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***Hybridities in TSOs:***  
**ambiguities and challenges**  
A case study on venture capitalism

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*To Enrica and Corrado*

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**Abstract**

My thesis seeks to contribute to the understanding of the international wide-spreading process of hybridization of Third Sector Organizations (TSOs). Presenting and analysing existing theories about hybridity the writing establishes a model of non-profit/for-profit hybrid organization. It also highlights ambiguities and challenges in the blurring of the boundaries of private and third sectors. It attempts to demonstrate how innovative social entrepreneurship partnerships successfully respond to existing and emerging needs, which create economic and societal value. The paper shows how the identified advantages and disadvantages of hybridity across non-profit/for-profit boundaries can be applied to a particular case study of venture philanthropy (VP).

**Keywords**

hybridization; hybrid organization; innovative social entrepreneurship; non-profit/for-profit blurring; theory of hybrids; TSOs; venture capitalism; venture philanthropy.



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## **List of abbreviations**

COPNI	Classification of the Purposes of Non-profit Institutions Serving Households
CVO	Centre for Voluntary Organization
ICNPO	International Classification of Non-Profit Organizations
ICT	Information and Computing Technology
ISIC	International Standard Industrial Classification of all Economic Activities
JHU	John Hopkins University
LSE	London School of Economics
NGO	Non Governmental Organization
NHS	National Health Service
NPI	Non Profit Institution
NPM	New Public Management
NPO	Non-Profit Organization
PO	Profit Organization
SNA	System of National Accounts
TSO	Third Sector Organization
UN	United Nations
VC	Venture Capitalism
VP	Venture Philanthropy

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## Introduction

After a visit to the Greek national pavilion, part of the 55<sup>th</sup> International Art Exhibition of Venice, in May 2013 I decided to produce a research about hybrid organizations in the third sector. *History Zero*, the work presented at the 55<sup>th</sup> Biennale of Venice by Stefanos Tsivopoulos, concerned the effects of the public debt of the 2000s on the third sector's management. The pavilion presented a series of national and international measures, which respond to emerging social problems. This multitude of initiatives blur the boundaries between the public, private and third sectors. During that period, Greece and most EU countries were heavily hit by a huge financial crisis. Due to the global recession, governments, business corporations and third sector organizations (TSOs) have internationally become aware of the fact that they could reciprocally represent a significant partner one for the other. This acknowledgement developed several hybrid forms of organization capable to react positively to social issues. Different kinds of networks, organizational collaborations, alliances and partnerships like consortia, community interest companies, compacts, full mergers, social enterprises, trading charities, quasi-markets, quasi-governments (*quangos*), transfer associations, community interest companies, foundation trusts and other innovative organizational systems spread in Europe and the US early in the 1990s (Billis, 2010, p. 7).

By writing this dissertation I meant to emphasize the great topical interest of hybridity among the non-profit and for-profit sectors. My thesis is that an advantageous measure for TSOs to achieve their goals is to break the boundary line dividing them from organizations of the private sector. The intent is to provide an analysis of how hybrid forms of entrepreneurship could be able to create social and economic value at the same time. In order to meet societal and economic needs, in both advanced and developing countries, it is necessary to collaborate and create alliances across sectors. This paper goes beyond the pessimistic scenario according to which hybrid non-profit institutions (NPIs) risk losing their integrity and values. The research is developed considering instead the positive nature of change in the third sector and, then, in the third/private sector hybridity processes. Partnerships between profit-focused and non-profit-focused realities, which undertake the provision of welfare, are more and more responding to existing and emerging needs. Such emergence *has to* be considered in the present socio-politic, economic, cultural and environmental scenario. My dissertation aims to provide an insight on the international wide-spreading process of hybridization of TSOs. The focus on hybrid TSOs intends to testify how individualistic interests can eventually coexist with the collectivity's ones in the same organizational entity, leading to a more sustainable development. The analysis of the pros and cons of non-profit/for-profit sector blurring may reveal that social entrepreneurship is the successful way of maximising gains *and* of attaining social purposes. This study takes into account that the process of

change in welfare provision is peculiar to each specific national welfare system. This aspect leads to a significant issue of diverging cross-national patterns, and undoubtedly complicates the application of existing theoretical tools to the empirical evidence.

The topic dealt is of contemporary interest because it discusses the upsurge of hybridity in TSOs and the destiny of a phenomenon, which is recently gaining more and more prominence. The following research is of common interest due to the increasing economic, social and political roles of hybrid organizations at local, national and international level. Being productive and high value organizations, in fact, TSOs and their hybrid forms are globally important in both politics and economics. Investigating the practical applications of the hybrid model in the third sector, this writing witnesses how social issues create monetary costs, which might need to be covered by applying the business formula. So, under the TSOs' principle of shared value stands a broader and more sophisticated conception of capitalism “imbued with a social purpose” (Porter and Kramer, 2011, p. 17). Such a pioneering conception implies a great deal of innovation and a huge challenge for the whole society. This is the reason why new and complex structures of hybrid organizations are spreading internationally and are abandoning the firm conviction that nongovernmental organizations (NGOs) only have to face societal needs. On the contrary, third sector, for-profit businesses and governments' goals and interests are becoming increasingly interdependent. Traditional companies' success and societal improvements converge more and more, blurring the borders of the non-profit and for-profit sectors.

According to Porter and Kramer «the opportunity to create economic value through creating societal value will be one of the most powerful forces driving growth in the global economy» (Porter and Kramer, 2011, p. 8). The added value of this paper is precisely the fact that the creation of innovative forms of hybrid organizations, which are concerned both with competitive advantage and social issues, is observed with a multi-sectorial approach and from an international point of view. Previous researches in the field are focused on theory and not on practice, are not interested in private sector's influences or are developed through the prism of a particular national system. Notwithstanding that, the most recent and relevant work on the topic and pertinent to my investigation is David Billis' book titled *Hybrid organizations and the third sector: challenges for practice, theory and policy*. For the overall study of the three sectors, their boundaries and TSOs in Italy and abroad, my research is based on contributions by authors such as Anheier, Bandini, Borzaga, Evers, Hinna, Marcon, Porter and Kramer. In order to provide an internationally agreed view on the subject, the dissertation is constructed from statistics, definitions and taxonomies provided by the System of National Accounts (SNA) as well. The paper interprets empirical and theoretical data and evidences, which are cross-nationally accepted or provided by the literature in

