

# Management in Third Sector

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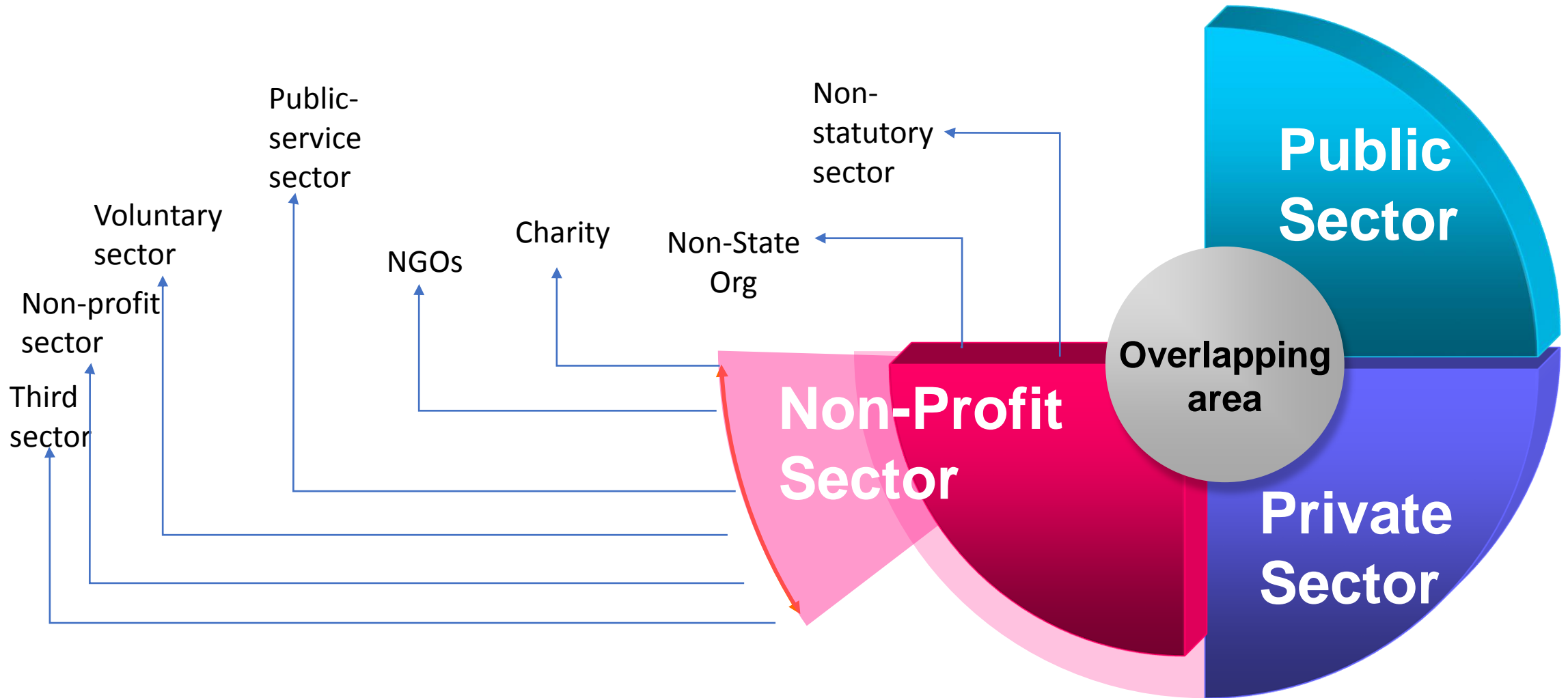
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# Third- Sector? Why does it exist?



