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**Risk, Commercialism and Social Purpose: Repositioning the  
English Housing Association sector**

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**Risk, Commercialism and social purpose: Repositioning the English Housing Association sector**

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3 **Risk, Commercialism and Social Purpose: Repositioning the English Housing**  
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5 **Association sector**  
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10 Abstract

11 Originally seen as the ‘third arm’ of UK housing policy, the independent, not-for-  
12 profit housing association sector had long been seen as effective in ‘filling the gap’  
13 where the state or market were unable to provide for households in need. Since the  
14 1980s in particular, successive governments had viewed housing associations in  
15 favourable terms as efficient, semi-autonomous social businesses, capable of  
16 leveraging significant private funding. By 2015 in contrast, central government had  
17 come to perceive the sector as inefficient, bureaucratic and wasteful of public subsidy.  
18 Making use of institutional theory, this paper considers this paradigm shift and  
19 examines the organisational responses to an increasingly challenging operating  
20 environment. By focusing, in particular, on large London housing associations, the  
21 paper analyses their strategic decision-making to address the opportunities and threats  
22 presented. The paper argues that in facing an era of minimal subsidy, low security  
23 and high risk, the 2015 reforms represent a critical juncture for the sector. Housing  
24 organisations face a stark dilemma about whether to continue a strategy of ‘profit for  
25 purpose’ or to embrace an unambiguously commercial ethos. The article contends that  
26 the trajectory of decision-making (although not unidirectional) leads ultimately  
27 towards an increased exposure to risk and vulnerability to changes in the housing  
28 market. More fundamentally, the attempt to reconcile social and commercial logics is  
29 likely to have wider consequences for the legitimacy of the sector.  
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3 Keywords: not-for-profit organisations , exposure to risk , not-for-profit , housing  
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5 organisations , G15  
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3 Introduction  
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8 The need to manage risk has become a widely accepted feature of organisational  
9 environments within the public, private and voluntary sectors. Operating within a  
10 turbulent context, the not-for-profit housing sector has also struggled to balance the  
11 demands of commercialism and a need to retain a core social purpose (see for  
12 example, Morrison 2016a). Such tensions have been exacerbated by the removal of  
13 public subsidy, by changes to regulatory frameworks and an environment  
14 characterised by chronic uncertainty. As Czischke et al (2012) argue, greater  
15 knowledge is required about how not-for-profit housing organisations are responding  
16 to contemporary challenges, not only to ensure their business survival but also so that  
17 they continue to perform a critical role in providing decent homes to those who  
18 cannot afford market rents.  
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34 The above pressures are not unique to the UK. Increasing state withdrawal of funding  
35 in Australia, for example, has forced not-for-profit housing organisations to reconcile  
36 their involvement in commercial activities with a desire to retain their social mission  
37 (see Milligan et al 2012). The USA has seen not-for profit housing providers look  
38 towards commercial diversification to cross subsidise social activities (see Bratt et al,  
39 2016) whilst in the Netherlands, housing associations in the 1990s diversified towards  
40 market housing sales to generate funding. The level of exposure to risk amongst  
41 Dutch housing associations, however, resulted in systemic failure, requiring State  
42 intervention and a return to the core social functions of managing and developing  
43 housing for low income groups (see Nieboer and Gruis, 2014; Van der Kuij et al  
44 2016).  
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3 Drawing on institutional theory, the purpose of this article is to consider how English  
4 housing associations (HAs) have responded to these contemporary pressures and how  
5 they have managed competing demands in an increasingly challenging environment.  
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7 In focusing on large London HAs, the article considers how different obligations have  
8 helped re-define organisational purposes and strategic priorities. The article analyses  
9 how London HAs reconcile what appear to be incompatible aspirations between  
10 maintaining a social purpose alongside the demands of a commercial orientation, as  
11 they seek to cross subsidise their operations and to deliver Government housing  
12 targets (G15, 2016).  
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25 An understanding of how the large London HAs are responding to contemporary  
26 government pressures offers salient lessons for other HAs yet to undergo  
27 organisational change. By focusing on this critical juncture in the housing sector's  
28 history, the article not only highlights the trajectory of change for the HA sector but  
29 also considers the implications for the future of affordable housing provision in the  
30 modern welfare state. Lessons can also be applied to urban policy in other parts of  
31 the UK as well as to a wider international context. These lessons highlight key  
32 pressures and dilemmas confronting urban managers, as they struggle to provide  
33 services to local communities within an environment characterised by severe resource  
34 constraints.  
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49 The theory of institutional logics  
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54 Institutional theory offers a critical lens to analyse processes of organisational change,  
55 highlighting the rationale for decision-making, the capacity for autonomy, the  
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3 relationship between voluntary and statutory sector agencies and changing power  
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5 relations between service provider and local communities. The concept of  
6  
7 ‘institutional logics’ in particular, a term introduced by Alford and Friedland (1985)  
8  
9 has captured the contradictory practices and beliefs inherent in the institutions of  
10  
11 modern western societies, helping to explain organising principles and providing  
12  
13 social actors with ‘a set of rules and conventions for deciding which problem gets  
14  
15 attended to, which solutions get considered and which solutions get linked to which  
16  
17 situation’ (Thornton and Ocasio, 2008, p.114). The theory of institutional logics  
18  
19 provides an important link between individual agency and cognitions on the one hand  
20  
21 and socially constructed institutional practices and rule structures on the other. Logics  
22  
23 provide a sense of identity, become embodied in practice, and are sustained and  
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25 reproduced by cultural assumptions and political struggles with organisations both  
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27 enabled and constrained by the prevailing institutional logic.  
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34 The institutional logics perspective invariably emphasises the existence of competing  
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36 logics within a particular field and the ways in which different logics assume priority  
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38 at different points in time. Whilst scholars have long emphasised the role of the State  
39  
40 in regulating institutions, increasing attention has focused on the rise of a market logic  
41  
42 and its effect on organisational behaviour and action (Scott 2001, p.51). Moreover,  
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44 interest has grown on how the ascendancy of a market logic has accompanied a  
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46 decline in alternative logics, most notably relating to State-based regulation. Zuker  
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48 (1987) contends that individuals and organisations rely on their understanding of this  
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50 interplay between institutional logics in order to gain access to societal resources,  
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52 aligning themselves with the prevailing logic in order to ensure their long-term  
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54 survival.  
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5 As Thornton and Ocasio (2008) contend, these struggles to ensure legitimacy, control  
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7 over market competition and contestation of State rules and regulations shape  
8  
9 organisations' logics of behaviour and action. Under conditions of neoliberalism,  
10  
11 organisational status and power have become increasingly driven by economics,  
12  
13 which has further embedded the market logic within the field (p.112). Portfolio and  
14  
15 risk management status as well as expertise in finance, for instance, have become  
16  
17 progressively valued as the market logic has gained prominence in welfare provision  
18  
19 and public policy. Whilst the ascendancy of the market logic does not necessarily  
20  
21 imply a rejection of other logics it does require decision makers to switch their  
22  
23 attention to issues and solutions that are consistent with the orientation of the  
24  
25 dominant logic. Organisations thus follow suit, developing structural arrangements  
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27 and production processes that conform and over time become institutionalised (Zuker,  
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32 1987).