the field. It is divided into three main chapters, and the first one provides a theoretical framework by defining the three sectors and their hybrid zones. Specifically, the first paragraph attempts to introduce hybridity in the third sector starting from a description of what the sector is according to the empirical and theoretical contributions from the Italian and the international background. Treating the term 'third sector' as synonymous of 'non-profit sector', this writing investigates the steps bringing the conventional non-profit to hybrid forms of social enterprise. The second chapter is developed examining in depth the third/private sector hybrid model previously outlined, and identifying its ambiguous and challenging aspects. In the final chapter, the paper explains how some of the identified advantages and disadvantages of hybridity across the non-profit/for-profit boundaries can be applied to a particular case study on venture philanthropy (VP). By presenting an instance of social venture capitalism (VC), the attempt is to analyse the reasons that encourage a non-profit organization to blur its sectorial boundaries and to become a social business. Broadly, the research clarifies why such notions as mutuality, solidarity, trust, ethics, morality, altruism and gratitude are increasingly blending with the concepts of competitive advantage and economic value. The last chapter shows how this convergence of contrasting principles leads to the creation of new social enterprises and adds innovative formulas to the existing non-profit and for-profit models. The writing does not focus on issues of performance measurement, accountability and fundraising intentionally, due to the considerable extent of the subjects.

This research is stimulated by David Billis' statement reporting that «the study of hybrid TSOs is critical for an understanding of social policy and [...] also provides a rich territory for the development of ideas about hybrid organizations in general» (Billis, 2010, p. 13). The aim of this dissertation, in fact, is to deal with challenges for theory, policy and practice in the third sector hybridity in order to provide better answers to social needs. One of the purposes of the following writing is to define how theories, studies and researches produced for and by the traditional for-profit field could serve as theoretical ground for building successful third sector and hybrid TSOs. The effort of this work is to spread the need to abandon the strict sectors' division and to develop sustainable solutions to social problems across sectorial boundaries. This work promotes a positivistic approach toward third sector hybridity and fosters a change in social system, which may involve all sectors and organizations. By suggesting hybridities in the third sector as an answer, the attempt is to add ideas and starting points for the development of the topic.



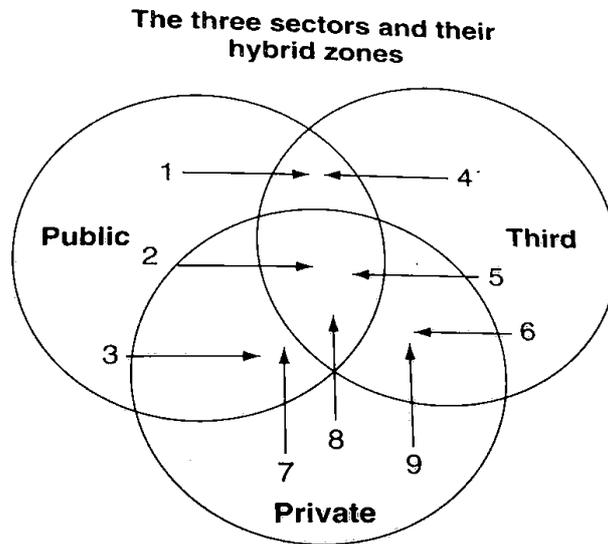
## **1. Non-profit/for-profit hybridities**

This introductory paragraph presents an overview of hybridities in the third sector. After providing a brief presentation of the three sectors and their hybrid zones' main characteristics in chapter 1.1, the focus moves on third sector hybridity in particular. Several organizations of the third/private sector have moved from a traditional non-profit scheme into hybrid forms of TSOs. Chapter 1.2 discusses how they are becoming significantly important in the international scene. As soon as the distinctive features of the private and third sectors are identified, the reasons, circumstances and mechanisms of hybridization are closely surveyed in chapter 1.3. The necessity of an internationally accepted theoretical approach to hybridity in the third sector is faced and a non-profit/for-profit hybrid model is identified in chapter 1.4.

Hybrid organizations (often referred as 'fourth sector', 'b-corporations', 'blended value organizations', 'for-benefit' (Manville and Greatbanks, 2013; Emerson and Bonini, 2003) are those characterised by more than one feature, which conventionally belongs to another sector. Those features that normally pertain either to the public or private sectors, are blended together developing new and innovative forms of organization. This complex condition of pluralism and multi-sectorialism leads quite often to unclearness and difficulties in accountability. Nevertheless, the process of hybridization does not merely imply a blend of characteristics of different sectors. The process is much more complicated and differs depending on which sectors are involved. Each of the three sectors, in fact, has its own hybrid zone. Consequently, considering the process of blurring between each one of them would be extremely demanding. So, the major challenge of this first chapter is to develop a conceptual framework, which describes the hybrid organizations blurring the traditional non-profit and for-profit sectors. In order to provide a tentative insight into the role of the hybrids in the third sector, the concept of sector and boundaries have to be examined. This would help to understand how the blurring of these sectorial boundaries generates hybrid zones (see figure 1 – The three sectors and their hybrid zones). Sometimes organizations act within an intermediate area, a grey zone which is located between sectors. Especially in modern democratic societies, but more and more world-widely, the interdependence between sectorial spheres is increasingly growing, developing an intermediary area in between third sector, government and market. In order to acknowledge the concept of hybridity in the third sector, it should be recognized that also the public and private sectors appear to have their hybrid spheres. The non-profit sector is often considered to be predisposed to develop an hybrid zone (Evers, 2008, p. 280). Although that, all the three sectors have their hybrid areas, which do not fully comply with rules, features and principles

of the ideal model of sector (Lewis, 2010, p. 219). I hereby assume that some organizations can be considered to have structural features and distinctive principles representing a belonging to one sector and not to another somehow. This is what David Billis identifies as the 'ideal type' of a sector affirming that, despite the potential variations in structure, it is possible to group any organizational entity within a sole particular sector. Billis admits that, accordingly to the degree of commitment to the ideal type's principles, each organization is distinguishable from another also within the same sector (Billis, 2010, p. 48). As a matter of fact, some organizations do not match exactly with the ideal model of sector. Pluralism and diversification of values and principles are enabling and rising the coexistence of different practices within one single organizational structure. This convergence contributes to the creation of larger hybrid zones. In such growing grey areas, a wide range of hybrids with characteristics conventionally associated with the public, private or third sectors develops. These entities are usually complex, original and inventive. Their complexity is due to the fact that those features, which used to be identified as core elements of each of the three sectors are combined together. In fact, governmental institutions cannot ignore the role of the market and third sector's actors, just as the private for-profit businesses cannot refuse the governmental authority and the role of TSOs as potential competitors in the market. Each sector has its own grey area of influence and overlapping features. For this condition of interdependence, the three sectors are developing more and more partnerships and alliances blurring their boundary lines and enlarging that grey hybrid zone. A great deal of TSOs are not preserving the autonomy and distinctiveness, and not defending their organizational boundaries (zones from 1 to 9 of figure 1). This tendency that is growing faster and faster, increases the economic and policy interest in hybrid organizational systems. It should be noticed that the impact and size of the circles in figure 1 is representative and can considerably vary from country to country. Chapter 1.2 discusses the sphere of hybridity indicated with number 6 in figure 1.

