

# Contrary and Congruent Views of Leadership and Management in the Australian Social Economy

***A research project by***



"The 21st Century will be the century of the social sector organisation. The more economy, money and information become global, the more community will matter. And only the social sector nonprofit organisation performs in the community, exploits its opportunities, mobilizes its local resources, [and] solves its problems. *The leadership, competence, and management of the social sector nonprofit organization will thus largely determine the values, vision, the cohesion and performance of 21st Century Society.*"

Peter F Drucker, Drucker Foundation 1999

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Via this report we introduce the concept of "open source research". This idea parallels the very successful open source movement in the software industry exemplified by Linux, Firefox and thousands of other valuable projects. A core element of the open source movement<sup>1</sup> is a license that forces derivative works to be as free as the material on which it is based. In this way, intellectual property can enjoy total freedom, maximising its opportunity to be used and improved. Academia has a long tradition in this vein. The difference here is the legal framework that requires derivative work to be shared publicly and for free.

## **Note**

The data and evidence were collected in this study during the period July – October 2007. Since then conditions may have changed. Hence, interpretations provided in this report may also have changed in the interim and in the period of dissemination and discussion about the outcomes of the study. The reader is referred to the archives for further verification of both data and interpretations. These preliminary findings are shared in the spirit of action learning and collaboration, an organising theme in the conduct of the research. Your constructive criticism either with the team via email or via the SEEEN discussion forums ([www.seeen.org.au](http://www.seeen.org.au)) is welcome.

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<sup>1</sup> For an overview and introduction see the wikipedia entry at [http://en.wikipedia.org/wiki/Open\\_source](http://en.wikipedia.org/wiki/Open_source).  
More information and resources are available at <http://www.gnu.org/>

## Chapter 3: Spotlight on the Australian Social Economy

### 3.1. The Creation of Social Wealth

The Australian Social Economy forms part of a larger network of institutions, programs and projects that constitute a global economy. The “non-profit sector<sup>15</sup> globally excluding religious institutions is a \$1.1 trillion industry”<sup>16</sup>. It employs 19 million fully paid employees, and represents the world’s eighth largest economy. The volunteer work of the sector accounts for over one third of non-profit labour. Its social services and culture-recreation absorb more than half of all volunteer work. And its volunteer presence is especially important in the field of environment and advocacy. This worldwide phenomenon in western economies supports the social good of nations and creates a civil society. It contributes in a significant way to national economies and has captured an increasing interest among contemporary citizens. While the Australian Social Economy does not compare in magnitude, its relative importance for the creation of social and material wealth for Australians is no less than that observed in the global Social Economy.

### 3.2. Clarifying the Terminology of the Social Economy

A range of names is often used interchangeably to collectively describe the organisations and programs striving to create social value in society; this situation is similar to most other western economies. Terms include non profit, not-for-profit, Social Economy and Third Sector.

#### 3.2.1 The Social Economy

For the purposes of the research it was agreed that Social Economy was the most useful and inclusive term to be used in the study. It is acknowledged that many other terms were used to describe/define the Social Economy and that many of these meanings are sometimes highly contested.

To reduce any uncertainty, the term Social Economy refers to:

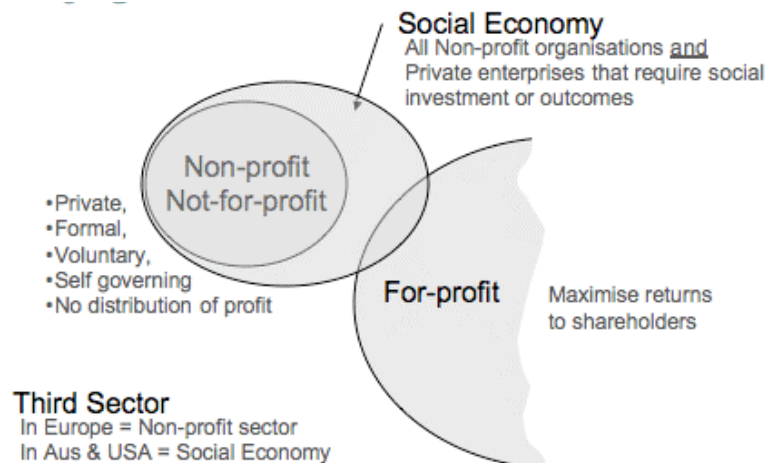
*the production of goods and services not solely provided by the non-profit sector, but also, in some cases by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations that belong to the Social Economy, one can find associations, cooperatives and mutual organisations and more recently foundations. This kind of economy is regulated by stakeholder principle, which stands in stark contrast with shareholder capitalism. The “Social Economy” is a broader concept than the non-profit sector<sup>17</sup>.*