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36 At the same time, organisations react to their institutional environment in variegated  
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38 ways, as they possess distinctive ideological values, identities, and styles of  
39  
40 leadership, that influence their goals, purposes and logics of investment (Thornton  
41  
42 and Ocasio, 2008). Consequently, they adopt different strategies to take advantage of  
43  
44 opportunities afforded by the dominant market logic. As Scott (2001) contends,  
45  
46 certain organisations are more effective in aligning themselves with dominant rules  
47  
48 and conventions. Described as 'active players not passive pawns' (p.179) such  
49  
50 organisations have the capacity to respond to external pressures in creative and  
51  
52 strategic ways. Highlighting the way in which competing institutional logics are  
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3 mediated and the organisational capacity for agency provides a critical avenue of  
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5 research (Thornton and Ocasio, 2008, p.243).  
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10 A growing body of work has emerged within housing scholarship, seeking to  
11  
12 understand how the theory of institutional logics can be applied to interpret the  
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14 relationship between social and commercial goals (see for instance, Mullins, 2006;  
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16 Sacranie 2012; Blessing, 2012; Czischke et al 2012, Morrison, 2016, a and b).  
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21 Since the late 1970s and at an international level, the emergence of neoliberal welfare  
22  
23 policies characterised by competition, entrepreneurialism, free markets and minimal  
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25 State intervention has become an increasingly noticeable feature of the public policy  
26  
27 agenda (Harvey, 2005, p.2). Under conditions of neoliberalism, the housing sector in  
28  
29 general, and HAs in particular, have therefore experienced increasing levels of  
30  
31 marketisation, exposure to risk; processes underpinned by the predominance of the  
32  
33 financial sector (Hodkinson et al, 2013). In broad terms, housing organisations have  
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35 been compelled to retreat from the traditional provision of subsidised rental housing,  
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37 towards market renting and promoting varieties of homeownership.  
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43 The HA sector has also experienced growth in hybrid governance structures and  
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45 development of diverse housing products to address the complex financial and  
46  
47 regulatory challenges of the prevailing market logic (Morrison, 2016a). Moreover,  
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49 sophisticated treasury management and financial portfolio analyses have been  
50  
51 developed in response to the replacement of public with private funding and to exploit  
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53 commercial opportunities (Morrison, 2016b; Tang et al 2016). Before examining the  
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55 organisational responses to these competing demands, some context is given to  
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3 explain the changing perception of the sector and to analyse the key structural  
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5 constraints that have compelled English HAs towards a more commercial logic.  
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10 The changing landscape for English housing associations  
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14 Originally seen as the ‘third arm’ of UK housing policy, the purpose of the  
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16 independent HA sector was to ‘fill the gap’ where the state or market was unable to  
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18 provide for households in need (Malpass, 2000). Since the 1980s and influenced by  
19  
20 neoliberal ideology, governments had viewed these organisations as preferred  
21  
22 partners in developing and managing subsidised rental housing, in preference to  
23  
24 supposedly bureaucratic and inefficient local authorities (Mullins and Murie 2006).  
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26 As a consequence, the sector faced rapid expansion and following the Housing Act  
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28 1988 became the main providers of new social housing. Their ability to raise private  
29  
30 finance enabled HAs to develop affordable housing and the sector expanded further  
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32 through transfers of formerly local authority owned stock. Once viewed as an  
33  
34 ‘outstanding success’, the sector was praised for its capacity to combine the disparate  
35  
36 skills of entrepreneurialism and sound financial management (a market logic) with a  
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38 commitment to a strong social purpose in providing good quality, affordable  
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40 accommodation to households in need (Mullins and Pawson, 2010).  
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47 However, the privileged position of the housing association sector began to change,  
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49 initially following the government’s 2010 Comprehensive Spending Review, resulting  
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51 in spending cuts of around 60% in 2015, accompanied by a statement that government  
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3 grant funding would end after 2018 (HCA 2015a)<sup>1</sup>. The 2010 Coalition government  
4 established an affordable housing programme, allowing HAs to charge up to 80% of  
5 local market rents, introduced fixed-term tenancies (under the Localism Act 2011)  
6 and restricted benefit payments (under the Welfare Reform Act, 2012).  
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14 The 2015 General Election marked a critical juncture for the sector following an  
15 unexpected Conservative majority government. Based on manifesto commitments, the  
16 government introduced proposals to extend the Right to Buy (RTB) to housing  
17 association tenants and proposed to restrict the ability of landlords to increase rents  
18 (by 1% per annum on social housing properties over a four year period) (HM  
19 Treasury, 2015). Whilst the RTB proposals proved highly contentious, the proposal to  
20 limit rent increases had a more profound impact on the sector, disrupting business  
21 plans, jeopardising income projections and threatening financial forecasts (HCA  
22 2015b)<sup>2</sup>.  
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36 In addition to the pressures of grant reduction, rent restrictions and welfare reform,  
37 the HA sector, for almost the first time, was subjected to significant censure from  
38 central government. Criticisms were directed at their inefficiency and lack of progress  
39 in meeting the Government's ambition to build 1 million new homes by 2020 (UK  
40 Parliament, 2016). These arguments were accompanied by a scarcely veiled threat  
41 that the government would act if housing associations failed to cooperate. As the then  
42 Chancellor of the Exchequer warned: 'They can either work with us...or there can be  
43 a more confrontational relationship' (Osborne, 2015). In what appeared to be a  
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55 <sup>1</sup> Government capital grant allocations were reduced from £8.8bn to £4.4bn in the HCA's 2010-14  
56 Affordable Homes programme and to £1.7bn in the 2015-18 programme (HCA 2015a)

