

The Third Sector

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Introduction

The idea of a distinct third sector, made up of enterprises and organizations which are not part of the traditional private sector nor of the public sector, began to emerge in the mid-1970s. Such organizations were already very active in many areas of activity and were indeed already the subject of scientific works and specific public policies. But the idea of bringing these bodies together and the theoretical basis on which this might be done were not really put forward until the 1970s.

In fact, without denying that the general public's view is still strongly characterised by the historical context of each country, it may be said that two conceptual approaches aiming to embrace the whole third sector gradually spread internationally, accompanied by statistical work aiming to quantify its economic importance. One is the US-based "non-profit sector" approach; the other, mainly French in origin, forged the concept of the "social economy" to bring together co-operatives, mutual societies and associations.

Other conceptualisations of the third sector have also been developed and have met with a positive response at the international level. This is in particular the case of approaches based on a "tri-polar" representation of the economy, where the three "poles" either represent categories of agents (private for-profit enterprises, the state, and households), or correspond to logics or modes of regulation of exchanges (the market, public redistribution and reciprocity), which in turn refer to the types of resources involved (market, non-market and non-monetary resources). In such a perspective, the third sector is viewed as an intermediate space in which the different poles combine.

Our aim here is to focus on these three conceptual streams which try to capture the third sector as a whole. We want to show how they emerged in their respective contexts, what their specificities are and how they can be applied empirically to embrace a whole range of organizations. This means we do pretend to provide any overview of the whole literature developed under those three "umbrella concepts" to analyse entities such as non-profit organizations, cooperatives or social enterprises.

1. The non-profit sector

The concept of non-profit sector is deeply rooted in history, namely American history. As stated by Salamon (1997: 282), "[one of the factors which accounted for the early growth of the American penchant for voluntary association] was the deep-seated hostility to royal power and centralized State authority that the religious non conformists who helped populate the American colonies brought with them when they fled the Old World". But it is only in the late 19th century that the idea of a distinct non-profit sector really began to take place. Non-profit organizations were then promoted not simply as supplements to public action but as superior vehicles for meeting public needs.

Although the expansion of the non-profit sector in the 60s and 70s was strongly linked to partnership with government which increasingly supported these organizations, American

perception of the latter remains marked by anti-State attitudes as shown by the growing use of the term "independent sector" to refer to these entities.

Tax exemption as a key criterion

It is mainly through the tax laws that the non-profit sector has come to be legally defined in the United States. In particular, the federal tax code identifies some twenty-six different categories of organizations that are entitled to exemption from federal income taxation. These organizations must be operated in such a way that "no part of (their) earnings inures to the benefit of their officers or directors" and their founding document must stipulate this. Such a condition is known as the "non-distribution (of profits) constraint" and it became the cornerstone of the conceptualization of the non-profit sector.

Although these tax-exempt organizations are of various kinds and include member serving organizations as well as primarily public serving organizations, much of the discussion of the non-profit sector in the recent American literature focuses on the second category, that is a subset of organizations that are tax-exempt and eligible to receive tax deductible gifts under Section 501 (c) (3) of the Internal Revenue Code. These organizations, which represent a very large range of public benefit activities (schools, colleges, universities, hospitals, museums, libraries, day care centres, social service agencies, etc.), are therefore thought of as the heart of the non-profit sector.

A vast literature on the non-profit organizations

In the United States the work of the Filer Commission and, in 1976, the launch of Yale University's "Program on Non-profit Organizations", involving 150 researchers, marked a decisive step in the conceptualisation of non-profit organizations (NPOs) and the non-profit sector. Since then, a vast scientific literature on NPOs has been developed, with contributions from disciplines as diverse as economics, sociology, political science, management, history, law, etc. It particularly takes place in journals like the *Nonprofit and Voluntary Sector Quarterly*, published by the Association for Research on Nonprofit and Voluntary Action, and *Voluntas*, published by the International Society for Third Sector Research. Some major books also marked the early stages of this literature: Weisbrod (1977, 1988), Young (1983), James and Rose-Ackerman (1986), Powell (1987), James (1989), Anheier & Seibel (1990).