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<sup>15</sup> We note the distinction here between the definitions of “non-profit” in the US and Australia. Non-profits are defined in a strict legal sense in US studies. The term non-profit in this study is subsumed under the umbrella term Social Economy. The problem of language, a central theme of the SEEN study in its exploration of “contrary and congruent views” and the understandings/misunderstandings underlying these views, confronted the researchers at the very commencement of the study!

<sup>16</sup> John Hopkins Centre for Civil Society Studies: *Global Civil Society – Dimensions of the Non-profit Sector*, John Hopkins, Baltimore, 1999.

<sup>17</sup> OECD (2003) *The Non-Profit Sector in a Changing Economy*, Publication Services, Paris. p.298



### 3.2.2 Public and Private organisations

Another term that is often misused is that of “private enterprise”.

There is a tendency to describe the economy as consisting of private, public and non-profit sectors, organisations or enterprises.

Public organisations generally refer to government organisations and should not be confused with public companies which are private enterprises owned by many individuals.

Private enterprises are assumed to capture the for-profit component of the economy. But the reality is that many social enterprises and non-profit organisations are in fact companies limited by guarantee and differ from for-profit companies in their aims, objects and constitutions.

As described below, the boundaries across sectors are blurring. A term of particular relevance to the study but also confused in definition and language-use is ‘social enterprise’.

### 3.2.3 Social Enterprise

There have been a number of attempts to define Social Enterprise and the schema proposed by Dees and Anderson (2006) offers some insights into the range of structural types among organisations. According to this schema, it is the objectives and modes of operation that form the prime differentiating characteristics. The spectrum describes the full range of business models available to social entrepreneurs, from purely philanthropic to purely commercial, with many variations in between. Philanthropic methods are involved anytime an organization falls short of the far right side, or on at least one dimension of the spectrum, indicating some form of subsidy or sacrifice. Excluding purely philanthropic or purely commercial ventures is not a major sacrifice in scope because very few social-purpose organisations exist at either extreme.

In the spectrum, the overlap between social enterprise and business enterprise highlights two phenomena; a) the actual and potentially huge number of social enterprise

organisations and programs in the Social Economy; and b) the potential for complexity of hybrid social enterprise models of organisations and programs in the sector.

	←	→	
	Purely philanthropic		Purely Commercial
<b>Motives, methods and goals</b>	Appeal to goodwill	Mixed motives	Appeal to self-interest
	Mission Driven	Mission and market driven	Market driven
	Social Value	Social and economic value	Economic value
Beneficiaries	Pay nothing	Subsidised rates, or mix of full payers and those who pay nothing / little	Market-rate prices
Capital	Donations and grants	Below market capital, or mix of donations and market-rate capital	Market-rate capital
Workforces	Volunteers	Below-market wages or mix of volunteers and fully paid staff	Market-rate compensation
Suppliers	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Source: Dees & Anderson (2006) The Social Enterprise Spectrum Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field, ARNOVA Occasional Paper Series, vol. 1 no. 3, edited by Rachel Mosher-Williams, 2006.

Table 1: The Social Enterprise Spectrum

To ensure clarity, a social enterprise project distinguishes itself from other programs or organisations within the Social Economy in that it has an *earned income* while still being driven by social mission, and usually seeks to use the sale of goods or services to achieve financial self-sufficiency. In the words of the OECD<sup>18</sup>:

*This concept refers to any private activity conducted in the public interest, organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to the problem of social exclusion and unemployment (see OECD, 1999). Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They stand out from the rest of the non-profit sector as organisations that use trading activities to achieve their goals and financial self-sufficiency. Social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the nonprofit sector as a whole. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market (ILM) organisations, community businesses, or charities' trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services ("services de proximité").*

Thus throughout this report, to be inclusive we shall use the terms Social Economy to refer to the sector as a whole, and Social Economy organisations to refer to all the organisations (traditional non-profit and social enterprises) that constitute the Social Economy. Social enterprises constitute a subset of the Social Economy.