57 <sup>2</sup> In 2013, the HA sector's rent formula of consumer price index (CPI) plus 1% for 10 years was agreed,  
58 so this U-turn in government policy in effect tore up previous rental guidance.  
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3 sustained campaign, these criticisms were accompanied by profoundly hostile press  
4 attention. An article in the (centre-right) *Spectator* magazine referred to housing  
5 associations as ‘the true villains of the property crisis’ and described the sector as  
6  
7 ‘combining public sector lethargy and private sector greed’ (Clark, 2015). An enquiry  
8 conducted by a national television channel (Channel 4 news) in 2015 was presented  
9 under the headline ‘why are housing associations failing to build enough homes?’  
10 (Ebrahimi 2015). Media reports also criticised ‘low performing and highly paid’  
11 housing association CEOs – ‘£350,000 salary for Britain’s worst housing Chiefs’ as  
12 one headline expressed it (*The Times*, 18/3/16).  
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25 Housing associations therefore faced a challenging policy environment. Whilst the  
26 English HA sector has long diversified into commercial activities to cross subsidise  
27 their core social functions (see Malpass 2000; Mullins and Pawson 2010),  
28 contemporary organisations face stark decisions about how to reposition themselves  
29 in response to the above pressures. Given the scale of grant reductions the sector has  
30 chosen to diversify by developing more systematic strategies for market sale.  
31 However, such an approach inevitably implies greater exposure to risk, not least  
32 through fluctuations in the wider housing market and uncertainty in raising finance  
33 from capital markets (Wainwright & Manville 2017). This new environment therefore  
34 presents acute tensions for the sector, both in terms of structural constraints and  
35 opportunities to exercise autonomy. As Morrison (2016a) argues, HAs need to  
36 develop a portfolio of commercial activity to fund their core businesses. At the same  
37 time they remain committed (for the most part) to a sense of social responsibility to  
38 existing (and future) tenants and are obliged to protect their assets from unnecessary  
39 risk.  
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5 As institutional theory maintains, the conflicting regulatory logics commonly  
6 observed within public policy (Thornton and Ocasio, 2008) are clearly evident within  
7 the English housing association sector. Thus the Homes and Communities Agency  
8 (HCA) supports the establishment of unregistered profit-making subsidiaries to  
9 deliver HAs' commercial activities, such as market sales - such bodies are not  
10 constrained by charitable rules and can benefit from tax efficiencies. However, as  
11 these vehicles lack direct accountability (Morrison 2016a) HCA (2014; 2015a)  
12 government regulations specify that HAs must provide assurances that their social  
13 housing assets are not put at risk and that the public value within them is protected<sup>3</sup>.  
14 The sector therefore faces a challenging environment of relative autonomy, combined  
15 with continuing regulatory, financial and political pressures. In order to analyse these  
16 processes in greater depth, the next section examines how the major London HAs  
17 have responded to these pressures.  
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### 36 Research methods

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40 Given the wide variation between HAs and organisational contexts, in order to  
41 analyse strategic decision-making, Gruis (2008) argues, it is important to select  
42 similar sized organisations operating in the same market conditions, to allow the  
43 external environment to be held relatively constant. For the present study, the sample  
44 was restricted to the large HAs (managing over 15,000 units each) operating in  
45 London (collectively known as the G15). Given unprecedented pressures to deliver  
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55 <sup>3</sup> HCA (2014) para. 5.1 sets out an explicit expectation that regulated parents ensure their non-  
56 regulated subsidiaries do not create excessive risk to regulated assets – there is therefore indirect  
57 accountability imposed on unregistered vehicles.  
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3 new housing in the capital, in response to growing demands from existing and future  
4 tenants and the context of a market characterised by rising housing prices, the  
5 propensity to be market orientated in London is therefore extremely high (Savills  
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10 2016a).