It is often said the bulk of theoretical contributions in this literature has been developed around one central question: how is it possible to explain the very existence and the role of non-profit organizations in contemporary economies dominated by for-profit enterprises on competing markets and by various degrees of public intervention? To explain the "raison d'être" of NPO, key authors have stressed the role of NPOs as providers of public or quasi-public goods for-profit firms and the state are not willing to produce (Weisbrod, 1975) or the fact that NPOs are more able, through their strict constraint on profit distribution, to send trust signals to potential buyers who fear being exploited by for-profit providers because of important asymmetries of information on markets of non-standardized products or services (Nelson & Krashinsky, 1973; Hansmann, 1980). Apart from those most classical theories of state failure and market failure, other authors underlined factors which play as driving forces on the supply side. Among them, James (1983, 1986) suggests competition among religions fosters non-profit initiatives by religious entrepreneurs in fields like education, health and other major social services which are likely to attract members/believers. On their side, Ben-Ner and Van Hoomissen (1991) combine factors on the demand and supply sides: stakeholders on the demand side can best control the quality of the production they want by getting involved in the setting up and management of the organization, especially if expected benefits of all types they get from such an involvement are larger than all kinds of related costs.

A definition for cross-national comparative purposes

In spite of the very US-based roots of the non-profit sector concept, significant efforts have been made in the last two decades to allow cross-national comparative studies. Increasing reference is especially made to the conceptual framework established by the vast international study which has been coordinated by the Johns Hopkins University since 1990.

For all researchers involved in this project, the non-profit sector consists of organizations with the following characteristics:

- they are formal, i.e. they have a certain degree of institutionalisation, which generally presupposes legal personality ;
- they are private, i.e. distinct from both the State and those organizations issuing directly from the public authorities ;
- they are self-governing, in the sense that they must have their own regulations and decision making bodies ;
- they cannot distribute profits to either their members, their directors or a set of "owners". This "non-distribution constraint" lies at the heart of all the literature on NPOs ;
- they must involve some level of voluntary contribution in time (volunteers) and/or in money (donors), and they must be founded on the free and voluntary affiliation of their members.

Although US researchers thought at first the non-profit sector in their country would appear as the largest in the world, the major statistical efforts based on that common definition and carried out in the late 1990s showed the workforce employed in the non-profit represented about 9% of the whole active population in countries like the Netherlands, Belgium and Ireland while it reached 6,3 % in the United States.

Among various other results of that outstanding international project, Salamon, Sokolowski & Anheier (2000) developed a "social origins" theory which relates closely the size and key features of the non-profit sector to various country-specific characteristics such as the level of government social welfare spending and historical forces that shaped both the government regime and the civil society.

2. The social economy

In Europe, the broad diversity of socio-political, cultural and economic national circumstances has not allowed such a wide-ranging and rapid development of analytical works emphasizing the existence of a third sector. However, the economic entities that gradually came to be perceived through a third sector approach were already important in most countries: mutual organizations and co-operatives had to some extent existed everywhere for more than a century (Birchall, 1997), and association-based economic initiatives had also been increasing in numbers for some considerable time. As shown by Evers and Laville (2004), they were also rooted in solid and long-standing traditions: philanthropy (charities, community sector, etc.), has always been particularly influential the UK and Ireland; civic commitment to the entire community towards greater equality and democracy clearly prevailed in Scandinavian countries; the principle of "subsidiarity" has been central, especially with respect to Church-related initiatives, in countries such as Germany, Belgium, Ireland and the Netherlands; in various countries, the co-operative movement was closely linked to the development of the voluntary sector, either through a common civic background fostering participation and democracy (as in Denmark, Sweden etc.), or through a common religious inspiration (as in Italy, Belgium, France etc.); finally the role assigned to the family in countries such as Spain, Portugal, Greece and Italy also had a major influence on the pace of development of the third sector, especially as to the provision of personal services (child care, elderly care, etc.)

Co-operatives and associations: historical divergence and recent convergence

During most of the 20th century, co-operatives developed their activities to meet their members' needs to gain better access to markets (as consumers, savers, producers etc.). Their specialisation in specific fields, the pressure of market forces and their increasing size led most co-operatives to follow a path that differed from that of most other components of the third sector, which were generally oriented to non-market activities, such as advocacy, material assistance, or the delivery of services outside market channels. This is one of the key reasons why several countries are now reluctant to develop conceptions of the third sector encompassing both co-operative enterprises and community or voluntary organizations.