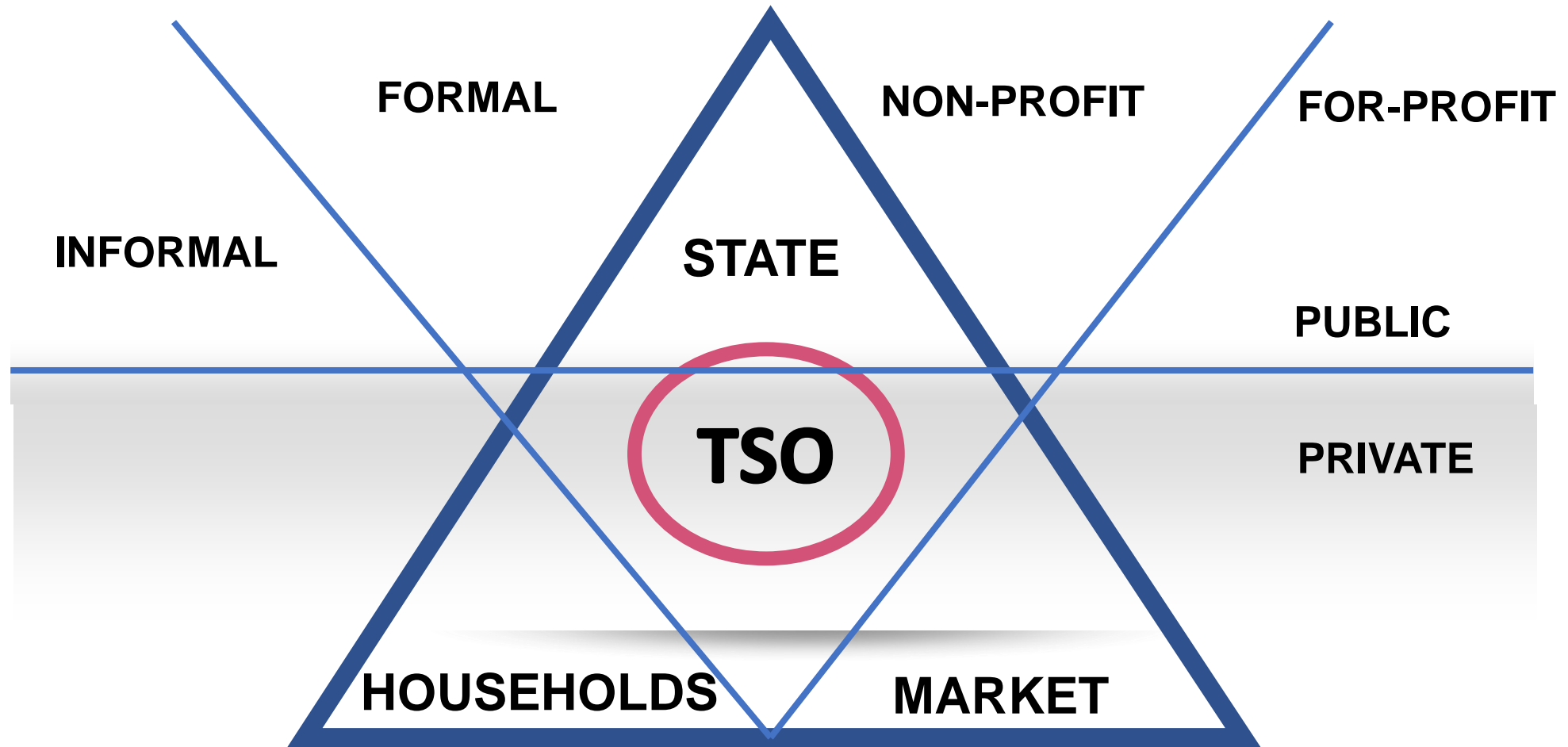
- Why third-sector?
- Why Public and Private sector are not enough?
- Who runs the third-sector?
- Who finances the third-sector?
- What does the involvement of volunteers mean?
- What would be the effect of more involvement with the state ( such as contracts)?

# Different Sectors – Overlapping areas



# PESTOFF SECTORAL MODEL

The welfare mix



Source: V. Pestoff, 1992

# Useful Link and Examples

- <https://thirdsectorimpact.eu/>
- <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-european-union-and-comments/title-2-provisions-on-democratic-principles/75-article-11.html>
- [www.consumerreports.org](http://www.consumerreports.org)
- Third Sector European Policy Network

# Definition of Third Sector

1. A third alternative sector between the state and the market that benefit from the combination of the entrepreneurial spirit and organizational effectiveness of the business firm with the common-good orientation of the public sector (Etzioni, 1973)
2. The charitable and wider not-for-profit community is the collective term used to describe charities, community groups, voluntary organisations, social enterprises and some mutual organisations. These organisations all pursue social aims and do not distribute assets to external stakeholders” (Private Action Public Benefit) (UK Prime Minister - Strategy Unit, UK 2002)