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14 The research entailed in-depth, semi-structured interviews with members of the G15  
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16 HAs' senior executive teams. The purpose of the interviews was to determine how  
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18 individual organisations had revised their business plans, and in particular  
19  
20 development programmes, in response to prevailing circumstances and to determine  
21  
22 the rationale behind their strategic decision-making. The study aimed to identify the  
23  
24 key risks of diversification and to consider how far a market logic can be reconciled  
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27 with maintaining core social functions.  
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32 Given that senior managers would be expected to portray their organisations in a  
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34 positive light, the interview responses were compared with documentary evidence to  
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36 ascertain how far the claims could be supported or refuted by other forms of data.  
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38 These data included analysis of HCA Global Accounts, which collect performance  
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40 information about HAs' charitable registered status, including the extent to which  
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42 surpluses made from diversification were used to fund non-social housing activities.  
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44 Annual reports, financial accounts and company press releases were also analysed to  
45  
46 consider the range of commercial (and non-commercial) activities undertaken within  
47  
48 the group structures. Through this triangulation of qualitative and quantitative data,  
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50 involving crosschecking and verification of senior managers' statements, the analysis  
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52 examined taken-for-granted assumptions and values. In doing so, the research was  
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55 able to highlight the relationship between the logics of social and commercial  
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3 investment, their impact on strategic priorities and their influence on organisational  
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5 behaviour (see also Morrison 2016a and b).  
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10 Strategic decision making within London housing associations  
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14 The G15 HAs represent the largest organisations working in the not-for-profit housing  
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16 sector. They own and manage over 550,000 homes (accounting for 21% of the  
17  
18 housing sector stock), provide accommodation for 1 in 10 Londoners and range in  
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20 size from just over 15,000 properties (East Thames) to 71,700 properties (London &  
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22 Quadrant). Historically they have been highly successful in their ability to generate  
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24 funding; they leveraged £15.5bn in private investment (representing 33% of sector's  
25  
26 net debt) and generated 47% of the sector's overall surplus in 2015 (HCA 2016).  
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28 They have an active development programme, having provided 16,000 affordable  
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30 rental homes and 6,400 shared ownership properties between 2013 and 2016 (G15  
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32 2016). Nevertheless, the large London HAs acknowledge that they could increase  
33  
34 output and have suggested that collectively their development programme could  
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36 increase from 93,000 to 180,000 over 10 years in order to help deliver the  
37  
38 government's national housing targets (Stothart, 2016).  
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46 An increase in development activity is undoubtedly needed in the London housing  
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48 market where it is estimated that 50,000 homes per year are needed to keep pace with  
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50 housing need - output in 2012-3 was 21,900 (Wilson, 2015). London has the highest  
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52 housing prices in the country (the average housing price in 2016 was £482,000 in  
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54 London, compared to £234,000 in England) (ONS, House Price Index) and  
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56 increasingly high rent levels (an average of £281 per week, compared to £145 outside  
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3 London) (London Housing Commission, 2016). The capital is therefore beset with  
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5 chronic problems of affordability and whilst local authority development remains at  
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7 historically low levels, the London market requires a dynamic and growing housing  
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9 association sector that can respond to housing need.  
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14 As noted above, the HA sector has faced extensive public criticism in recent years,  
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16 both for its lack of success in meeting housing need and for the level of remuneration  
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18 offered to senior staff – although the salaries of the G15 Chief Executives (CEO) vary  
19  
20 from £155,000 (East Thames) to £300,706 (Affinity Sutton). These salary figures do  
21  
22 not necessarily equate with the size of organisation; CEO pay per home varies from  
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24 £3.69 to £10.25 and even the trade magazine for housing professionals has questioned  
25  
26 whether these salaries represent value for money (McCabe, 2016).  
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32 The G15 HAs are financially robust, with surpluses rising to a total of nearly £1.5bn  
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34 for 2015. Whilst this could be attributable to a favourable macroeconomic condition  
35  
36 and historically low interest rates, such figures have encouraged the government to  
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38 believe that the sector could become self-financing and should no longer be reliant on  
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40 government subsidy (see Walker 2014, for example). In order to consider these and  
41  
42 other issues further, the following sections examine how these HAs have responded to  
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44 the specific challenges presented by an operating environment characterised by  
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46 turbulent change.  
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56 *Establishing a commercial logic*  
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5 As noted above, the dominance of a market logic has been a longstanding debate  
6 within the sector. However, given the scale of change following the 2010 and 2015  
7 General Elections, the G15 respondents expressed little doubt that government  
8 reforms heralded a paradigm shift for the sector, illustrating how far decision-making  
9 was driven by exogenous factors. Whilst the Chancellor's rent reduction  
10 announcement came as an unpleasant shock, respondents were keen to suggest that  
11 they had anticipated the trajectory of change (choosing to highlight their relative  
12 autonomy). Hence, by the July 2015 Budget, 'the writing was on the wall' as one  
13 CEO commented, adding that 'all that happened is that the (government's) rent cut  
14 has made what we were intending to do all the more urgent.' In the words of another  
15 CEO 'we had to do what we could to make the business more efficient'<sup>4</sup>. Respondents  
16 were keen to emphasise how seriously they had taken the efficiency agenda (even  
17 before the centrally imposed rent reduction): 'I have spent the last three years really  
18 driving down operating costs' as one CEO commented. For many, the external  
19 environment presented a valuable opportunity for organisational change. For  
20 example:  
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43 In a way it takes the external pressure of radical cost cutting driven by  
44 government to make organisations really think...But you need to be careful  
45 what you wish for. I wouldn't encourage any more radical action, but I think  
46 some good will come from it (Interview)  
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57 <sup>4</sup> Projected income losses from an impact of rent reductions over four years varied by organisations, for  
58 instance AmicusHorizon (£39m), Affinity Sutton (£38m) and A2 Dominion (£53m).  
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3 This commercial logic was manifested in a number of ways, the first of which was an  
4  
5 increased reliance on property sales income as a proportion of turnover. Table 1  
6  
7 highlights the extent to which sales from non-social housing development and first  
8  
9 tranche sales of shared ownership housing products has grown for each of the G15  
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11 HAs.<sup>5</sup> Whilst the share of this development activity as a proportion of total turnover  
12  
13 varied by organisation, from Catalyst (43%) to Circle (10%) in 2015, this upward  
14  
15 trend indicates the degree to which the G15 has become increasingly reliant on non-  
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17 social housing development. All the CEOs interviewed acknowledged that they were  
18  
19 looking to increase the proportion of market sales within their development  
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21 programmes as grant diminished, arguing that the cash receipts generated were  
22  
23 needed to cross subsidise the delivery of affordable homes. ‘I think it will play an  
24  
25 increasingly important role in how new homes are funded. If you move away from a  
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27 grant model you have to look at all sources of capital’ as one CEO suggested.  
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34 A second illustration of a dominant commercial logic was an increased exposure to  
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36 risk, as HAs were subject to cyclical changes in the market. Despite London  
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38 benefiting from above average housing price rises, this market exposure increased  
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40 their vulnerability to housing market fluctuations. Delays in initiation and completion  
41  
42 of schemes, slowdowns in sales, reductions in market prices and failures to achieve  
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44 projected sales incomes represented threats to business plan assumptions and to an  
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46 ability to comply with loan covenants. “Even London is not impervious to shocks”, as  
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48 one CEO remarked.  
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55 <sup>5</sup> N.B The HCA Global accounts 2015 for the first time recorded commercial diversification activities  
56 of HAs’ registered entities (HCA 2016). This dataset under-records individual organisation’s  
57 commercial activities carried out in non-registered subsidiaries (e.g. Peabody Group’s building for sale  
58 (132,883) was nearly ten times the amount undertaken in its registered Trust (13,858)).  
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3 A greater reliance on cross subsidy from commercial activities resulted in  
4 increasingly sophisticated approaches to financial risk modelling to accommodate a  
5 complex business environment. However, G15 members believed they were well  
6 placed to address these challenges. The main strength of these large London HAs was  
7 their asset bases that offered a strong competitive advantage and leverage for  
8 borrowing: ‘developers do not have the same equity base’ as one respondent  
9 expressed it. Although a reliance on market sales generated risk if property prices and  
10 values fell, many organisations had established contingency arrangements, for  
11 example by changing the tenure profile to shared ownership, private renting, or even  
12 affordable housing if necessary. Unlike private developers, HAs were in a position  
13 where they could maintain their existing properties and defer making a profit –  
14 ‘diversification allows us these options’. As one respondent explained:  
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32 the more you move towards this self-funding model and move away from  
33 government grant the more you become pro-cyclical. Whereas the grant  
34 funding model was effectively a counter-cyclical model... This model is clearly  
35 about big market exposure, so [we are] making sure we have plans and the right  
36 prudential limits around how much exposure we have at any given time to keep  
37 the rating agencies and funders happy and to make sure the business is protected.  
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47 Nevertheless, as Scott (2001) contends, alignment with the dominant market logic can  
48 be precarious: ‘If the market falls, the cross subsidy element would be reduced at a  
49 stroke’, a CEO argued. Guarantees that there would be no impairment risks to social  
50 housing assets were therefore necessary as these complex, hybrid organisations  
51 moved towards a market logic, albeit one which carried not only financial but also  
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3 reputational risks. Whilst there was a clear opportunity cost of undertaking  
4 commercial activities, a number of organisations also saw this new direction of travel  
5 as an opportunity to be seized, as the CEO of Genesis Housing Association argued  
6 publicly after the July 2015 Budget announcement:  
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14 We could become something different. I don't know where this will  
15 lead...There are great opportunities opening up to reduce some of the  
16 regulation we go through... putting your head in the sand means that someone  
17 tramples all over you. I don't want Genesis to do that. I want Genesis to be in  
18 the forefront of change (Neil Hadden, interview, quoted in *Inside Housing*,  
19 31/7/15).  
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30 These new risk factors required changes in organisational structures and governance  
31 arrangements and many HAs had undergone fundamental restructuring and developed  
32 new business models (see Figure 1 which depicts a typical G15 group structure).  
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34 Whilst most of the HAs had established complex, hybrid group structures, pursued  
35 innovative borrowing techniques and created a range of non-charitable subsidiaries to  
36 carry out market activities prior to the July 2015 Budget announcement, much higher  
37 expectations were now placed on their commercial operations. At the same time, the  
38 governing boards were required to have higher-level skills to understand and  
39 recommend business decisions from non-social housing activities as well as the  
40 capacity to analyse the significance of new interdependencies within the organisation.  
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42 These new skills implied that Board members were likely to be recruited on the basis  
43 of their private sector, financial management experience, rather than as local  
44 community representatives.  
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5 This commercial logic not only affected decision-making, organisational strategies  
6 and Board membership, it also influenced the location of development activity. In the  
7 words of one respondent, the key to minimise risk was to ‘buy land wisely and  
8 diversify geographically’, which meant that due to difficulties of developing within  
9 inner London, activities tended to focus on so-called ‘zone 3’ (outer London)  
10 boroughs. At the same time, these constraints also offered considerable opportunity,  
11 as HAs were considered to be ‘attractive partners’ by private developers, given their  
12 ability to cope with risk. A number of respondents maintained that joint ventures  
13 would become more significant within this changed environment, and they in  
14 particular made development within inner London areas more feasible (in theory at  
15 least) – ‘it allows more and more to happen’ as one commented. Respondents also  
16 welcomed an increased autonomy to take decisions, often complaining of continuing  
17 government interference. In the words of one CEO ‘I’d love to be in a position in  
18 some respects to pay back all the grant, because then I would be truly independent’  
19 (Interview).  
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40 The final component of a commercial logic was illustrated by the way that HAs were  
41 seeking to change the socio-economic composition of their residents. All respondents  
42 agreed that the tenure mix would have to change following reductions in subsidy and  
43 cuts in rental incomes on their social housing properties. As the G15 collectively  
44 announced to the CLG (2015) Select Committee (G15 2015):  
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54 The Government has set the HA sector a big challenge by cutting rents. We  
55 are being asked to deliver development with less funding... Ultimately the  
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3 G15 are net borrowers every year...Smaller surpluses will result in reduced  
4 supply of new homes... We are determined to keep developing but it is highly  
5 likely that the number of affordable homes for rent will be a smaller  
6 proportion of overall building (p.1)  
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14 One respondent, for example, explained that before the rent cut their development  
15 programme was predicated on a third affordable housing, a third shared ownership  
16 and a third market rentals and market sales – ‘now it is 10% affordable housing, 50%  
17 shared ownership and 40% market sales and rented’. Many of the other G15  
18 organisations mirrored this trend, with the CEOs justifying their course of action in  
19 order to maintain the economic viability of their development programmes.  
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### 28 29 30 *Retaining a social purpose* 31