Figure 1 – The three sectors and their hybrid zones (Billis, 2010, p. 57)



Key: The hybrid zones

- |                         |                         |                         |
|-------------------------|-------------------------|-------------------------|
| 1. Public/Third         | 4. Third/Public         | 7. Private/Public       |
| 2. Public/Private/Third | 5. Third/Public/Private | 8. Private/Public/Third |
| 3. Public/Private       | 6. Third/Private        | 9. Private/Third        |

### ***1.1 The three sectors and their hybrid zones***

This chapter presents the main characteristics of the three sectors in order to define the boundary and shape of their non-hybrid and hybrid zones. Not much attention is paid on legal forms, and since the focus is on non-profit/for-profit hybridity, distinctive features of private and third sectors are emphasized. Concerning the distinctive principles of the private sector, it can be highlighted that shareholders are the owners and that the ownership is regulated depending on the size of shares owned. The operational structure is market-driven and guided by individualistic principles. In private sector staff is normally paid; sales and fees are the major sources of income (Billis, 2010, p. 51). In contrast, the public sector is owned by the citizenry and ownership is regulated through public elections principles. Guided by collective motivations, public agencies are typically served by paid staff and receive incomes mainly from taxation and governmental resources (Billis, 2010, p. 51). Differentiating the non-profit institutions from public ones could result particularly difficult since both may do finance themselves mostly through direct or indirect governmental support (UN, 2008, p. 458). Notwithstanding that, with respect to the principles characterising the third sector, it should be mentioned that the existence of formal ownership is arguable. Beneficiaries can become members on subscription and those members could sometimes be considered as owners (section 2.2.3 will examine this subject in more depth). The operational structure in the third sector is private, but not market-based. Independent and self-governed, the TSOs are mission-driven, close to users and aim at collective purposes. Organizations of the third sector produce and supply goods and, more commonly, services at low costs or even for free. They frequently finance their activities through subscription fees, donations, grant and public agencies support. Often entitled to receive special tax advantages and legal provision, they typically do not have so much autonomy on performance and resources allocations. They do not redistribute residual earnings and largely involve voluntary staff. The private, public and third sectors ideal types defined heretofore describe three models of non-hybridity, which should help build and understand the complex model of TSOs hybridity that will be identified. In particular, the third sector ideal model previously defined is a typified vision of a TSO. In fact, according to the SNA (UN, 2008, p. 456) TSOs produce and supply public services as well as private goods for the collectivity, households, individuals or members. Not allowed to directly distribute profits or pay dividends to their owners, they cannot compete in the market to attract equity capital as primary aim. TSOs typically act for free and finance themselves through donations. Although that, they may charge fees to members and undertake commercial activities in order to cover costs. TSOs can pay employed staff as well as

depend on voluntary labour.

According to the goals and activities that TSOs undertake, the universally accepted categorizations are those that have been defined by the International Standard Industrial Classification of all Economic Activities (ISIC), by the International Classification of Non-Profit Organizations (ICNPO) and by the Classification of the Purposes of Non-profit Institutions Serving Households (COPNI). As shown in table 1, in ICNPO's report there are twelve main groups of interest. Illustrative examples of the entities that are likely to be internationally considered to operate within the third sector are provided by the SNA (UN, 2008, p. 457). They include:

- ♣ *Non-profit service providers*, such as hospitals, higher education institutions, day-care centres, schools, social service providers and environmental groups;
- ♣ *Non-governmental organizations* promoting economic development or poverty reduction in less developed areas;
- ♣ *Arts and culture organizations*, including museums, performing arts centres, orchestras, ensembles and historical or literary societies;
- ♣ *Sports clubs* involved in amateur sport, training, physical fitness and competitions;
- ♣ *Advocacy groups* that work to promote civil and other rights, or advocate the social and political interests of general or special constituencies;
- ♣ *Foundations*, that is, entities that have at their disposal assets or an endowment and, using the income generated by those assets, either make grants to other organizations or carry out their own projects and programs;
- ♣ *Community-based or grass-roots associations* that are member-based and offer services to or advocate for members of a particular neighbourhood, community or village;
- ♣ *Political parties* that support the placing of particular candidates into political office;
- ♣ *Social clubs*, including touring clubs and country clubs, that provide services and recreational opportunities to individual members and communities;
- ♣ *Unions, business and professional associations* that promote and safeguard labour, business or professional interests;
- ♣ *Religious congregations*, such as parishes, synagogues, mosques, temples and shrines, which promote religious beliefs and administer religious services and rituals.

**Table 1 – International Classification of Non-Profit Organizations (UN, 2008, p. 458)**

Group	
1.	Culture and recreation
2.	Education and research
3.	Health
4.	Social services
5.	Environment
6.	Development and housing
7.	Law, advocacy and politics
8.	Philanthropic intermediaries and voluntarism promotion
9.	International
10.	Religion
11.	Business and professional associations, unions
12.	Not elsewhere classified