<sup>18</sup> *ibid*

### 3.3. The Historical Context of the Social Economy in Australia<sup>19</sup>

In addressing issues affecting leadership and management in the Australian Social Economy it is important to understand the historically embedded character of these issues and related practices. The inclusion of this relatively brief descriptive historical account is included in this section of the Final Report not only to contextualize the topic but also and perhaps more importantly allow the reader to understand better why contemporary views which reflect members' understandings-misunderstandings are as they are; and the inherent importance and complexity associated with particular issues raised in the research. Three principal temporal phases are identified in the relatively short history of development of the Australian Social Economy.

#### 3.3.1 Charitable Enterprise (1814-1907)

The earliest phases of the Social Economy in Australia were grounded in the establishment of charitable institutions. The history of contemporary white Australia began in the early nineteenth century with organisations established by Governments to provide for the poor, disabled, the aged and the infirm (many of whom had been or were convicts largely of English origin but also Irish who had left their "motherland" to seek a better life. Hence it was Government (and this meant initially the Government of New South Wales) that engaged social issues through charitable organisations and structures. What is evident in this period was the number of faith enterprises established by religious orders. This occurred especially in unfunded schooling through Irish institutions as a counter balance for publicly funded secular education provided by public sector institutions. These and other social wealth creating institutions (targeting insurance for old age, ill health or misfortune, and support formed to safeguard the savings of working families) "ran in parallel with [the few] institutions constructed by the State"<sup>20</sup>.

#### 3.3.2 1945 Federal Government Whitepaper on full employment

A significant policy shift affecting the Australian Social Economy and within the period (1907-1972) is discussed briefly due to its particular significance for the Social Economy. The national system of unemployment introduced by the Curtin Labor Government in 1945 is often cited as a landmark in Federal Government policy with consequent effects on the Australian Social Economy. The White Paper (*Full Employment in Australia*) enabled persons between the age of 16 and 65 years to register for means tested benefits provided they were willing to accept 'suitable work'. The new social order proposed by the White Paper aimed at full employment supplemented by social security measures (supported by a National Welfare Fund which was created from taxpayers' contributions)<sup>21</sup>.

The initiative with its consequent rise and fall of unemployment over the next thirty years illustrated the inadequacy of Government welfare policy and consequent effects on the

<sup>19</sup> This section is adapted from Bartlett (2005) *Social Enterprises in Australia: Learning from International Diversity and Difference*, Paper presented in the Panel Forum on Social Enterprise in the Australia, the US, and UK: Learning from International Diversity and Difference at the 6<sup>th</sup> Social Enterprise Alliance Gathering Milwaukee, 17-20 April 2005. The material is taken from several sources, the most relevant being edited material from Botsman, P. (2003) *Pathways to the Enterprise State*, Report to the Department of Family and Communities, Federal Government, Canberra. p.9

<sup>20</sup> Botsman, P. (2003) *Ibid*.

<sup>21</sup> Social security measures provide the needy with assistance when needed – a "safety net". Social welfare measures provide a general framework of provision concerned with shaping the social fabric of society.

Social Economy if only because of the burdens and gains on the social economy.

The reasons for the 'failure' of the new full employment policy are well documented<sup>22</sup>.

### **3.3.3 Public Enterprise (1907-1972.)**

The second phase of development of the Australian Social Economy begins with the Harvester Judgement and ends with stagflation. The Harvester Judgement of 1907 heralded the emergence of arguably Australia's most important social welfare mechanism – the award wage. As Castles has argued a "wage earners" welfare state" emerged which offered "social protection particularly focused on those who participated in the workforce and providing only far more vestigial, somewhat ungenerous, and means-tested support for those outside"<sup>23</sup>.

This was an era when successive Federal Governments tried to create public enterprises that would take the place of the benevolent societies of the late nineteenth century for the purposes of creating mass citizenship. The high water mark of state responsibility, public enterprise and public spending was the Federal Government's adoption of the Keynesian White Paper on unemployment and the subsequent attempted nationalisation of airlines and banking.

The principal form of Social Economy institution that emerged from 1907 to 1972 was arguably public enterprise. The concept of the State as a financial underwriter and developer of employment, social welfare and community development was a logical extension of the friendly societies that had only partially protected workers through the great depressions of the 1890s and 1930s. The role of the State was to buoy up these mechanisms through public enterprise and state financing. The advent of simultaneously rising unemployment and inflation represented a new and stronger limit to the role of government. This put a brake on the era of public enterprise.