In the very last decades, many associations have started to adopt some business-like behaviours and strategies (through professionalization, market orientation, communication methods, etc.) while new forms of co-operatives have appeared in fields such as personal services, which do not solely rely on market resources. Therefore, social co-operatives and, more broadly, social enterprises operating on the basis of public subsidies or contracts as well as market resources may be seen as bridging part of the gap between co-operatives and associations (Borzaga and Defourny, 2001). More generally, a new generation of initiatives appeared in the final quarter of the 20th century, often dealing with new challenges, which were not usually addressed by traditional organizations: these challenges included the fight against unemployment (worker co-operatives, worker-owned firms, work integration social enterprises etc.), the need to combat social exclusion (housing and urban revitalization initiatives, new services to the poorest and people at risk in many respects), local development of remote areas etc. Acknowledging the public benefit dimension of many activities undertaken by associations of all kinds, public authorities designed specific programmes and schemes to support them. As a result, various types of initiatives have become registered, labelled and identified with such public schemes. In some countries, legislation was even passed to create new legal forms, better suited to some types of organizations; in several cases, these new legal forms have been associated to general frameworks designed for cooperatives (this was the case in Italy, France, Portugal, Spain and Greece), while in others, they have tended to encompass various types of enterprises pursuing a community interest or a social aim (Belgium, United Kingdom, Italy), sometimes narrowly focused on the work integration of disadvantaged groups (Finland, Poland)¹.

Such recent evolutions have paved the way for a rediscovery of the historical parenthood among associations and co-operatives as well as for a renewal of the concept of social economy which had been used in the 19th century along similar lines by authors like Smiley² in 1875 and Gide³ around 1900.

Defining the social economy

Although deeply rooted in history, the concept of social economy was first revitalised in France at the end of the 1970s and subsequently in various countries like Belgium, Spain, Italy, Sweden and in an increasing number of other European and non-European countries (Canada, Argentina, Japan, South Korea, etc.). Although there is no universally accepted definition of the social economy, it is generally agreed that the social economy includes co-operatives and related enterprises, mutual societies as well as associations, which share a number of principles that can be summarized as follows:

¹ For more details, see Defourny & Nyssens (2008) and the various works of the EMES European Research Network: www.emes.net

² As explained by Malcolm Lynch (1995)

³ See Gueslin (1987)

- the aim of serving members or the community, rather than generating profit ;
- an independent management ;
- a democratic decision making process ;
- the primacy of people and labor over capital in the distribution of income.

With the purpose of service, emphasis is placed on the fact that activities are not primarily carried out to achieve a financial return on capital investment. The possible generation of a surplus may thus be a means of achieving goals, but not the main motivation behind the activity.

Management independence is principally a means of distinguishing the social economy from public entities producing goods and services. The economic activities carried out by public authorities do not in general benefit from the wide-ranging independence which provides an essential impetus in voluntary initiatives.

The need for a democratic decision making process derives from the "one member, one vote" principle which is a key one in the co-operative thought. Although this may be expressed through a great variety of effective practices, there is at least a strict limit placed on the number of votes per member in the body which holds the ultimate decision making power.

Finally, the fourth principle covers a wide range of practices: limited remuneration of capital, distribution of surplus among the workforce or members/users in the form of bonuses, the creation of reserve funds for business development, the immediate use of surpluses for social purposes etc.

Major comparative analysis of the social economy in Europe started in the early 1990s under the auspices of CIRIEC (Defourny and Monzon, 1992) and as well as the European Economic and Social Committee (Chaves and Monzon, 2007). Such studies show that co-operatives actually represent a larger part of the third sector than associations in terms of employment in countries like Italy, Spain, Finland as well as in former socialist economies like Poland, Hungary, the Czech Republic and Slovakia. As to mutual societies, their overall weight is generally smaller but they are quite important in France, Germany and Portugal.

Journals promoting the social economy approach include the French "*Revue internationale de l'économie sociale*", formerly *Revue des études coopératives, mutualistes et associatives (RECMA)* as well as *Economie et Solidarités* in French-speaking Canada, the *Annals of Public and Cooperative Economics* as well as the *Revista de economia publica, social y cooperativa* in Spain and Latin America.

The social economy versus the non-profit sector

Although two approaches of the third sector clearly converge or are quite close on various points, they also diverge on a few key points, especially the control over the organization and the use of profits (Defourny, 2001).