«Obviously in each and every 'sector' there are core areas, where the respective sector-specific foundational principles and values are by large uncontested» (Evers, 2008, p. 287). Beyond the uncontested area of distinctive key characteristics mentioned by Adalbert Evers, the public, private and third sector have respectively their hybrid zone. Despite that, precisely due to the increase of new complex structures crossing every organizational boundaries, the sectorial borders are undermined and the strong metaphor of sectors' division is voided. Hybridity intrinsically requires the capability of easily blending, without necessarily altering/weakening inner features or having to reconsider key principles. All the three sectors are capable of that, and are hybridisable to some extent. Evers admits that «it is often hard to say where the third sector ends and the public sector begins» (Evers and Laville, 2004, pp. 250–251). Besides, the public services provision is undertaken not only by the governmental agencies and TSOs but also by the business sector. Even though the activity of the non-profit sector seems to interfere most with the activity of the other two sectors, the hybridization phenomenon exists also in the governmental bodies and private for-profit firms. In this sense hybrid organizations can be considered to be ubiquitous (Billis, 2010, p. 46). NPIs nature is private, voluntary and focused on collective interests (Anheier, 2014, p. 13). This means that non-profit entities intrinsically combine at least one core characteristic of the for-profit sector (the private nature) with one fundamental characteristic of the public sector (the focus on collective interest) (Etzioni, 1973, p. 315). For these reasons Federica Bandini (2013, p. 2) considers the third one as a 'non-sector'. Indeed, inside the non-profit sphere of activity there is a multitude of different organizations (Etzioni, 1973), which are not necessarily sharing the same structural and operational features. This sectorial heterogeneity makes non-profit entities more likely to undertake the hybridity process. Nevertheless, one TSO having as its main objective to

serve the whole community by providing public services is not a hybrid entity if it is not mainly relying on public funding just as the public entities conventionally do. Similarly, religious institutions are no longer part of the non-profit sector if they are administrated by public agencies and financed by taxes. Likewise, a state-funded public school cannot be considered a hybrid only because it occasionally involves community organizations in the management of its activities as the TSOs do. In the same way, a firm having volunteers in its workforce, like a TSO traditionally does, is not automatically a social enterprise for the fact that it is assuming a position in between the market and the voluntary sector. As it will be discussed later in next chapter, many of these organizational entities could be defined as organizations *on their way towards hybridization* (Evers, 2008, p. 287). As a matter of fact, according to Evers, the hybrid zone of one sector begins when there is no more one element distinctly prevailing over all the others. Referring to the UK third sector, David Billis (2010, p. 8) talks about a «powerful and important sector identity» and of a «deep-rooted and fundamentally different way of responding to problems». Afterwards, Billis reports on the complex situation of the National Health Service (NHS). The English institution is an example of one organization of the public sector in which key features of the three sectors converge. This condition of openness often leads to borderline cases that pertain to a grey area between the voluntary, private and public sectors. The entities capable of maintaining some of the non-profit and public sectors' main features, while applying characteristics of the private one usually are (UN, 2008, pp. 457-458):

- ♣ *Cooperatives*, organizations formed freely by individuals to improve the economic interests of their members which are often users as well. Cooperatives are based on the principle of democratic control. If prevented from profits distribution cooperatives will be considered as NPIs, thus if they can distribute the earnings to their members they will be no longer considered as NPIs nor as businesses and will become hybrid entities;
- ♣ *Mutual societies* include such organizations as mutual savings banks, savings and loan associations, mutual insurance companies, sickness and burial funds. Like cooperatives, they are founded by individuals seeking to maximize their economic interests in order to fulfil a common interest. However, mutual societies can be distinguished from cooperatives because they are a sort of common fund. Periodically contributing to the fund, in fact, depositors share a risk. In mutual societies the depositors usually exert formal control over their operations. Since mutual societies engage in commercial activities and may remunerate depositors, they enter in the private sector's sphere and can be regarded as hybrids. They

- could be considered, instead, as proper TSOs if they do not distribute profits to their owners;
- ♣ *Social ventures* are enterprises aiming at employing and training disadvantaged people (physical or mental disabled, long-term unemployed, etc.) who would otherwise have difficulties in finding employment. Social ventures are considered TSOs except if they generate profits and distributes residual earnings to owners or beneficiaries;
  - ♣ *Self-help groups* are analogous to both cooperatives and mutual societies in that individuals join to give each other mutual support and to reach goals, which would be probably unachievable on an individual level. They are different from cooperatives and mutual societies because they do not operate mainly on a commercial basis. Generally, self-help groups are considered as membership organizations not crossing the non-profit's boundary line;
  - ♣ *Quasi-non-governmental organizations* are worldwide spread organizations established in order to work at arm's length from governmental agencies and prevented from being directly dominated by political affairs. Even when the governmental body exert a restricted authority on them, they are treated as organizations of the non-profit sector as long as they self-govern themselves;
  - ♣ *Universities and hospitals* can be either NPIs, public institutions or for-profit corporations. In public educational institutions and hospitals human resources are selected in a significant part by governments and lack the power to cease operations without an act of the public administration. They cease to be treated as public institutions when they are self-governing and independent from the governmental system. In order to be considered as NPIs, medical and educational institutions should be able to run or dismiss their organizational operations without the approval of governmental authorities;
  - ♣ *Indigenous or territorial groups* are communities formed and organized in a cultural or ethnic environment or nearby a particular geographic area. Their main aim is the improvement of the well-being of their members. These groups have to be 'institutionally separate from government' in order to be treated as NPIs.

Having in mind the categories just mentioned and the great number of entities that can possibly blur their sectorial boundaries, I found it inconsistent to state that all the three sectors are influencing each other, but not affecting their rigorous and well-established principles (Billis, 2010). I consider that the reciprocal influence has impacts on the decision-making process and on the way of establishing new and innovative principles. Non-profit objectives, which are certainly pursued by

governmental agencies, are more and more sought by private for-profit firms as well (Saxon-Harrold, 1990, p. 127). For-profit businesses, in fact, provide some public goods and are increasingly undertaking socially responsible partnerships and initiatives, which act for the benefit of the society at large. Evers emphasizes the concept of third sector blurring and states that:

«Once the notion of a sector is seen as secondary to the need for analysing the impact of different co-structuring 'principles' (for example competition, state control, user involvement) in a given field of welfare services, one comes to the point where, in a mixed welfare system, it will not be the sector that matters but the balance of competing principles that structure a policy field and the organization to be found there» (Evers and Laville, 2004, p. 251).

As it will be seen later in chapter 2.2 it is very important to observe that the sectorial division, and what is generally called private, public or voluntary sectors can considerably change according to particular national issues. As a matter of fact, the three sectors could play a large or small role in the national arena. Governments, voluntary organizations and for-profit businesses could either be barely visible or enormously significant and influential in the social policy debate of a country.

