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# Economics and the third sector

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## ... questions

- Should we **measure performance** in the third sector?
- Is the third sector '**better**' in providing services?
- What is the difference between performance measurement and **economic evaluation**?
- What contribution can economics make to understanding the **value** of the third sector?
- Which **methods** should be used to understand the (economic) value of third sector projects?

## ... economic theory provide a possible explanation as to why the third sector exists ...

- Market failure and externalities: leaves most third sector activity unpriced or with prices that do not reflect full societal costs
- Rare conditions, small or heterogeneous groups: not enough demand for market or efficient government provision (lack of economies of scale)
- Information asymmetries and transaction costs: Trust/ experience goods
- Low start up and entry costs
- Vulnerable users or beneficiaries at risk of exploitation: possibly limited ability to exercise voice or exit rights
- Stigmatized groups for which public mainstream provision has failed
- Perception that third sector provides higher quality and/or lower costs, and ensures greater equity, is more innovative

# Perception that the third sector provides...

.. Services at lower costs, higher quality, greater equity, greater innovativeness?

- Employment of volunteers
- Lower wages of staff
- Lower overheads, less bureaucracy
- Highly committed staff
- Close to the community and responsive to needs
- Specialisation
- Good motivation
- Risk taking

BUT most this is difficult to prove empirically and there are also many counter arguments:

- Wasteful use of resources due to poor planning
- Wanting to do good doesn't mean doing good (bias and blindness)
- Less regulation, less information and knowledge about how resources are spent  
*... Moxham and Boaden (2007, p837) reported about their research that 'all case organisations offered confidential activities [...] where the beneficiaries are not known'*

=> Not a general rule that third sector provides the above .. But it might do under certain conditions so that the question is 'What are the conditions under which the third sector provides better quality, at lower costs, greater equity, and innovation'

# Should there be performance measurement in the third sector?

- Sector gets majority of income from public sector funds: 36% of total income for charities in England and Wales, £12.8bn (Clark et al 2010, p43)
- Accountability towards the public and transparency to ensure efficient resource allocation ... *‘In terms of measuring voluntary sector performance, there is a belief that there is still a great deal of paternalism, with the UK Government believing it can demand information from the voluntary sector and have control over how money is spent’ (Little 2005, p833)*
- Any *narrow* definition of PM might not achieve the intended outcomes
- Too much government control can reduce ability of sector to act as **independent** advocate and **critical** voice
- **Social needs** difficult to define and not always government priorities
- Risk of sector activity to be not taken seriously in budget negotiations if their value remains **invisible**

## Reality of how performance gets measured in the third sector...

- Patchy and inconsistent
- Organisations employing different tools (e.g. Harlock 2013)
- Broad frameworks and simple tools to avoid adverse effects of PM e.g. ‘logic model approach’: Aim to give priority to learning and development rather than monitoring (Whitman 2008, Harlock 2013)
- Role of evaluations including economic evaluations to demonstrate the potential value in particular of smaller organisations

# Challenges for measuring costs and outcomes of community projects

- Many perspectives and **stakeholders**
- Importance of **values**
- Hard to quantify and measure **outcomes**
- Varies resource streams, **revenues and inputs**: volunteering, other in kind, co-production
- Hard to establish counterfactual and **causalities** (so called ‘attribution problem’)
- Impact on **other parts in the system**, often savings for other public services
- Knock-on effects
- Needs information from many different studies
- **Methods** still underdeveloped

# Example of method. challenges :

## *Valuing Volunteering*

- Volunteering does not have a formal **market price** => not visibly reflected in GDP => (arguably) less of a government priority
- Different economic methods to assign a value: e.g. **replacement or opportunity cost approach**
- Similar discussion on valuing unpaid care: **Costs of care increase substantially** when costs of unpaid care are included
- Improvement in **standardised data collection** is essential in order to inform government decisions about resource allocations (Stiglitz et al 2009, ONS 2013)



# Help@home, Age UK Shropshire

*Aims* to enable older people to live independently at home

*Service:* Volunteer-run befriending scheme, free-of-charge, via telephone or personal visits; practical help for which older person is charged; benefits advice service provided alongside

*Method:* Mixed-method including primary data collection including survey to 1,000 participants, existing project data, national sources and decision modelling; outcome measured: social care-related quality of life via Adult Social Care Outcomes Toolkit (ASCOT; PSSRU 2007), self-perceived outcomes and resource use via simple questionnaire; different attempts to consider the counterfactual

*Findings:* Net benefit per older person was altogether **£4,861**, out of which **£1,565** were potential government savings; this was mainly due to potential *reduction in hospital use*. There was a likely improvement in **physical health** (or avoidance of worsening physical health); reduced **social isolation; mental health** improvements. In addition, there was evidence of improvements in social care-related quality of life, redistribution of benefit payments and employment of volunteers.

*Investigates the impact of the third sector and civic engagement as drivers for social innovation*

*Hypothesis: In comparison to the commercial sector and the state, the third sector is better placed to generate social innovation*

*Methods: Wide range of methods, with main focus on case study work*

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