# Some more specific definitions

General Charities	Same as registered charities – some exceptions
Charitable	Registered and “exempt” charities
Voluntary and Community Sector	Includes non-charitable not for profit organizations, self-help groups etc.
Non-profit	All non profits including those for private benefit – ie. Housing.Univ’s
Social Economy	Co-operatives and mutuals that serve a social purpose and may be commercial
Civil society	All organizations in space between state and private sector

# Why TSO? (Ben Nér e Gui approach)

- It is easier to establish TSO
- It is more satisfying because it holds together the economic and social dimension
- It is more controllable by users (it's easier to access information, higher transparency)
- It is mission-oriented
- Not for profit organizations

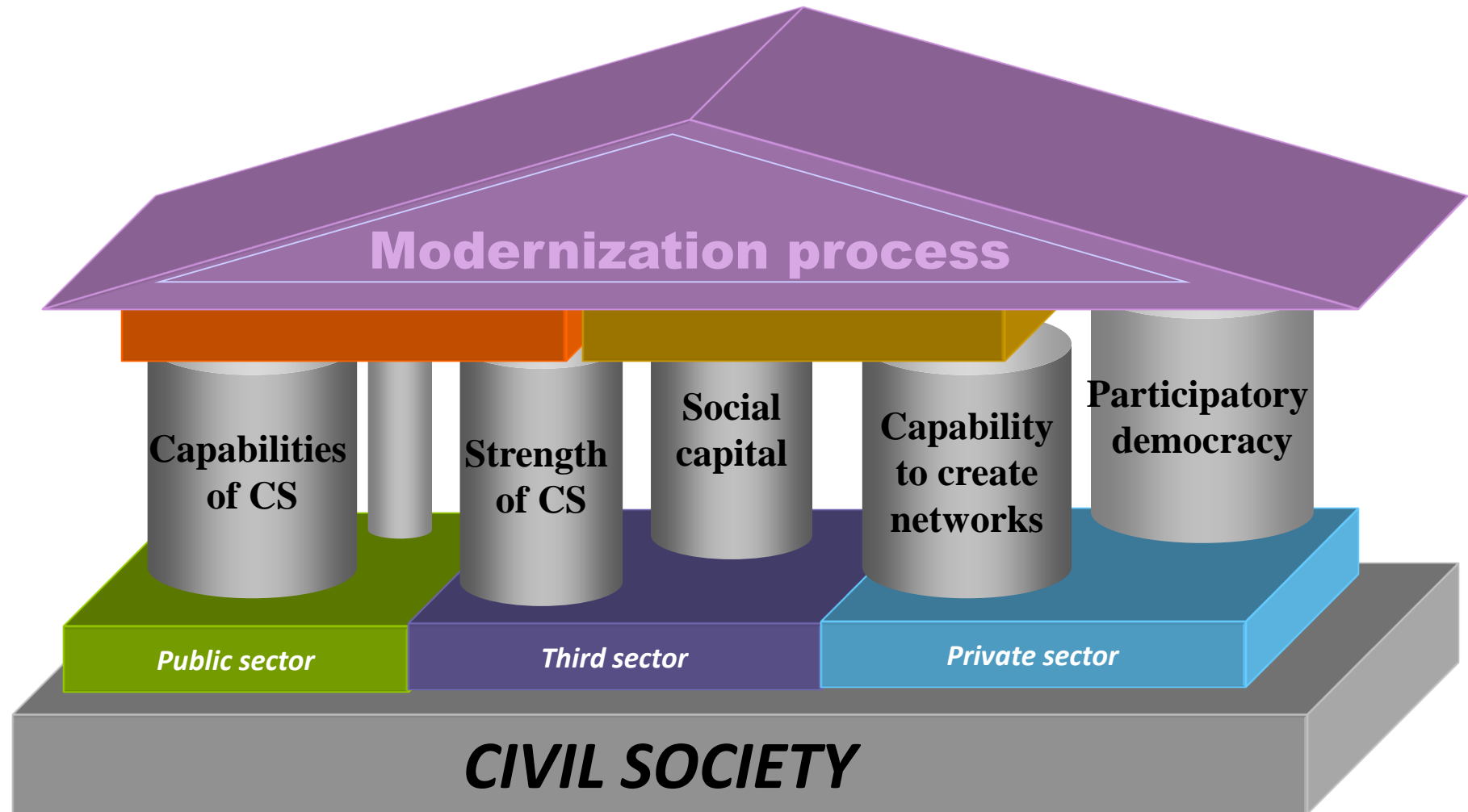


# Defining Criteria of Third Sector

Formality	They have an institutional organization and structure
Independence	Separate from public/private sector
Non-Profit	Do not distribute profits to (shareholders/owners)
Self Governance	Can determine own course (not National Health service).
Voluntarism	Membership is not legally required and they attract some level of voluntary contribution in terms of time and money.
Public /Private Benefit	Organisations which exist for benefit of own members are <u>private</u> – this excludes some religious organisations