### **3.3.4 Whitlam era 1972 – 1975**

This period has been called the "Whitlam era". It was noted for the rapid changes in Federal Government attempts to address issues of social justice and disadvantage with which the Social economy continued to struggle. At the time, the need for good policy was all the more imperative in a context where the Henderson Inquiry in 1973 revealed that one fifth of Australians lived in poverty.

The Whitlam Labor Government clearly recognised the need to establish a more universal welfare framework. However their strategy involved poor financial and fiscal policy and ultimately resulted in a decline in provision which then impacted, and created pressure on the capacity of the Social economy to provide for society's disadvantaged. The period witnessed 'stagflation' and a decline in secondary industry (with higher unemployment and greater welfare dependency). The result was persistent unemployment and a widening gap between rich and poor.

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<sup>22</sup> See for example, MacIntyre, S. (1985) *Winners and Losers*, Allen and Unwin, Sydney.

<sup>23</sup> Castles, F. (1994), p.45).



### 3.3.5 Social Enterprise/Business (c1975-current)

The third identified phase of Social Economy development occurred in the contemporary period during which organisations and programs with a social mission became key “partners” of the state in achieving social and economic opportunities for the disadvantaged. From 1975, these Social Economy institutions and programs primarily represented by corporate charity combined with government welfare relief, and not only supplemented but sometimes supplanted the award wage as the chief form of social and economic support for many Australians. With a pool of about one million people permanently out of work, a succession of recessions, both combined with technical change and other factors, all have concentrated inequality in particular regions and locales. The 1995-96 *Working Nation* initiative may be seen as the last hurrah of the wages earners' welfare state. It was the boldest attempt by a government initiative to put the nation back to work. However the mass traineeship system that was the heart of the plan created a churning effect rather than a deep transformation of long term unemployment. Some would argue it was a short-lived experiment. However, even UK's Blair Labor Government has moved beyond the idea of trying to develop a one-off national program in favour of investments in social enterprise<sup>24</sup> and community capacity building. There was also increasing doubt about the concept of investing in training and education and the human capital theory of development as an important means of rectifying disadvantage.

As the award wage proved inaccessible to an increasingly large number of Australians, the role and responsibility of corporate charities has become more important. The logical historical transition to a new era of Social Economy began with the demise of the Commonwealth Employment Service and the awarding of job placement contracts to Australia's major charitable corporations and with the publication of the *Participation Support for a More Equitable Society* (McClure Report) in 2000. The awarding of job placement and job network responsibilities to the national corporate charities is less important for the purposes of this research study than the recognition in the McClure Report of the need to support “leaders who are committed to transforming communities through partnerships across public, private and non-profit sectors”. McClure also placed an emphasis on the creation of micro-businesses (enterprises that employ 5-6 people) as important contributors to regional economic development. The *New Enterprise Initiative Strategy* (NEIS) was seen as a catalyst for the development of regional micro-businesses.

Currently, there are a range of new wave Social Economy programs and organisations that have emerged, sometimes in response to the McClure Report and as a result of Commonwealth Government support and recognition. But there are many others than have emerged more often independently, as a matter of historical necessity.

What can be said about the history of the Australian Social Economy that may shed light on issues that are identified in this study? There are several tentative conclusions one may make:

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<sup>24</sup> The idea of social enterprise or more relevantly, social entrepreneurship is not equivalent to the concept of Social Economy”. During the research, social entrepreneurship was recognised as the “new wave” means of addressing the many misunderstandings in the Social Economy particularly in the Key Issue area of *Funding and Resources* for example, in Report on Thought Leadership Forum I).