Firstly, the social economy has at its heart the requirement of a democratic decision-making process which, in addition to giving weight to actual members' involvement and voice, represents a structural procedure to control the actual pursuit of the organization's goals. In the NPO approach, such a control also comes from inside the organization through its governing bodies but without any formal democratic requirement.

Secondly, the non-profit approach prohibits any profit distribution and thus excludes the entire co-operative component of the social economy, since co-operatives generally redistribute a part of their surplus to their members. It also excludes some mutual societies,

for instance mutual insurance companies which return part of their surplus to members in the form of reductions in future contributions.

Another way of summing up these differences would be to say that the conceptual basis of the non-profit approach is the non-distribution constraint, which gives it a particular relevance for public benefit associations; whereas the notion of the social economy owes much to the co-operative thought which of course gives clearer space to mutual interest organizations and a central place to democratic control over the organization's goals and functioning.

Let us stress however that these differences are only neat from a theoretical point of view; they might reveal much less significant when checked by empirical research. Especially, a democratic decision making process should not be taken for granted in all social economy organizations. Moreover foundations, which are increasingly mentioned as a fourth component of the social economy, are not necessarily concerned about democratic rules.

Finally, at a worldwide level including developing countries, it is not difficult to stress the higher flexibility of the social economy approach: community-based economic organizations which play key roles in rural areas often distribute profits among members in various ways since improvements in the latter's living conditions is their major objective. More generally, many practices that draw on the principle of "not-for-profit but for service" take on a very wide variety of organizational forms. Some of them resemble co-operative models (credit unions, for example), while others are reminiscent of associations (NGOs and trusts) or of mutuals (for instance community-based health insurance systems).

3. The third sector in the welfare mix

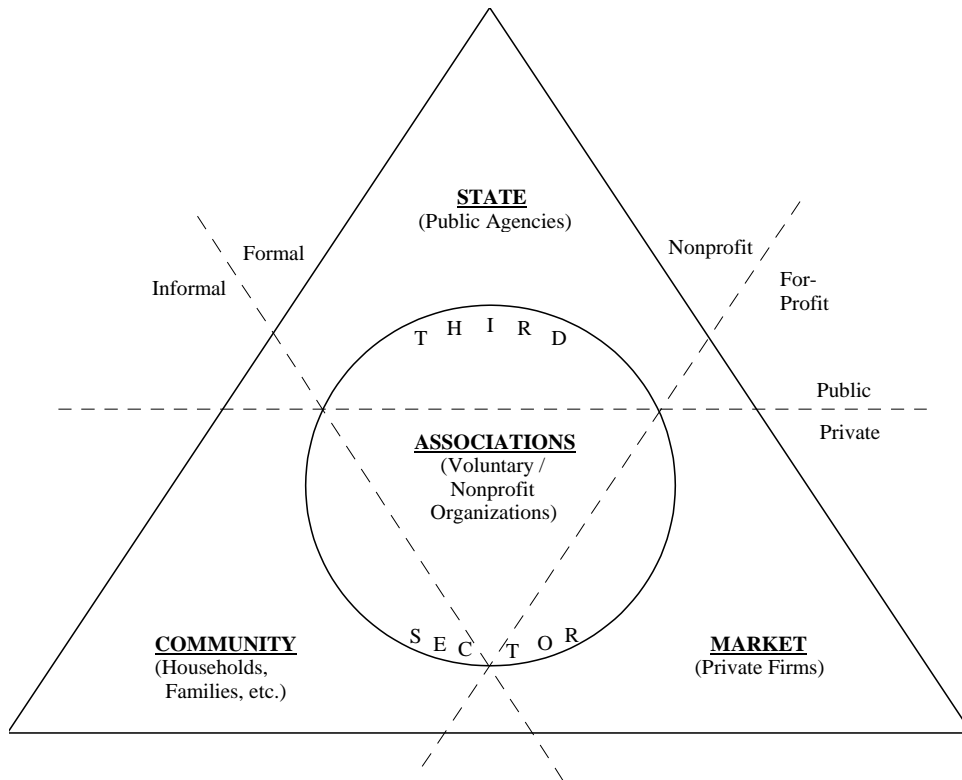
According to the literature on non-profit organizations and the social economy, while the state and private for-profit companies do of course provide certain services, the latter either will not be of the desired quality for some groups, as often is the case with uniform public services, or they will not be affordably priced to satisfy total demand, as often is the case with market provision. Thus, third sector organizations (TSOs) generally provide either a necessary complement to both public and private for-profit provision of basic welfare services or they may deliver the bulk of some specific services.