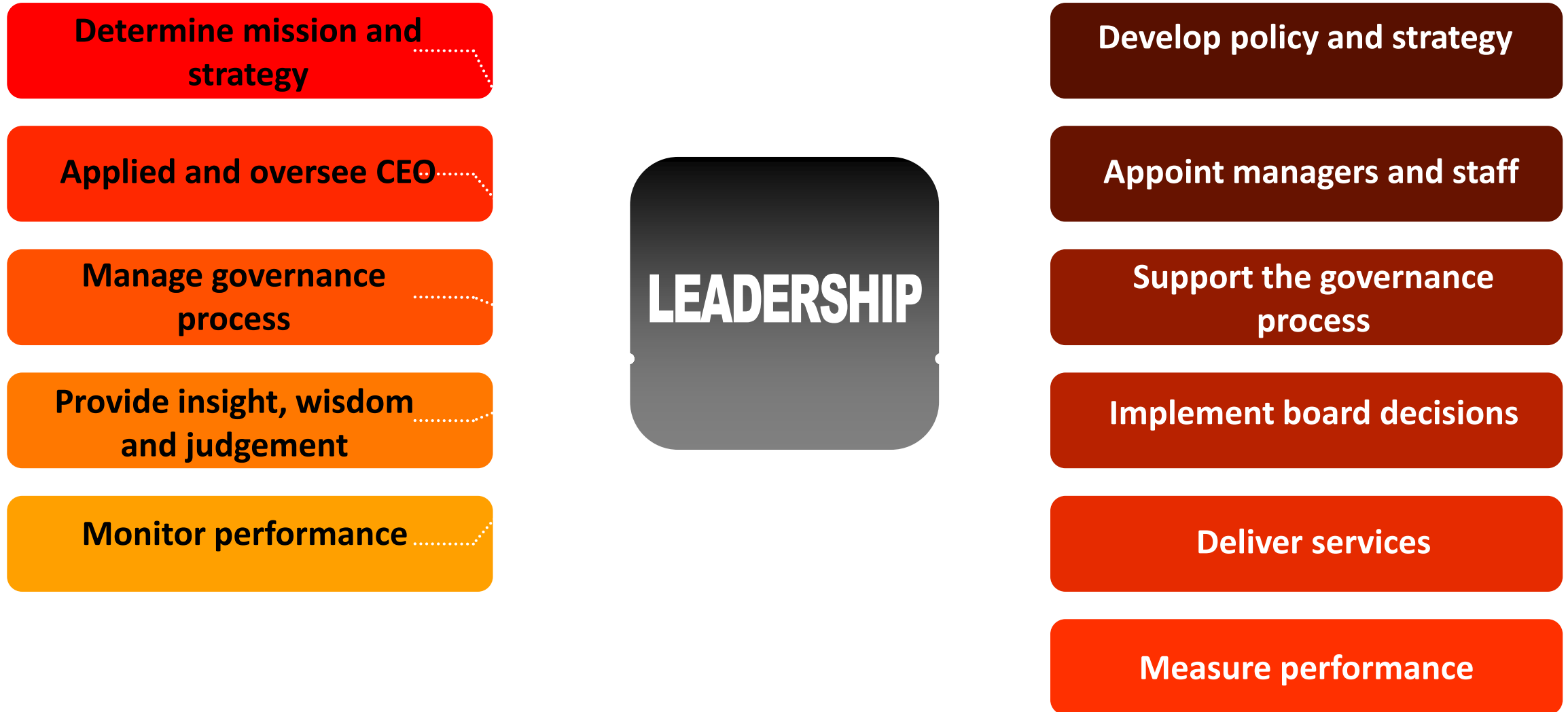
# Criteria that identify TSOs

- Non-distribution profit
- Privileged relationship with civil society through the logic of proximity and social reporting
- Identity and autonomy:
- Logical need function: produce what is mostly needed and not what it is convenient
- Ethical dimension: degrees of generosity, participatory and solidarity

