

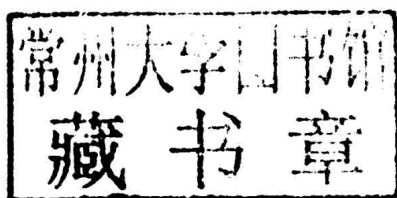
UNDERSTANDING THE **SOCIAL ECONOMY** *of the* **UNITED STATES**



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Understanding the Social Economy of the United States



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UNDERSTANDING THE SOCIAL ECONOMY OF THE UNITED STATES

Understanding the Social Economy of the United States is a comprehensive introduction to the operation and study of organizations with social goals – public sector nonprofits, civil society organizations, social enterprises, cooperatives, and other organizations with a social mission – under the rubric of the social economy.

Rich in examples and case studies, this book not only highlights the differences between these organizations and traditional businesses, but also provides applied chapters on organizational development, strategic management and leadership, human resources, finance, and social accounting and accountability in social economy organizations.

The perfect introduction to the social economy framework for students of nonprofit management, business, social entrepreneurship, and public policy, *Understanding the Social Economy of the United States* is an invaluable resource for the classroom and for practitioners working in the social economy sector.

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Foreword

Where does social good come from? This volume, *Understanding the Social Economy of the United States*, makes clear that the answer to this question is more complicated than some might think. The general notion that nonprofit organizations produce social good has dominated our thinking, but belied our reality, for too long. As the authors note, the categories of public, private, and philanthropic enterprises are neither static nor impermeable. The social economy of the United States, like in many other countries around the world, involves a diversity of organizations arrayed along several vectors of financial and social purpose. Businesses with social purposes and social organizations funded by earned revenue exist in far greater numbers than we see if we limit our understanding to the categories provided by the tax code.

The social economy framework is important for all of us to understand. The heterogeneity of enterprises that seeks to produce social goods is a strength of our economy although it is certainly more complicated than previous models centered around nonprofits and philanthropy. The social economy provides tremendous opportunities for people seeking services, employment, or entrepreneurial opportunities. It offers a range of options for people looking to put their money to work for social causes – either through charitable donations, philanthropic investments, investment funds, consumer choices, or political contributions. Understanding the full landscape of organizational forms, financing opportunities, and revenue models working on any given issue enables each of us to make wiser decisions about how we deploy our resources.

Of course, the heterogeneity is also challenging. We don't know if there are particular forms of enterprise that are well suited to producing

and providing certain goods. There are opportunity costs, and real costs, to underwriting or subsidizing poorly performing organizations of any kind. Determining which organizations do good work, when the definitions of good are so varied and the institutional means so different, is difficult enough as to make it tempting to default to available, yet dubious, measures. Some organizations are no doubt better than others at encouraging creativity, participation, or belonging – social goods that defy most quantifiable measures anyway.

The framework is also important for policy makers and scholars. It makes clear that the relevant policy domains for considering social good extend beyond the corporate and tax codes. Investment laws and practices, consumer protection rules, labor law, intellectual property rights, and telecommunications regulation, in an age when everything analog has a digital counterpart, are all implicated in the social economy.

There is a world of research to be done to better understand what relationships might exist between form and function. For policy makers, the reality of multiple forms should encourage greater creativity in thinking about incentives for social benefits, the menu of public/private partnerships, and the distinctive value of each enterprise form. The authors do us all a service in introducing the variety and the richness of the social economy. I am hopeful that this book will serve as a basis upon which future volumes will build.

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Preface

The economy of the United States is often classified into three sectors: the public sector, the private sector, and the third sector.¹ These sectors typically differentiate organizations according to whether they are supported respectively by the government to carry out its designated responsibilities to serve the public; by private sources to serve private interests through the market; or by other sources, including philanthropic grants, volunteer labor, and donated materials, to serve needs that are not otherwise being met by the family, the government, or the market (Anheier, 2004).

We build upon the sectoral approach by characterizing the *social economy* as a space that situates different self-governing organizational forms that prioritize their social objectives. Common organizational models include nonprofit organizations and associations, and cooperatives; however, new corporate forms with social priorities are emerging, including benefit corporations and low profit, limited liability companies, all of which will be duly considered.

In our framework, the social economy wholly encompasses what others label as the third sector but also includes parts of the public and private sectors for reasons that will be explained. We emphasize an interactive approach, meaning that we look at how the organizations within the social economy space interact with organizations in other sectors. Implicit in our framework is the idea that the sectors are part of one society, often referred to as a mixed economy. Within that mixed

1 Other terms often used by social scientists and policy makers in place of the third sector include the nonprofit sector, independent sector, social sector, voluntary sector, and civil society.

economy, organizations interact in many ways. To visualize this vibrant arrangement of organizations, in the first chapter we will present the social economy framework using a Venn diagram.

Within our interactive approach, the most important principles are that the organizations of the social economy – their purpose, structure, and function – are meant to serve needs not met fully elsewhere; that different social objectives are best served by different organizational models; that organizations often overlap sectors, blend sectoral elements, or even defy conventional private or public sectoral placement, depending on how they go about pursuing their social objectives; and that organizations can migrate between and across sectors over time, depending on their changing operational strategies.

Thus, the social economy framework does the following:

1. focuses on prioritizing social objectives;
2. explains how different organizational models serve different needs in different ways;
3. recognizes that many social economy organizations straddle sectors by combining public and private elements and dynamically move in and out of specific sectors depending on how they shift their strategies; and
4. reveals the underlying survival value of a society that allows a multitude of organizational forms to flourish, for different societal needs require different organizational forms to be effective, and as societal needs evolve so must the organizational models to serve them, in what Douglass North refers to as “adaptive efficiency” (North, 1990, p. 80).

Highlighting the dynamic and interactive arrangement between organizations and sectors has profound implications for the management of social economy organizations in terms of their leadership, governance, finance, accountability, asset management, human resources management, organizational development, and many other dimensions. Understanding these implications is crucial for such organizations to flourish and even to survive in difficult political and economic times.

The book is divided into four parts. Part 1 introduces in the first chapter the social economy framework, elaborates upon the concepts of purpose and organization as noted above, and provides an overview of the different and overlapping components of the social economy. Part 2 consists of four chapters, each offering an in-depth discussion of one of

the four components of the social economy – Chapter 2: social economy businesses; Chapter 3: local development enterprises; Chapter 4: public sector nonprofits; and Chapter 5: civil society organizations.

Part 3 includes five chapters that explain how various dimensions of management must address achieving the organization's social objectives in ways that are different from traditional business administration. Chapter 6 discusses organizational design and governance strategies; Chapter 7, leadership and strategic management; Chapter 8, human resources management; Chapter 9, financing; and Chapter 10, social accounting. Part 4 completes the book with concluding thoughts and a discussion of key issues for the future.

Within each chapter is a set of mini case studies, labeled “A Closer Look,” which highlights innovative organizations related to the issues being addressed. Each chapter is followed by a set of discussion questions to focus student reflection on the issues, and concludes with a major case study that explores the various organizational types in greater detail and brings out specific issues – for example, challenges in starting a social economy organization, raising finances, business planning, and evaluation issues. The case studies are followed by a short list of discussion questions pertinent to the case. The case studies can stand alone, independent of the chapter context, and thus be used in a variety of courses.

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We dedicate this book to the many organizations of the US social economy whose dedication and contributions add immensely to the quality of life of the American people and people all over the world, and to the entrepreneurs who continuously strive to shape organizations to meet the evolving needs of society.

Laurie Mook
John R. Whitman
Ann Armstrong
Jack Quarter

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