seen

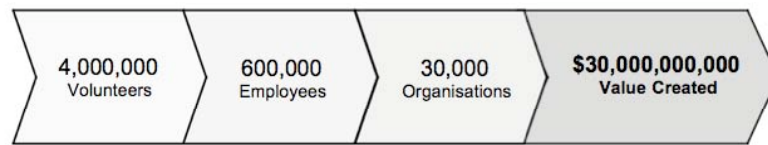
- Australian Governments have historically never taken full responsibilities for the delivery of social goods and services. Initially it was the charities and even today the outsourcing of services by Governments to corporate charities is evidence for this fact.
- *Many social programs and organisations appeal to unemployment as a means to address poverty and disadvantage. It is probably relevant to ask if members of the Social Economy appreciate how current Government policy is located within the history of work and employment or unemployment in Australia.*
- The Australian Social Economy demonstrates a growth history that is largely unregulated and diffused in terms of the nature of the entities that have come to be included under that name.
- Many of the earliest organisations in the Social Economy were faith-based and this has continued to contemporary times where they are the largest service organisations (the small vs large issue) in contemporary Australia.
- Many organisations (understandably) focused on employment and sustainability but within a context of dependency on scant resources and funding.
- Funding and resourcing of programs and organisations has historically been preeminent in the concerns of members and may explain partially why it persists as a major concern among members of a contemporary Social Economy.
- The sector appears to be left to its own devices. This may have positive consequences in that within a market economy framework, it sets conditions for more innovation. But it also has negative effects such as lack of access to personnel development and education and training in capabilities needed to progress a thriving Social Economy.
- In contemporary history, there is a movement to partnering among public, private and non-profit boundaries. This is not a necessary outcome of the McClure Report but seems temporally associated with it at least.

### **3.4. Contemporary Contexts of the Australian Social Economy**

The Australian Social Economy is much larger and more important than most realise at first glance. It is also very diverse and complex as the following material indicates:

- The sector contributes 3.5% of GDP (excluding volunteers); approximately 6% with the inclusion of voluntarism.
- Charitable giving is 0.68% of GDP.
- The sector makes a greater contribution to GDP than communications, agriculture and forestry & fishing industries (both 3.5% of GDP), electricity, gas and water, accommodation, cafes and restaurants, personal and other services, and cultural and recreational industries.
- The sector contributed approximately \$21 billion to the economy in 2003, or approximately \$30 billion with the value of volunteer input added.
- If volunteer input is added, GVA represents 4.9%, greater than value added by government administration and defence (4.1%) and mining (4.6%)
- 5% of all Social Economy (nonprofit) organisations in Australia employ staff.

The scale of the Social Economy in Australia is illustrated in broad terms in Figure 2. In all, there are approximately 750,000 organisations in the Social Economy. Approximately 400,000 of these are incorporated. 3,500 of these organisations employ 20 or more personnel; and there are 35,000 employers. Approximately 20,000 organisations have DGR (tax concession and charitable status). Further data may be found in Appendix 2.



➔ Larger than the economies of the:

- ACT
- South Australia
- Tasmania

Bigger than some of our major industries:

- mining,
- agriculture
- communications

Figure 2: The Scale of the Australian Social Economy

### 3.5. Lack of data

In commencing this study, we sought to obtain the most recently published sector wide data. What we found was that very little systematic data is available on the Australian Social Economy. The last authoritative scoping was conducted by the Australian Bureau of Statistics using 1999/2000 data<sup>25</sup>. Prior to that Mark Lyons at CACOM conducted a review that defined the sector in Australia over the period 1993-1996. Complementing these two aging studies is a grab bag of data points that cannot be easily cross-referenced or validated against other data. Furthermore, most of the studies have not been repeated, so even when there might be two data points looking at the same issue (size of sector, revenue mix, philanthropy gifts, volunteering etc); the numbers cannot be reliably compared as the methodologies differ.

Not having a common data set means that everyone is working from different information and developing their own hypotheses. For example, the amount of wasted resources and in particular the administration costs of charities will be frequently cited in the study. But we simply do not know the current levels of expense, their variance, and how they compare to the for-profit sector. Similarly, there is much talk about the need to reduce fragmentation through the merger of small organisations. But we do not know the current organisational profile, formation rates, failure rates or the sub-sectors that present the greatest opportunities for increased effectiveness through consolidation.

Consequently matters of policy and policy issues tend to be debated on the basis of conjecture rather than good data or evidence.

If the Social Economy had:

- A language based on agreed understandings; and
- A heightened awareness for the need for a view of research as systematic enquiry *made public* (an approach to research consistent with the values – equity-access, social justice etc - of the sector), then many of complexities and difficulties faced by the social sector might be more easily addressed.

<sup>25</sup> Nonprofit Institutions Satellite Account: 1999-2000 (2002). Australian Bureau of Statistics.



Hence, we have found there is a not only a lack of data about the sector, but also a lack of systematically derived and really useful knowledge (that is, the product of research) which might contribute to a strategic action program from which the sector might benefit. This study despite its limitations aims to begin the process of laying out important issues for the sector as shown in the next chapter.