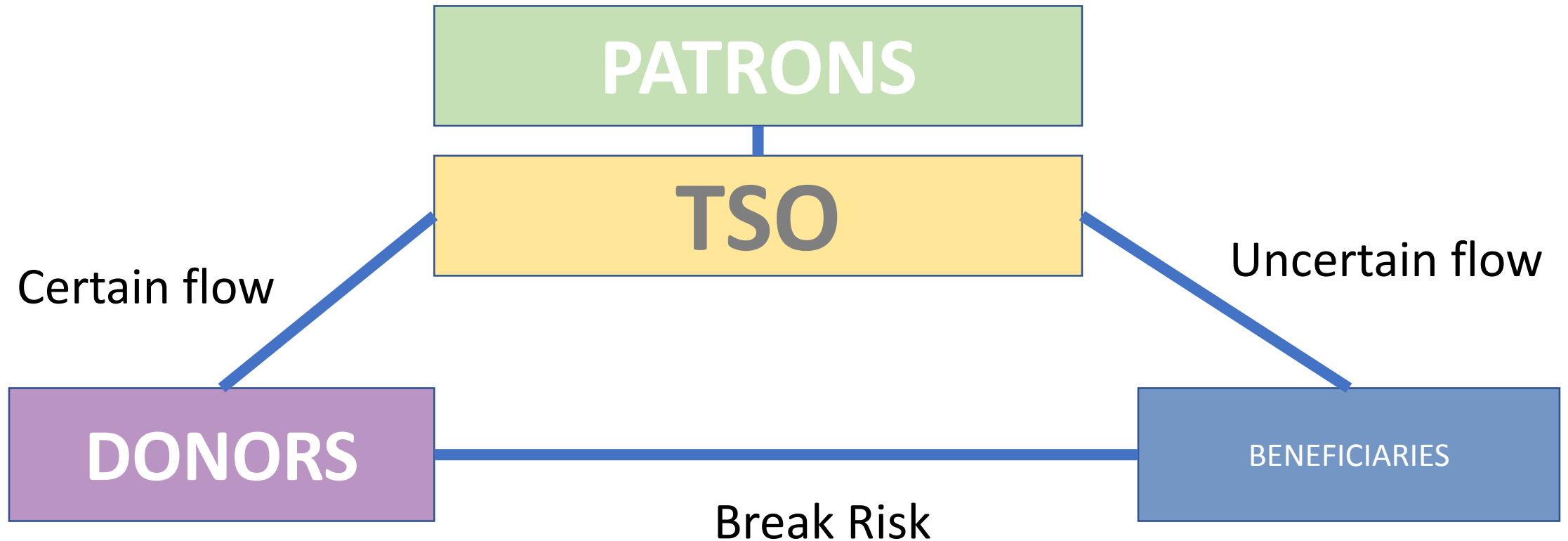


# Governance versus Management

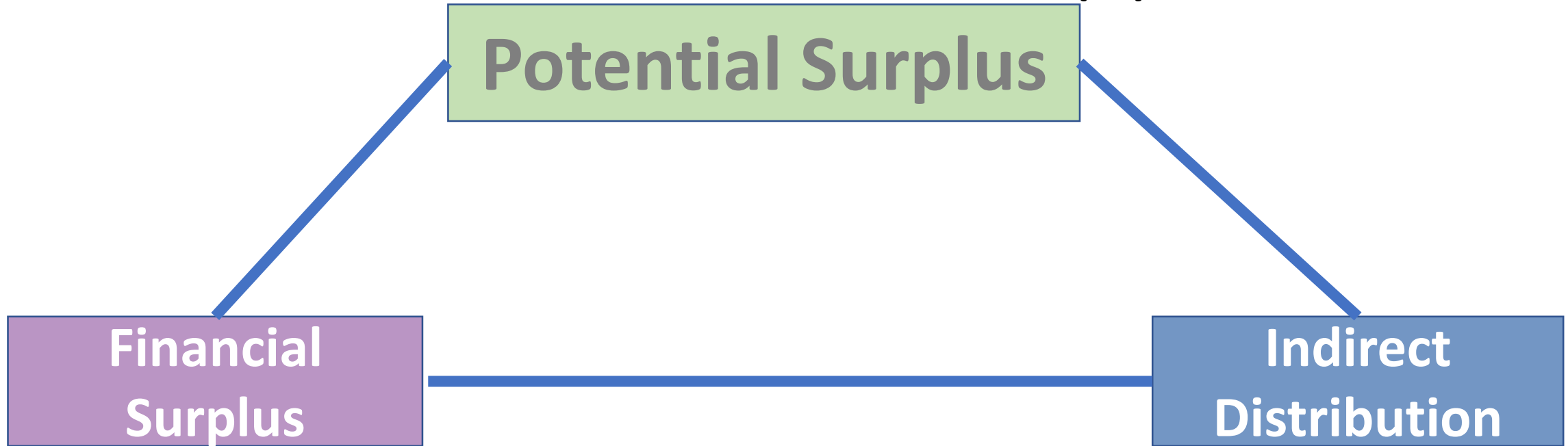
(The different roles of Board and Management)