## **1.2 From conventional non-profit to hybrid forms of TSOs**

Various contributions have to be examined in order to analyse the process leading conventional non-profit institutions to hybrid forms of TSOs. In the first instance, the non-profit sector was seen as «a third system, one in which both profit making and administrative principles of organization, production, and distribution are widely used» (Etzioni, 1973, p. 314). In 1973 Amitai Etzioni wondered which devices were necessary to meet economic and social needs together, and identified the non-profit sector as the alternative between the governmental and market sector. The most recent and relevant definition of the traditional third sector is given by Salamon and Anheier's essay (1997). Their research, considering the definitions already provided in the field, determines which ones are the boundaries of the non-profit from a structural-operational point of view. The study carried out in the framework of the 'John Hopkins comparative non-profit sector project' clearly identifies five key features defining the third sector: (1) self-governing, (2) non-distribution constrained, (3) private and (4) nongovernmental in its basic structure, (5) voluntary to some meaningful extent (Salamon and Anheier, 1997). These characteristics, distinctively and necessarily present in traditional TSOs, are undermined when those organizations undertake the process of hybridization. The internationally accepted definition of non-profit sector provided by the SNA considers as non-profit organizations those ones that:

«produce goods and services for sale with the intention to cover costs, that is to say as market production. In common with other market producers, they cannot undertake final consumption. Like government units, some NPIs are non-market producers and make their output available free or at prices that are not economically significant to individual households or the community at large» (UN, 2009, p. 455).

In spite of the clear definition above, intended to function for all member countries of the UN, the large and world-widely growing body of terms used to define organizations working in the third sector witnesses the great complexity of the task. Despite the fact that TSOs are reductively denominated as 'non-profit' or 'not-for-profit' organizations, the third sector embraces a number of social enterprises and other organizational entities which do generate profits. The large heterogeneity and richness of what is conventionally called TSO oblige to use a selective approach and to conceive a definition yielded through particular disciplines or viewpoints. Most of the organizational entities belonging to the third sector are:

- ♣ pursuing not individualistic but collective goals as main aim;
- ♣ operating for mutualistic and solidaristic interests through voluntary contributions;
- ♣ offering gratis or almost gratis merit goods and public services;

- ♣ generating social values not for economic returns;
- ♣ self-governing and financing their own activities mainly through donations, contributions and grants.

But what if some of those distinctive features collapse or blend with apparently opposite mechanisms and principles? The sole NPI's characteristic, which seems to be rigid and identifying is the non-distribution constraint. Notwithstanding the fact that they are not authorized to distribute any financial gain to their owners, the TSOs might anyway make profits. In fact, even if they earn money from the activity or partially redistribute those earnings, the main purpose could remain social (Marcon, 2013). The profitable side should not be a determining characteristic (UN, 2008, p. 455). Economics scholars such as Gianpaolo Barbetta, Gregory Dees and Henry Hansmann contributed to the classification of TSOs. Hansmann differentiated donative organizations from commercial ones depending on which ones are the main sources of financing (donations for the former and sales for the latter). As concerns the form of control, the TSOs which are controlled by donors are distinguished from those ones that are controlled by entrepreneurs. According to Barbetta these non-profit entities may have mutualistic goals, aiming at achieving objectives shared by donors or may have solidaristic goals shared by the whole collectivity (Hinna, 2005, p. 25; see tables 2 and 3). Mutual TSOs are usually controlled by their beneficiaries who are donors as well. In contrast, public TSOs are those ones which are often controlled by administrators (Ben-Ner and Gui, 2003).

**Table 2 - Classification of TSOs. The contribution of the economic thought** (adapted from Hinna, 2005, p. 26)

Categories of analysis		FORMS OF CONTROL		SOURCE OF FINANCING	
		<i>Organizations controlled by donors</i>	<i>Entrepreneurial organizations</i>	<i>Organizations relying on donations (donative)</i>	<i>Organizations relying on sales (commercial)</i>
Institutional aim	Mutual				
	Public				

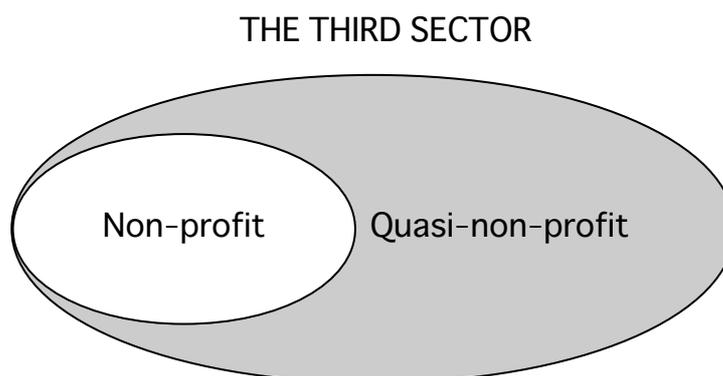
Chapter 1.4 of Alessandro Hinna's book titles *From the institutional classification to the operative phenomenon*, emphasizing that any classification of TSOs is quite reductive considering the wide range of phenomena affecting their sphere of activity. Nonetheless, the classification which is often applied in the Italian literature is particularly useful in order to understand the passage from conventional non-profit to hybrid forms of TSOs. In fact, it divides non-profit organizations into three categories: “aziende autoproduttrici”, “aziende di erogazione” and “imprese sociali” (table 3). The criteria determining the categorisation are: (1) the destination of outputs, (2) the capability to cover costs and (3) the subjects exerting formal and effective control (Hinna, 2005, p. 31). The first type of organization identified through these indicators is the *mutual organization* (“azienda autoproduttrice”), established by groups of people which share interests and needs. Operating in order to achieve mutualistic goals, this entity is founded and controlled by the members themselves. In this kind of organization the support is granted exclusively within the group which controls the operations, and residual earnings do not remunerate the activity or donors. The so called “azienda di erogazione” is a *donative organization* which can be distinguished because of the fact that the beneficiary group is the collectivity, and it does not have formal control of the institution. The social enterprise (“impresa sociale”), instead, is a commercial organization which operates in the market for mutualistic interests. Although its main objective is social, the *social enterprise* do reinvest residual earnings into the institutional activity.