Tools for conceptualizing a third sector with blurred frontiers

Several European third sector scholars have discussed the growing "welfare mix" made of those shared responsibilities among various types of providers and some have proposed a welfare triangle to better understand the relations between sectors (Evers, 1995; Laville, 1994; Pestoff, 1998 & 2005, Evers and Laville, 2004). The figure below depicts these relations.

As stated earlier, the role of organizations with social and service related purposes varies according to the historical and political traditions. Following Evers (1995), the characteristics of the third sector are simultaneously shaped by and shape the respective influences of state institutions, the market actors and the informal sector of families, etc. Thus, there is a constant tension at the border between the central triangle on one hand, and the market, state and informal areas, on the other. In the figure hereafter, these "behavioural" tensions are represented by the three dotted lines crossing the large triangle.

The Third Sector in the Welfare Triangle



Source: Pestoff, 1998 & 2005.

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Overlapping areas as a tool to accommodate diversity in TSOs' logics and behaviours

In relation to those tensions, let us now try to interpret and illustrate more precisely those areas in the figure where there is an overlap between the third sector and the other spheres of the economy. Indeed such overlapping areas are crucial to accommodate the current blurring of the third sector's borders. Even more importantly, they allow diverse conceptions of the third sector's place and role in Europe to co-exist while stressing that such views still have a lot in common.

Taking them one-by-one we find an area of overlap between *the third sector and the market* that suggests some third sector enterprises, like cooperatives, do fully operate on the market and make profits while adopting other rules than typical capitalist companies. The fast development of so-called social enterprises can also be analysed with the help of such blurred frontiers in the welfare triangle. Many social enterprises are clearly market-oriented while having a primary social aim, so they may be found in this overlapping area as well, especially if they distribute part of their surplus to their owners. In other cases, especially when promoted by state programs which strongly support professional integration of long term unemployed or unskilled people, social enterprises may also appear in the upper zone of the circle (Nyssens, 2006).

This latter case leads us to organizations found in the overlap between *the state and the third sector*, where we can note the increased blurring between public and private results in new or hybrid organizations. One example is found in quasi-public organizations, or what Streeck and Schmitter (1985) refer to as "private interest government", where the division between public and private almost disappears. Private non-profit organizations are explicitly given official public responsibilities in terms of defining, deciding and implementing public policy. Such quasi-public organizations often comprise the nexus of networks of public and private bodies with strong mutual interest in regulating a certain field (Kenis, 1990). This overlapping area also integrates the increasingly important partnerships between TSOs and public authorities. For instance, in the fields of education and health as well as various others, it is quite common that the state prefers to delegate the provision of social services and to have contractual arrangements with private non-profit schools, hospitals or mutuals that it heavily finances. The strict regulation and supervision it imposes on them explain why such TSOs appear closer to the public sector than at the very centre of the third sector.

Finally, when examining the overlap between *the community and the third sector*, we note numerous examples of mixed organizations. A formal non-profit organization may attract the support of numerous individuals who are not necessarily members of an organization, but who nevertheless contribute their time and/or money to support the activities of an organization and to help achieve its goals. Another example is found in a variety of mutual-aid and self-help groups. Here the "members" either have not yet created a formal association or the associations do not restrict their activities to "dues-paying members". Rather, they are open to all relevant persons in the community served by such mutual-aid or self-help groups. This also reflects that a great deal of new local non-profit initiatives start without any legal framework as "de facto" associations relying exclusively on the work of volunteers. Although they choose to remain informal, do not register or adopt any legal status, they actually provide some services. They most often represent the early stage of organizations which may later choose to register and develop as formal non-profit organizations. This type of overlap helps avoiding a strict frontier between stages in organizations' trajectories.

To conclude, let us stress that this last conceptualization of the third sector as a intermediary area does rule out the two former approaches. On the contrary, it can be fruitfully combined with them in order to provide a more dynamic and a less clear-cut conception of the third sector.

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