# SPECIFICITIES OF TSO (1)



## SPECIFICITIES OF TSO (2)



Does the non-distribution of profits imply the non generation of surplus?

How is a surplus generated?

To whom the surplus is distributed?

- Price cutting
- Increase in compensation
- Realization of social projects

# Typologies of NGOs (1)

## 1. Operational NGOs

- a. Relief-oriented NGOs
- b. Development-oriented NGOs
  - i. Service delivery or participation
  - ii. Religious or secular
  - iii. Public or more private oriented

## 2. Advocacy NGOs: promote and raise awareness, acceptance and knowledge

# Typologies of NGOs (2)

- INGO – international NGO
- BINGO – business-oriented international NGO
- RINGO – Religious international NGO or Research and Independent Non-Governmental Organization
- ENGO – environmental NGO
- GONGO – government-operated NGO
- QUANGO – quasi-autonomous NGO (ISO)



# Duality in Third Sector

Market type organizations have two kinds of relationships with TSOs:

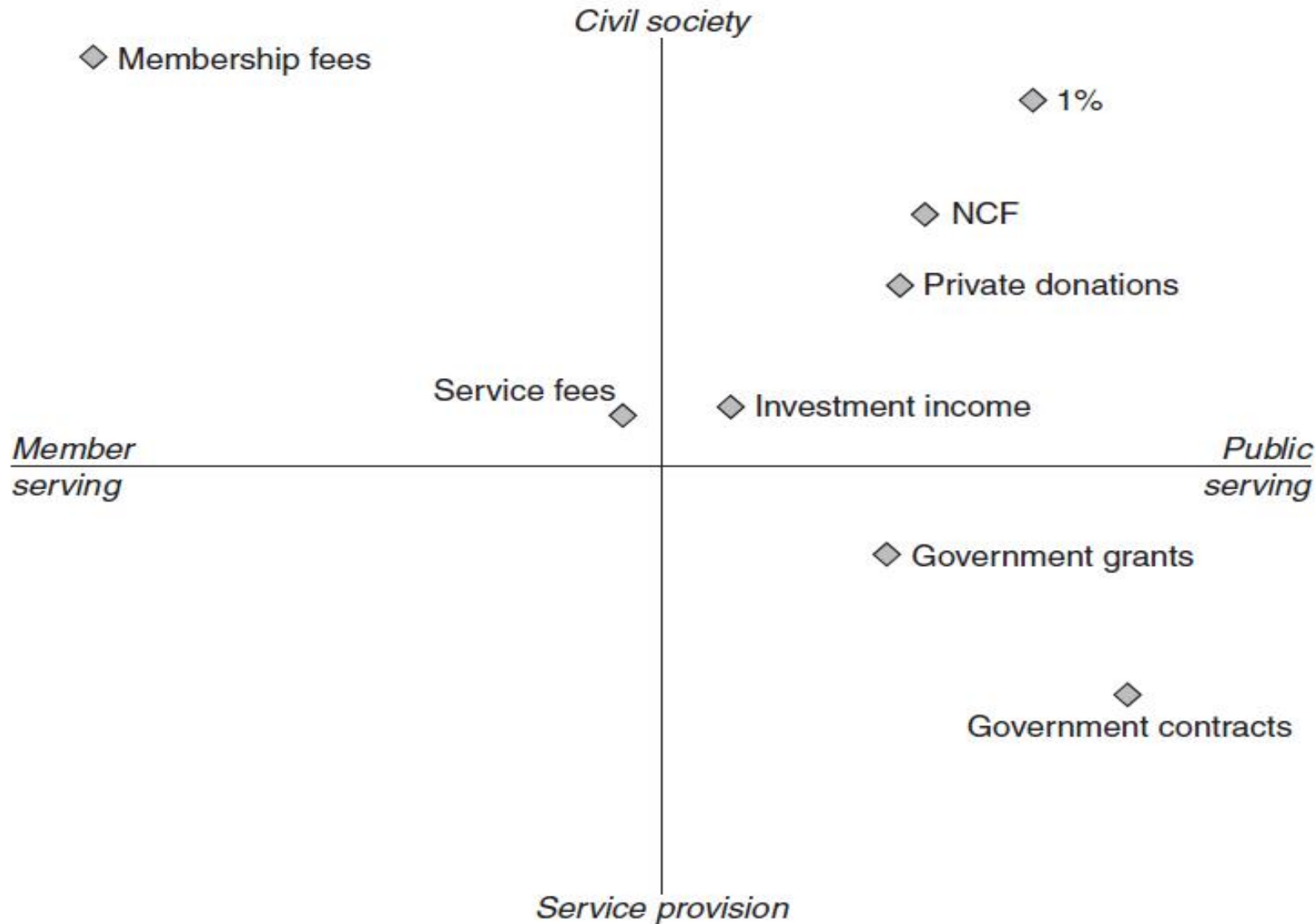
- 1- PPPs (public-private-partnership)
- 2- Sponsoring relationships