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34 Whilst a commercial logic clearly played an increasingly dominant role in discussions  
35 of organisational purpose, senior managers and Chief Executives argued that they  
36 remained committed to an organisational purpose driven by a social logic, regardless  
37 of economic contingencies. As shown in Table 2, turnover from social housing  
38 lettings constitutes a high proportion of total turnover in each of the G15  
39 organisations, varying from Catalyst (68%) to Circle (98%) in 2015. As large London  
40 HAs, these organisations benefited greatly from the high gross book value of their  
41 portfolio, with figures well above the national average. As a consequence, they were  
42 heavily reliant upon borrowing against their social housing assets to fund  
43 development programmes. Table 2 indicates how the gross book value of assets  
44 ranged from over £5.5bn for London & Quadrant (with the largest social housing  
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3 stock) to just under £1.2bn (in the case of Network, with the lowest number of  
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5 properties). These figures illustrated how the sector was becoming increasingly reliant  
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7 on these historic, social housing assets to raise capital funding. However, this capital  
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9 funding was largely devoted to market housing, raising questions about how far  
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11 public assets were used to finance entrepreneurial activity.  
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16 Whilst the reliance on turnover from social housing lettings continued to be seen as  
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18 the core business for the London HAs, as seen above the reductions in rental income  
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20 following the July 2015 Budget announcements removed significant capacity from  
21  
22 their business plans. Nevertheless, respondents stressed that they had adopted a  
23  
24 pragmatic approach, describing their strategy as an ‘adaptive mechanism’ to enable  
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26 cross subsidy which would enable them to realise their social purpose. At the same  
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28 time they argued: ‘We were clear that what we didn’t want to do is stop doing some  
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30 of our core activities’. This CEO explained the distinctive purpose of the organisation  
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32 as follows:  
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38 the thing that differentiates us is that we are clear that we do not want financial  
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40 pressures to drive a reduction in service quality. Whether withdrawing from  
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42 anti-social behaviour (ASB) initiatives, from community development activity,  
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44 resident involvement or jobs and training.... If anything these things become  
45  
46 even more important as communities struggle with welfare cuts and poverty.  
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52 The difficulty was that the sector was at the same time repositioning itself to focus on  
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54 a clear set of market driven priorities. Thus, whilst some emphasised that they would  
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56 continue to provide core services, many had chosen to end their involvement in  
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3 activity such as providing supporting housing for vulnerable groups, given the  
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5 uncertainty surrounding future sources of income. Hence  
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10 we need clarity from Government and we cannot justify putting internal  
11  
12 subsidies into these extra care schemes - £150,000 subsidy is needed per unit  
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14 and these schemes just do not stack up. We are disappointed as there is still  
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16 obviously a need for them.  
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21 All organisations interviewed emphasised, however, that they would continue to fund  
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23 additional ‘housing plus’ work, which was seen as a ‘community investment’ despite  
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25 often being a loss-making activity (in monetary terms). As Table 2 indicates, four of  
26  
27 the organisations recorded a deficit from their non-core (‘other’) social housing  
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29 activities, which continued to be seen as important. In the words of one respondent:  
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31 ‘if we don’t provide these community investments, who will? It is part of our social  
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33 mission’. This social logic formed an important source of motivation for many in the  
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35 sector; ‘we have dedicated staff. We make money on other aspects of our business;  
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37 why cut back on this aspect?’  
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43 As a finance director commented, providing debt advice, employment and training  
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45 opportunities made financial sense as ‘to make the community more economically  
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47 active is better for us and better for the community’. For many respondents, the social  
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49 value of this activity not only could be translated into financial value, but also had  
50  
51 considerable multiplier effects. Whilst the core social purpose remains providing and  
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53 managing subsidised rental housing, the broader housing plus role is ‘what the sector  
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55 does’, as this director argued. Although community investment would inevitably  
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3 remain a very small proportion of total turnover, respondents argued that the  
4 expenditure 'would not be touched', despite a recalibration of business plans to take  
5 into account the rent reductions<sup>6</sup>.  
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11 Moreover, all of the G15 respondents contacted expressed a continued strong  
12 commitment to sub-market rented housing, albeit at reduced levels: 'It is all very well  
13 for government policy to be wholly based on home ownership but they ultimately  
14 need subsidised rental housing - whether they like it or not'. Respondents expressed a  
15 firm commitment to affordable sub-market rented housing. As one CEO explained  
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25 We have a new development strategy, but what I can say for sure is that there  
26 will be a proportion of the programme with rents around current social rent  
27 levels (around 45% of market levels) to ensure that we can offer properties to  
28 people who are on benefits, nominated from local authorities.  
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36 Respondents were keen to argue that there was no inherent contradiction between  
37 social and commercial logics. They are 'not mutually exclusive' and 'they are  
38 entwined', represented common responses. Yet they were also clear to stress that their  
39 mission was now to meet 'a range of housing need' rather than simply  
40 accommodating low income households. This commitment to social purpose  
41 represented sincerely held views. However, there remained the question of how far  
42 the sector could continue to sustain loss-making activity within an environment  
43 characterised by competition, financial risk and marketisation. What seemed clear  
44 was that there was a disjuncture between a rhetoric of social purpose and the reality of  
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57 <sup>6</sup> The G15's community and economic development programmes were worth over £40m in total in  
58 2015 (G15 2016).  
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3 commercial business strategy. Whilst the G15 HAs' revised organisational direction  
4  
5 responds to affordability pressures experienced by a wide spectrum of residents, there  
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7 is an opportunity cost in diverting attention away from housing for those in greatest  
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9 need. The next section therefore subjects the above claims to critical scrutiny.  
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## 12 13 14 Discussion