**Table 3 - Classification of TSOs according to a business sector approach** (adapted from Hinna, 2005, p. 34)

Categories of analysis	INSTITUTIONAL STRUCTURE		CAPITAL	
	Dominant beneficiary group (mutual)	Dominant beneficiary group (public)	Non remunerative	Remunerative
Mutual organization	x		x	
Donative organization		x	x	
Social enterprise	x			x

The three categories defined above (table 3) give evidence of the fact that, within the third sector, a slight transition leading the conventional non-profit organizations to third sector enterprises can be identified. The richness of organizational forms and the variety of phenomena embraced within them prevent exhaustive classifications of the TSOs. Regardless of the relationship with the market, social enterprises, donative and commercial organizations are productive entities. Being productive and social at the same time, they *have to* be effective, efficient and need to monitor the impact of their activities through accounting. Obviously, if the creation of economic value becomes more than instrumental in creating social value, the conventional third sector will move towards the for-profit sector. Nevertheless, approaching the market system could also mean to create peculiar and complex institutions not yet included in the private sector, but part of the 'quasi-non-profit' (Hinna, 2005, pp. 39–40, see figure 2).

**Figure 2 - The non-profit and the quasi-non-profit** (Hinna, 2005, p. 40)



Dees identifies three kinds of organization which demonstrate this passage from traditional non-profit to traditional for-profit (Dees, Emerson, Economy, 2001): the *philanthropic enterprise*, the *hybrid organization* and the *for-profit organization*. These three typologies are distinguished by considering aspects such as the motivation, aim, relationship with the market and destination of revenues and profits produced by their activities (see table 5). The process leading to the hybrid organization involves a combination of individualistic and collective interests. In fact, the non-profit/for-profit hybrid focuses on the creation of economic value, serving as an instrument of creating social value for the collectivity. The activity of the hybrids is primarily driven by the social mission *and* is engaged with the market system. Residual earnings finance the main mission and are reinvested for the empowerment of the organization.

**Table 4 - The concept of hybrid organization according to Dees (adapted from Dees, Emerson, Economy, 2001)**

	<i>Philanthropic enterprise</i>	<i>Hybrid organization</i>	<i>For profit organization</i>
<b>Motivation</b>	Common interests	Mixed	Individualistic interests
<b>Aim</b>	Social value creation and stakeholders' increase <sup>1</sup>	Social and economic value creation	Economic value creation
<b>Relationship with the market</b>	Social mission driving the activity	Mixed	Market-driven mission
<b>Revenue and profit destination</b>	Financing the main mission and increasing the number of stakeholders	Financing the main mission and reinvested for the expansion and empowerment of the organization	Distributed for the ownership's remuneration

<sup>1</sup> Freeman defines as stakeholder «any group or individual who can affect or is affected by the achievement of the firms's objectives» (Freeman, 2010, p. 25).

### ***1.3 Theoretical approaches to hybridity in the third sector***

It was more than forty years ago when, in the United Kingdom, the public sector was clearly and strictly separate from the private and voluntary ones. Since then an increasing process of mutual influence between sectors began, generating a great deal of organizational entities on their way towards hybridization. In fact, third sector hybrids were born in a transitional and innovative process from governmental welfare bureaucracies to welfare hybrid environment. The sector-crossing process which is introduced in this first chapter, and closely analysed in the followings ones, concerns these quite complicated forms of ubiquitous organizations.

In order to develop any theory of hybrids in the third sector it is fundamental to observe that the non-profit sector has not an universally accepted theoretical apparatus. At an international level, the third sector embraces different institutions, organizations and associations involving private, voluntary and non-profit activities and operating next to governments departments, private for-profit firms and business agencies. Third sector activities and fields of interest, at a local, national and global level, are various and comprehend: welfare provision, educational service, community development programmes, international relations, environmental impact, cultural and artistic interests (Anheier, 2014). Usually TSOs undertake quite complex and delicate aspects, such as poverty eradication, social exclusion, ill-health, ethnic and faith-based social divisions, child neglect, political extremism and street crime. As mentioned above in chapter 1.2, the vast array of names given to the sector witnesses the richness of the field, but also the need and demand for identification and recognition. 'Non-profit', 'Non-governmental', 'Independent sector', 'Civil society sector', 'Voluntary sector', 'Charity', and the many other designations bestowed to the third sector and to its institutions testify that not being clearly recognized, or worse being recognized by the negation of something else, lessen the validity (and, consequently, the possibilities of successfulness of the organizational structure itself). The third sector, as a matter of fact, appears to be deeply fragmented and lacking in well-defined boundaries. The fact that it has quite fluid sectorial borders (Anheier, 2014, p. 12) seems to make it more liable to be influenced by the other sectors and to blur some of its conventionally uncontested features. In the Italian context it should be noticed that until the 1970s TSOs used to provide advocacy and public support for a particular cause or policy. By the 1980s TSOs expanded their presence going beyond the mere supply of social services and health care (Hinna, 2005, p. 21). Non-profit institutions become prominent actors in the international market and, along with the public administration, reconsidered their role with respect to welfare provision (Saxon-Harrold, 1990, p. 127). In a welfare mix logic, governments were no longer

exclusively responsible for the delivery of public services and care (Marcon, 2012). For this reasons the present research does not conceive as public services exclusively those ones which are directly delivered by the governmental sector. Those services that are financed or usually provided by other institutions are included as well, regardless of the sectors engaged in the supply of them. Clinging to Margaret Harris' convictions (2010, p. 29), in fact, the reductive conception of what a public service is, may lead to a lack of concern about the public good, which is the real focus (despite the sectorial location)<sup>2</sup>. In this way, the ideal boundary lines previously identified in chapter 1.1 lose their importance due to what Harris calls the «expanded conceptualisation of public services». Indeed, while delivering social services TSOs are encouraged to broaden the idea of public good and to develop hybrid forms of organizations able to attain economic performance targets. Specifically in the UK during the New Labour era and in the US under Cameron government, TSOs were treated as auxiliary entities of the public sector (Dattani, 2013, pp. 131-135; Anheier, 2014, p. 11). Therefore, they were often persuaded to hybridise, acquiring characteristics which were conventionally and distinctively consider to pertain either to the public or to the private sectors (Harris, 2010, p. 30).

David Billis goes beyond the pessimistic discourse about the faustian attitude according to which TSOs might be losing their organizational autonomy and the attachment to their values in return for assets and funding. This positivistic attitude is testified by his assertion that «substantial increases in government contracts and market-driven sources of income will enable the sector to meet the needs of even more people» (Billis, 2010, p. 11). I certainly consider his claim an appropriate statement of fact, and a starting point from which the process of hybridization in the third sector is conducted. Abandoning that TSO's trend which fosters the safeguard of the organizational independence and autonomy, this writing attempts to identify an optimistic way of dealing with theories about hybridity. With this constructive approach in mind, the process of theory building is possible, and a defining spectrum can be established. Researches conducted by David Billis identified five core elements which should allow to build an ideal type of the three sectors: (1) ownership, (2) governance, (3) operational priorities, (4) human resources and (5) other distinctive resources. Billis' study reveals that the ideal types of the private, public and third sectors are respectively the firm, the bureau and the association (Billis, 2010, p. 54). Any approach to hybridities in third sector should be reconsidered depending on the specific type and category of

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<sup>2</sup> Note that this extensive notion of public good developed in the UK, and in Europe as well. In the US, instead, at least until the 1990s the idea of what has to be regarded as public good remained narrow (Hammack and Young, 1993, p. 9).