Their main differences are:

- a. Policy-making involvement
- b. Additional financial needs to the already available resources
- c. Direct contact with service providers and foundations established by private enterprises
- d. “External” influence

# Governmental forms of support

- Government grants
  - Lump sum subsidies
  - Project related grants (dominating)
- Per capita government support directly related to clients' number



**Fig. 2.1. THE WELFARE MIX**

Support but not dependence  
from the state:

The “1% system”  
ex: in Italy **5 per 1000**

and the

“National Civil Fund” – depends  
on the size of “1% designations”

*Figure 2.1* Relationships between third sector functions and financing.

# Demand Theories

- Weisbrod model: The role of the median voter
- Hansmann theory: contract failure
- Rose-Ackermann theory: the ideological approach

# I. Weisbrod model <sup>(1)</sup>

1. Public goods are undersupplied by the government: citizens' needs are not satisfied
2. Heterogeneity hypothesis: The public sector provides goods and services that meet the median voter preferences, but the communities might be heterogeneous.

This model includes

- the provision of multiple goods,
- goods with positive externalities and
- the preferences of multiple stakeholders

# I. Weisbrod model <sup>(2)</sup>

in addition to heterogeneity of preferences, a non-profit organisation will be formed only if there exists a group of stakeholders with common preferences.

## II. Rose-Ackerman model – theory of altruism

- Managers versus Donors: same product, different production characteristics
- The TSO allow citizens and volunteer donors to contribute to the production of goods to pursue goals and values
- Non-profit good is considered a public-good

*The public good theory has been adapted to include a variety of stakeholders and their demands for a variety of public and private goods produced by non-profit organizations.*

Economic theories of altruism examine the impact of changes in gov. funding for public goods on the level of charitable contributions.

# The PURE public good theory

If non-profit organisations provide public goods through donative support which otherwise would have been provided by the government, the question arises as to what happens when government provision of the good changes. If donative non-profit organisations provide pure public goods, an increase in government spending will 'crowd-out' charitable contributions.

## The dollar-for-dollar crowd out

- Less than dollar for dollar - shows that the pure public good model of charitable contributions does not fully describe the behaviour of donor.



# The theory of IMPURE altruism

Donors receive:

- public benefits, and
- private benefits

such as prestige, social status, access, relief of guilt, control over the non-profit output, a warm-glow (emotional feeling) from the act of contributing.

# III. Hansmann Model

Quality of Performance & Quantity of Attenders. It encourages private donations more efficient than lump-sum grants.