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18 Although the changes are not unidirectional, the growth and prevalence of  
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20 neoliberalism in housing policy has not only led to a market logic to assume primary  
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22 significance, but has been supported by a regulatory agenda, particularly within the  
23  
24 UK that has emphasized sound financial management as the key (if not sole) criterion  
25  
26 for success (Hodkinson et al 2012). This market logic has in turn assumed paramount  
27  
28 importance in determining organisational behavior and actions, as witnessed in HA  
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30 sector (as well as in wider welfare policy). In considering both structural constraints  
31  
32 and the capacity for agency, institutional logics perspective offers a way to examine  
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34 how organisations can take advantage of the prevailing logic to further elaborate,  
35  
36 manipulate and use to their own advantage (Thornton and Ocasio, 2008), within  
37  
38 certain parameters at least. The empirical results from this study support these  
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40 arguments.  
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47 The responses from the G15 London HAs' senior managers suggested a collective  
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49 consensus about the importance of retaining a strong social purpose. However,  
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51 scrutiny of the business models applied represented a fundamental challenge to this  
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53 ethos. In an attempt to ensure their long run survival, the large London HAs had not  
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55 only aligned themselves with the dominant market logic, they also had to 'switch their  
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3 attention to issues and solutions...that were consistent with (its) orientation' (Zuker  
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5 1987), namely development for outright market sale that over time would constitute a  
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7 significant proportion of their development programmes. Making use of the market  
8  
9 rhetoric to justify their re-defined business purpose and chosen course of action  
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11 (Thornton & Ocasio 2008), the G15 London organisations had attempted to position  
12  
13 themselves as 'active players' (Scott 2001, p.179) in delivering Government housing  
14  
15 targets that prioritise homeownership. These developments indicate the London HAs'  
16  
17 direction of travel towards the idea of what they liked to term 'profit for purpose'  
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19 (Mullins and Pawson 2010).  
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25 London HAs have specific advantages to pursue market-orientated strategies, as a  
26  
27 result of their extensive unencumbered asset base (containing individual properties  
28  
29 worth several £million). This asset base provided considerable borrowing capacity  
30  
31 and allowed large surpluses to be produced from social housing lettings and remains  
32  
33 the key means of differentiation between London and other UK areas. Moreover, in  
34  
35 response to government reforms since at least 2010, the G15 HAs have led the way in  
36  
37 commercial diversification strategies, placing considerable emphasis on a strong  
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39 business culture, justified as helping to optimise social outcomes. All of the  
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41 organisations had plans to increase the proportion of market sales and were becoming  
42  
43 progressively more reliant on the income generated from these activities in future  
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45 business plans. As they move towards more complex hybrid group structures with a  
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47 greater level of commercial activity in non-charitable subsidiaries, this business  
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49 model will inevitably increase their risk exposures.  
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3 However, as the tenure mix changes in new schemes and the amount of sub-market  
4 rental provision falls to allow development programmes to remain commercially  
5 viable, tensions will become more explicit as the HAs seek to reconcile competing  
6 social and commercial goals. Inevitably, they will face difficult choices in meeting  
7 their social duties to house the lowest income households in London, whilst a market  
8 logic compel organisations to abandon their social roots, as they widen their resident  
9 profile and divert their attention to building housing for outright sale.  
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20 Notwithstanding the above points, some have chosen to view such tensions as  
21 strengths. HAs have been described as using ‘chameleon-like activity’ (Blessing,  
22 2012), to avoid undue dependency on public subsidy, whilst harnessing an ability to  
23 access private financial markets (Mullins and Murie, 2006). Their status as hybrid  
24 institutions has in effect enabled them to take advantage of both government subsidy  
25 and private finance. Many of the assumptions that had underpinned HAs’ operations,  
26 however, have now been removed - for example, generous government subsidy,  
27 political consensus about their positive contribution to housing delivery and local  
28 community support. As Murtha (2015) maintains, ‘the Government has forced their  
29 hand’ (p.1). The sector has a duty to respond not only to the government’s efficiency  
30 drive but also to increase their capacity to deliver new housing in order to ensure not  
31 only their long run survival but also their legitimacy in the face of wider public  
32 criticism. Whilst the London HAs have plans to increase their output and respond in  
33 particular to the Capital’s housing crisis, diverting attention to meeting a ‘range of  
34 housing need’ rather than concentrating on providing for the lowest income  
35 households within London, is likely to have serious consequences for the most  
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3 vulnerable groups and those with the least ability to pay (London Housing  
4 Commission, 2016).  
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## 8 9 Conclusions