TSOs. For this reason, the ideal model which I identified for the third sector, by adapting Billis' findings, is not typified by the association or by one organization in particular. Indeed, associations are not the only entities capable of maintaining the third sector's main principles and of preserving the integrity of the core mission in the meanwhile. Other TSOs such as institutions and cooperatives may perfectly reflect third sector's key elements without crossing the boundaries of the sector. Building an ideal model of the private, public and third sectors helps to distinguish elements of non-hybridity from elements of hybridity. Although that, in order to understand complex structures of the hybrid TSO and to theorize them, it will be necessary to consider that the non-profit sector is intrinsically fragmented and fluid. Bearing this in mind, apart from members and a meaningful extent of voluntary staff, also paid employees committed to the mission could be part of the human resources of the pure TSOs. Besides, dues, donations and legacies are not the exclusive source of income and since they can be occasionally incremented by sales and fees, without breaking the sector's borders (see table 5).

**Table 5 – Ideal type sectors** (adapted from Billis, 2010, p. 49)

<b>Core elements</b>	<b>Private sector principles</b>	<b>Public sector principles</b>	<b>Third sector principles</b>
1. Ownership	Shareholders	Citizens	None
2. Governance	Ownership according to size of share	Public elections	Private elections
3. Operational priorities	Market forces and individual choice	Public services and collective choice	Commitment about distinctive mission
4. Distinctive human resources	Managerially controlled and paid employees	Legally backed and paid servants	Members, <i>significant number of</i> volunteers, paid staff
5. Distinctive other resources	Sales, fees	Taxes	Dues, donations and legacies; sales and fees.

Finally, there are three main approaches which lay the basis of a theory building: (1) the continuum, (2) the single sector emphasis and (3) the separate sector approach (Billis, 2010, p. 56). According to the first one, boundaries are continuously crossed and hybrid organizations are continuing the activity of one sector and join to the activity of another (Dahl, Lindblom, 1953). The other approach which can be applied to identify a theory of hybrids considers the perspective of and

the repercussions for one specific sector (Skelcher, 1998). In the separate sector approach, instead, it is no longer possible to deal with the traditional sectorial metaphor since there are no border lines and hybrid organizations literally can take the place of the public, private and third sectors. Writers such as Brandsen, Evers, and James believe that in the contemporary welfare system the sectors' division has disappeared. Of those three, the approach which drives this writing is the continuum one. As a matter of fact, hybrid TSOs happen to abandon governing principles of the non-profit, in order to gradually adopt characteristics which are distinctive in either the public or private sectors. This does not necessarily imply a sudden and clear-cut point. The high degree of interdependence prevents from considering the hybrid phenomenon only from a sector-specific point of view. It is fundamental to handle the contradictions of the concept of distinctive and strong sector. In the contemporary welfare hybrid environment, in fact, the strong sectors' division is weakened by a blurred sense of sectorial borders but not completely voided. Going towards a theory of hybrid organizations for third sector, the continuum approach, and topics such as the degree of hybridization, role of paid and voluntary staff and ownership issues have to be carefully considered. Often, organizations on their way towards hybridization are too easily called 'social enterprises'. For example, for-profit business which have signed a special code of conduct towards their employees, offering them possibilities to volunteering (Evers, 2008, p. 287). Nonetheless, since when social services and human care ceased to be under the exclusive control of public sector institutions, the voluntary and private sectors started dealing with social needs, and the degree of hybridization clearly grew.

#### ***1.4 Third/private sector hybrid model***

Hybrid organizations are a multi-sectorial and international phenomenon and hybridization is a wide process. So, this chapter attempts to develop specifically an internationally acceptable model of third/private sector hybridity. In order to build a theory and an ideal model, it is necessary to consider that hybridity is spreading world-widely and does not develop in one sector more than in the other. In the UK, the non-profit sector is considered a prolific ground for hybridity due to the changing social policy (Harris, 2010, p. 25). Bandini presents a potential condition of 'virtuous contamination'<sup>3</sup>. Precisely, she forecasts a reciprocal and improving cross-national influence between subjects of the traditional non-profit and for-profit (Bandini, 2013, p. 11). The imaginary line drawn by Alter (see table 6) starts from the conventional non-profit organization and finishes with the conventional for-profit one. In the middle of this line there are intermediate stages and hybrid organizations such as: those non-profit entities involving remunerating activities; social enterprises; organizations which create shared value; social business; enterprises adopting the principles of the corporate social responsibility's (CSR). The first three typologies of organizations on the left side of the imaginary line aim at creating social value (CSV). On the contrary, the four typologies on the right side aspire to create economic value. The entities in the central part of the scheme are often non-profit/for-profit hybrids. CSV organizations, social business, and social enterprises are in a hybrid zone. All of them use to adopt an entrepreneurial approach and invest in innovation in order to pursue social goals. Although mission-driven, they are market-based as well. Entrepreneurial targets and positive social impacts are complementary and interdependent in these innovative organizations. Probably due to the need for constant creativeness and dynamism (aspects which are further investigated in chapter 2.1 and later in chapter 3.1.1) these entities succeed in combining characteristics of the third and private sector and are truly a fertile territory for new hybridities. In spite of that, former Assistant Director of the Centre for voluntary organization (CVO) in London School of Economics (LSE) Margaret Harris, underlines that the growth in private/third sector blurring begun a decade ago. Public/third sector blurring, whereas had its origins even earlier (Lewis, 1999). Harris and Lewis especially refer to the UK's situation, but world-widely it should be noticed that in the past a great deal of nationalised industries belonging to public agencies operated in the market as well (Billis, 2010, p. 61). As stated by the SNA, NPIs also are «capable in their own right of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities» (UN, 2008, p. 455). In a third/private sector hybrid

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<sup>3</sup> Referred also as 'fecund contamination' by Gianfranco Alleruzzo (2004, p. 15).

model, which takes a positivistic position and a continuum approach to hybridity, this capability should be kept in mind. As well as the fact that TSOs are not intrinsically inferior to the for-profit private businesses.