The characteristics of these goods are:

- Public goods (affects all the consumers). Consumers see TSO "closer" to their needs
- Merit goods (depend on the decisions of non-profit manager, responsiveness of donors and patrons). Might lead to contractual or market failures
- Goods with strong externalities
- Information asymmetries. TSO could reduce the degree of uncertainty and mistrust
- For these goods free collective bargaining does not lead to an equilibrium price (non-distribution of profits)

# Which model is the best?

Each model describes the influence of the stakeholder over the goods produced by the non-profit organisation, and many of the above models consider how a change in government funding may influence non-profit output. But unlike the original Weisbrod model, these models rarely take into account the role of the median voter!

It depends on:

- The size of the non-profit sector. Heterogeneity in income, education and age is related to an increase in the size of the non-profit sector
- Diversity of the non-profit sector (political, ethnic, religious and racial backgrounds).

# Supply theory (1)

What determines the choice of setting up a NPO? " By the analysis of the costs. How?

- The process ensures efficiency
- Involvement of interested investors
- Control mechanisms
- Selection of managers

# Supply theory (2)

Why would a rational agent be interested in activities that do not generate profit?

- Way to hide profits
- Way to gain social prestige
- To expand the sphere of influence on society
- For ideological or religious reasons

# Some schools of thought relating to managing

- Scientific Management
- Human Relations
- Bureaucracy
- Power and conflict
- Technology
- Systems
- Institutional

Source: Handy, C 'Understanding Organisations'

# Scientific Management

## Features of theory

- Frederick Taylor – focus on planning and measuring
- Simplistic motivation model – do you want more money?
- Origin in seeking efficiency in manual and semi skilled work
- Found its exemplar in Time and Motion studies
- Business Process Re-engineering is in some ways a modern development

## Applicability to TSO?

- Controversial theory in that it has a strong industrial and 'top down' flavour
- Also simplistic money motivation an issue for sector
- HOWEVER
  - Growth of output and outcome measure
  - Need to deliver greater efficiency
  - Potential for cost savings especially in delivery of simple and repetitive services/products

# Human Relations

## Features of Theory

- A reaction to Taylorism (Theory X) by questioning its assumptions -> Theory Y
  - work as being as natural as rest or play.
  - You will exercise self-direction and self-control if you are committed to the objectives.
  - Average person can learn to accept and seek responsibility.
  - Innovative ability is not exclusive privilege of managers

## Applicability to TSO

- The assumptions about motivation clearly have resonance
- It is the way a lot of nfp organisations would like to see themselves
- However reality often intrude



# Bureaucracy

Source Max Weber

## Features of Theory

- Application to large and formal organisations
  - Job specialisation
  - Authority hierarchy
  - Formal rules and regulations
  - Impersonality
  - Formal selection
  - Career orientation.

## Applicability of TSO

- Particular relevance for the larger and more routinised nfp
- Emerges with longer age of organisation
- Also applicability to organisations where product is less tangible
- Importance where process and assurance of impartiality is important

# Power and conflict

## **Features of Theory**

- Explains the way organisations work in terms of different interests
- The organisation as subject to negotiation and trade offs
- Conflict as a natural part of life

## **Applicability to TSO**

- It has a lot to offer in terms of the actual dynamics of many organisations where there are diverse interests and different stakeholders
- Can also explain board/manager issues

# Technology

## **Features of Theory**

- Suggest that the model may vary depending upon the nature of the organisation – in particular its 'socio-technical' system
- Draws a difference between routinised and organic type of work

## **Applicability to TSO**

- Has appeal given the diversity of the sector
- Some organisations are more formal and engage in repetitive and predictable work
- Others are more fluid – viz campaigning/advocacy

# Systems

## **Features of Theory**

- Derives from biology and sees organisations in terms of inputs, outputs and feedback loops
- Suggests loose boundaries and the interdependency of organisations and environment

## **Applicability to TSO**

- The funding/contract cycle of a number of nfp lends itself to systems approaches
- Sometimes the feedback loop aspect is unclear (viz funders are not beneficiaries)

# Institutional/ Cultural

## **Features of Theory**

- Organisations seen as embedded in their history and traditions
- This shapes the way they work and how they are managed
- It also explains why some organisations resist change

## **Applicability to TSO**

- Highly applicable to some organisations such as religious based or strong founders