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14 Internationally, the historical development of the not-for-profit housing sector created  
15 an institutional environment where organisations shared a common goal to provide  
16 low-income groups with decent housing at a price they could afford. In the UK as  
17 elsewhere, the policy framework since the 1980s has progressively weakened this  
18 consensus and a sector (which was always heterogeneous) has been transformed  
19 under conditions of neoliberalism by changes in exposure to market risk, heralding  
20 new governance arrangements and business models (Mullins et al 2012).  
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32 By framing the way in which contemporary policy uncertainty manifests itself in  
33 organisational decisions, institutional theory helps to explain how and why the large  
34 London HAs have been transformed into complex businesses extensively driven by a  
35 market logic motivated by State withdrawal. Organisations' strategic priorities are in  
36 effect manifestations of, and legitimated by, the institutional logics they face  
37 (Thornton & Ocasio 2008). Moreover, the way in which these HAs have responded  
38 to external pressures offers salient lessons for organisations yet to restructure and  
39 diversify into commercial activities so that they too become more self financing and  
40 secure their long term survival.  
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54 The paper also brings to the fore wider questions and raises further avenues for  
55 research. What future is there for subsidised market rented housing, particularly  
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3 within a city like London where affordability problems remain unprecedented and  
4 likely to worsen? What can these organisational changes tell us about the direction of  
5 travel for housing policy in general in England and for the housing association sector  
6 in particular? The combination of political pressure to promote owner occupation and  
7 economic pressures to reduce funding, mean that a market-oriented trajectory is set to  
8 continue and the sector is likely to become divided between two categories of not-for-  
9 profit housing organisation. Those that are 'active players' (Scott 2001, p.179), using  
10 the market rhetoric to their advantage look to be rewarded by government, whilst  
11 those that resist or are passive are likely to be left behind (NHF 2016). The trend  
12 towards greater merger activity within the UK housing sector, as the active  
13 organisations in particular pursue their growth strategies, is an issue that will provide  
14 scope for future research study.  
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32 When Dutch housing associations adopted an ambiguously commercial logic, they  
33 soon foundered, eventually requiring State intervention (Nieboer and Gruis, 2014,  
34 Van der Kuij et al 2016). Given this context, the extent to which the English HA  
35 sector can continue to pursue a distinctive social purpose, delivering affordable  
36 housing to those with least ability to pay, may therefore be in some jeopardy, raising  
37 questions about the wider legitimacy of the housing association sector. As the  
38 organisations move inexorably towards a market logic, an inability to respond to the  
39 needs of households, particularly those most vulnerable to London's housing crisis, is  
40 likely to have wider implications for urban policy. At the same time, in light of the  
41 2016 UK Referendum result to leave the EU, exposure to risk and vulnerability to  
42 changes in the housing market may well be accentuated (NHF 2016b, Savills 2016b).  
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**Table 1 G15 HAs' first tranche sales and non-social housing development activities: income 2014/15**

