipation to climate action. It also exists partly because some people see a humanising role for not-for-profit engagement in some sectors dominated by market forces. This has emerged especially where there is perceived exploitation by those with market power. The origins of both retailing cooperatives and food supply chain cooperatives emerged because of perceived injustices and power inequalities in market-based systems and more recently community energy production has developed for similar reasons. Third sector engagement has also emerged when the state or market provider of goods or services has become unsustainable because of losses or insufficient municipal budgets. Here the issue is not countervailing power so much as the actual or threatened cessation of a service.

Generally, observers point to the expansion of the third sector in recent decades. There are many reasons for the expansion, but two factors stand out: the withdrawal of the state and the weak market prospects for provision of certain services both of which leave an unoccupied niche for that service. Rural Shetland has many community shops because the former commercial ventures failed. Because rural areas like Marr have a low population density, maintaining profitable private sector services or viable council services on a declining budget is very challenging.

In Scotland, third sector organisations are over-represented in rural Scotland. The reasons of this are unclear. It could be a function of greater need (most likely) or greater capacity (less likely). Because both market-driven services and public sector services are most stretched where there is low population density and the associated high costs of service delivery, third sector bodies are often left to "pick up the pieces" in rural areas. Additionally in Scotland, the specific characteristics of concentrated large-scale land ownership have created a community land movement which initially had a strongly rural orientation, but now includes urban land and buildings.

There is also a strong demand push in some communities for greater local control over wellbeing. The third sector can be a driving force in place making, whether through diversifying village halls to provide a wider array of services or through forming local development trusts to promote a range of place-based activity in the economic, social and environmental fields.

As well as becoming more important in recent decades, third sector activity can be seen to be operating with both the market sector and the public sector in hybrid forms. For example, major food retailers act as collection points for food banks, law firms may offer pro-bono services to charities and public sector money often underpins community enterprise and activity through grant aid. Further, third sector entities can provide care services within a self-directed care model, where public funding is providing the principal financial support.

Our interest in the PARTS project is in the third sector and its financial robustness. Because there are inherent variations in the income-generating capacity of different parts of the third sector and because of exogenous factors as varied the Covid pandemic or abrupt policy changes such as Brexit, it is extremely difficult to predict how precarious different parts of the third sector might be in the future. It is though, reasonable to deduce that in poorer remote thinly populated rural areas, markets will be weaker, state provision costs will be higher, needs greater and local capacities more likely to be constrained. These observations underpin the importance of trying to build a more robust financial base for third sector activity.

Classifying the third sector

The third sector is enormously diverse. Classification is normally considered to help bring some kind of order to observable complexity. There are a number of possible ways of classifying the component parts of the third sector. Classifications can have a broad purpose or a narrower and more specific focus: i.e. they might comprise a general classification of all third sector bodies by function; or they may be based on the diversity of legal forms. The backgrounds of scholars or policy makers looking at the third sector may also shape the classification used. Third sector institutions have typically classified by models of social action⁵, field of activity, level of revenue generating enterprise, legal form or structure.

An Australian study identified several models of third sector activity.

1. Meeting unmet consumer needs of excluded groups or locales
2. Advancing charitable or community purpose
3. Creating opportunities for community participation
4. Providing work integration opportunities for disadvantaged groups
5. Promoting ethical consumption through ethical production and supply
6. Strengthening the social economy
7. Social and environmental innovation

The third sector extends beyond social enterprise, which is that part of the third sector where income generation is at the core of the activity. The conventional way of classifying social enterprise is by sector. The Customised Classification of Social Enterprise by Fields of Activity (Census of Social Enterprise Scotland 2019) is listed below.

1. Arts and Creative Industries
2. Community Centres and Halls
3. Early Learning and Childcare
4. Education, Training and Employment
5. Environment and Recycling
6. Financial Services
7. Food, Catering and Hospitality
8. Health and Social Care
9. Housing
10. Information, Consultancy and Support Services
11. Property, Energy, Utilities and Land Management
12. Retailing
13. Sport and Leisure
14. Tourism, Heritage and Festivals

⁵ Barraket, J., Douglas, H., Eversole, R., Mason, C., McNeill, J. and Morgan, B., 2017. Classifying social enterprise models in Australia. *Social Enterprise Journal*.

15. Other

This type of sectoral classification is useful as a means of exploring the particular sectors and the institutions that emerge. It is likely that there will be some similarities in the financial issues that they face. However, what such a classification cannot do is identify the institutional form and legal character of an organisation. Nor can it recognise the spatial scale of the activity; that is whether it is taking place over a region or in a single community. The challenges of providing domiciliary social care in a single community are not the same as offering a regional support service say to young adults with mental health problems. There is a difference in organisational challenges between communities of place and communities of interest. The shared social capital and the cross cutting social networks in bounded communities of place may create easier collaborative opportunities for third sector activity.

Summary

The term third sector is of relatively recent origin, but it builds on a long tradition of voluntary and charitable activity. Its size and extent is strongly influenced by both the narrowness or breadth of definition used and by the histories of particular countries or regions. In general, European observers tend to adopt broader definitions of the third sector than in North America. The size and strength of the third sector is often associated with a healthy open democratic society, but it might also be a response to service delivery failures by the private sector or the state.

Scotland has a large third sector which operates through diverse legal forms in multiple and varied roles. At a time of public expenditure cutbacks or crises such as the Covid pandemic, its role may be even more important, but the capacity of its constituent parts to cope with increased demands and operate in a financially robust way may vary greatly.