	Total turnover		First tranche sales		Non-social housing development		Development activities share of total turnover	
	£m	Change on year %	£m	Change on year %	£m	Change on year %	2014/15	2013/14
L&Q	642	11	33.0	6	204	21	<b>37</b>	34
Circle	412	14	14.5	224	27.2	1,600	<b>10</b>	2
Notting Hill	381	28	68.5	111	76.8	55	<b>38</b>	27
Affinity Sutton	430	34	40.1	153	89.8	309	<b>30</b>	12
Hyde	326	16	34.5	60	52.2	41	<b>27</b>	21
A2Dominion	297	9	12.4	-42	75.8	42	<b>30</b>	27
Genesis	282	6	22.2	76	13.8	50	<b>13</b>	8
Family Mosaic	230	-6	10.2	-52	29.2	-27	<b>17</b>	25
Peabody	223	35	14.5	113	10.4	-7	<b>11</b>	11
Catalyst	212	23	40.2	163	50.6	27	<b>43</b>	32
Network	190	21	24.6	6	28.4	506	<b>28</b>	18
Southern Housing	175	10	14.9	113	13.5	5	<b>16</b>	12
East Thames	146	-17	15.5	15	33.9	-41	<b>34</b>	41
Metropolitan	240	-6	6.4	-35	9.8	-65	<b>7</b>	15
Amicus	161	1	4.3	1	-	-	<b>3</b>	3

(source: adapted from *Social Housing*, 2016)

Table 2 G15 HAs' social housing businesses (2015)

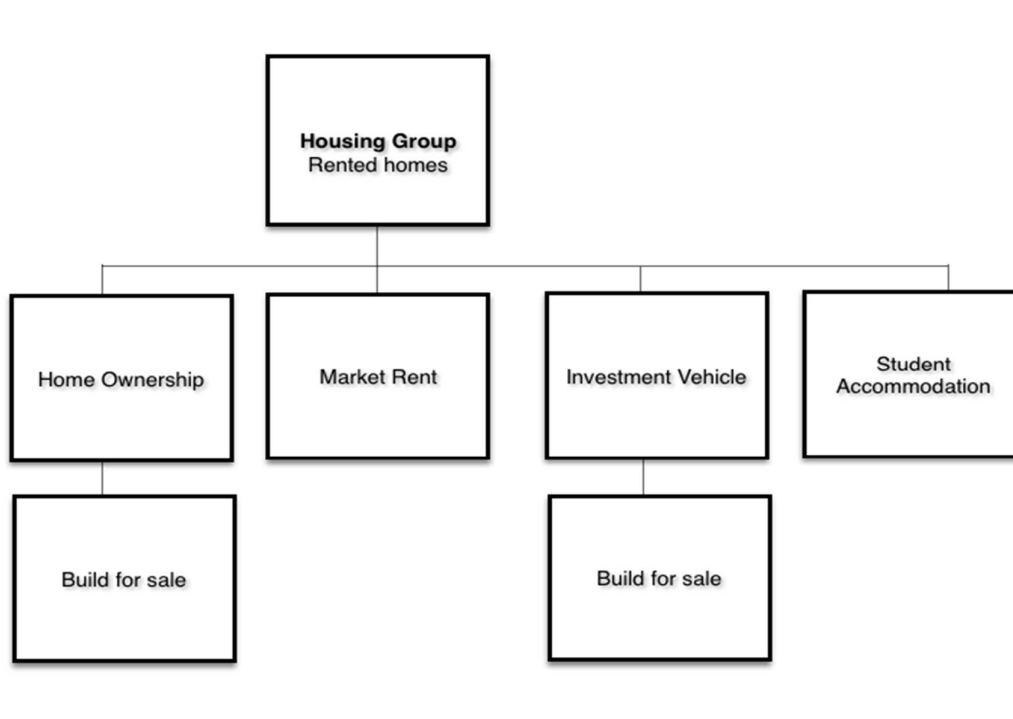
	Social housing units managed	Gross book value of housing properties (£bn)	Turnover from social housing lettings (£m)	Turnover from social housing lettings as a % of total turnover	Total 'other'* social housing activities (surplus/deficits) (£000)
Hyde	41,772	2.63	168	93	(13,507)
L&Q	28,460	5.53	389	89	6,090
Genesis	26,700	2.89	234	71	3,800
Notting Hill	26,700	2.15	171	89	(1,100)
Southern Housing	23,969	3.06	136	87	3,879
Affinity Sutton	22,617	3.06	283	93	(4,660)
Family Mosaic	20,893	2.22	183	86	1,020
AmicusHorizon	18,633	1.46	146	68	(803)
East Homes	13,729	1.04	79	67	2,505
Metropolitan	12,737	2.38	175	87	11,324
Catalyst	11,892	1.92	112	89	11,728
Peabody	10,623	1.46	113	76	8,040
A2Dominion	8,022	1.16	184	84	3,692
Circle	7,417	1.49	93	98	2,982
Network	5,839	1.19	69	72	9,298
England average	1,097	0.09	6.7		222
England total	361,973	30.1	2,206	80	73,143

(source: authors compiled from HCA 2016)

\*'Other' social housing activities consist of community investment e.g. employment and training initiatives, apprenticeships, debt advice etc to tackle social exclusion

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**Figure 1: An illustration of a G15 hybrid group structure**



\*\* Build for sale and shared ownership undertaken within a non-charitable subsidiary e.g. Notting Hill development ltd/A2 Dominion FABRICA/GenInvest ltd/Family Mosaic homeownership ltd/ Peabody Enterprise Ltd/ L&Q New Homes ltd etc.

(source: authors adapted from G15 company reports)