With respect to the Italian background, third/private sector hybrid are somehow recognized by law. In fact, at compliance with the law number 118/2005 and with the decree number 155/2006, non-profit organizations have a private and voluntary nature, and can run economic activities of collective interest. This allows them to produce and supply merit goods and services for the users, and for the community at large. So, they are private and can provide public services and goods just as the for-profit sector. The hybridity of these organizations lies in the fact that, even if they have the operational structure of the for-profit business, they are not remunerating their owners.

**Table 6 – From traditional non-profit to traditional for-profit** (adapted from Alter, 2007)

Traditional non-profit	Non-profit with remunerating activities	Social enterprise	<i>Non-profit/for-profit creating shared value (CSV)</i>	Social business	Corporate social responsibility (CSR)	Traditional for-profit
Motivation: social mission	Stakeholders' accountability	Revenue reinvested in social programmes or to cover costs	Motivation: integrating social concerns and business operations	Motivation: profit	Shareholders' accountability	Profits distribution to shareholders

For a deep understanding of the hybridization process toward a model of third/private sector organization, the notions of *shallow*, *entrenched*, *organic*, and *enacted* hybridity are fundamental (Billis, 2010, pp. 58-62). Billis defines as shallow hybrids those organizations that approach to the public or private sector by recruiting paid staff for the first time. The shallow form of hybridity is a slight step toward hybridization. Such step could represent a move in the direction of a third/private sector hybrid model or not. Although paid staff is the archetypal characteristic of the governmental and business sectors, if the TSOs enrol paid human resources they are not neglecting any of their distinctive principles. As a matter of fact, as previously indicated in table 5, the ideal third sector

type has diverse human resources: members, volunteers, paid *or* unpaid staff. Additionally, TSOs often employ paid staff because they are searching for competent and professionally skilled workforce, not in order to adopt private or public sector approaches (Cornforth and Spear, 2010, p. 80). The extent to which paid staff employment is an indicator of hybridity is questionable. So, the shallow hybrids that are introduced by Billis have a low degree of hybridity (see table 7), and cannot be treated as pure hybrids. Non-profit organizations, which have a meaningful number of volunteers could occasionally or regularly employ paid staff, in charge of either operational or non-operational work. This should not be regarded as a threat to the integrity of the social mission of TSOs. On the contrary, if the staff which receive the salary is strongly committed to the core mission, the possibilities of accomplishment could be stronger (the issue of paid and unpaid staff in hybrid TSOs is faced further in chapter 2.1.5). The entrenched hybrids, instead, are those ones which agree to involve in their activities both governmental and private agencies' control to a certain extent. Hybridity in the third sector is considered to be entrenched when it is established so firmly that it is hard to change such ambiguous condition. Often, the reasons which stimulates TSOs to develop these collaborations are the need to gain more influence, and the necessity for material, financial and non-financial resources. As indicated in table 5, TSOs' sources of income are typically dues, donations and legacies. Anyway, the non-profit organizations are also productive, and can finance themselves through sales and fees as well. Unless they have to include taxation (as public administrations do), or they are compelled to distribute residual earnings to their owners (as for-profit businesses do), they still are TSOs, pure ones or on their way toward hybridization. Moreover, I do not consider the entrenchment one as a form of strong hybridization, except if the paid staff prevails over the voluntary one. Even in that case, the operational priority could remain the commitment to the core mission. None of the principles arisen in the entrenched hybridity is completely alien to the pure TSO. Instead, a condition of full hybridity is frequently reached by enacted hybrids. Enacted organizations plan their hybridity at the governance and operational level from day one. This affect the choice of the distinctive priorities, human and financial resources. The hybrid organizations are enacted when they are created from the very beginning, intrinsically blurring their sectorial boundaries. On the contrary, both the shallow and entrenched forms of hybridity are organic since they are liable to change. The shallow hybrid is likely to become entrenched indeed. Being on the way toward full hybridization, the organic shallow form of hybridity is supposed to turn into the organic entrenched one. It should be noticed that this is likely to occur, but is not unavoidable (see table 8 – Categories of hybrid TSOs).

**Table 7 - Degree of hybridity in TSOs (adapted from Billis, 2010)**

	<b>Degree of hybridity in TSOs</b>		
	<i>On the way toward hybridization</i>		<i>Hybrid</i>
<b>Core elements</b>	Shallow hybridity	Entrenched hybridity	Organic/enacted entrenched hybridity
1. Ownership	None	None	Members and stakeholders
2. Governance	Private elections	Private elections	Private elections (affected by political and private sector influences)
3. Operational priorities	Commitment about distinctive mission	Commitment about distinctive mission	Commitment about distinctive mission, governmental and market forces
4. Distinctive human resources	Members, <i>significant number of</i> volunteers, paid staff	Members, <i>significant number of</i> volunteers, paid staff	Members, volunteers, <i>significant number of</i> paid staff
5. Distinctive other resources	Dues, donations and legacies; sales and fees.	Dues, donations and legacies; sales and fees.	Dues, donations and legacies; sales and fees.

**Table 8 – Categories of hybrid TSOs (Billis, EMES-SOCENT, 2013)**

<b>Type</b>	Organic	Enacted
<b>State</b>		
Shallow	Organic shallow	Enacted shallow
Entrenched	Organic entrenched	Enacted entrenched

This first chapter has identified an organic or enacted entrenched model of hybridity in the third sector, which has the following characteristics (see table 9- Third/private sector hybrid model:

- ⤴ *Organic or enacted entrenched form*, since it has been intentionally established as hybrid from day one, or compelled to hybridise to obtain resources or influences;
- ⤴ *Mixed motivation and operational priorities* driving the activity. In order to achieve the common interests shared with stakeholders, also the profitable side is considered. This conflict of interests slightly alter the motives, but does not affect the public or mutual nature of the institution. The mission remains social even though guided by market forces. In fact, economic and social value creation do coexist. The increase in self-sustainability and economic competitiveness of the organization preserves (and does not endanger) the strong commitment to the core mission;
- ⤴ *Lack of formal ownership, and members/stakeholders as legal owners*. No one can be considered the formal owner of these entities, due to the fact that neither stakeholders nor members are entitled to receive residual income. Anyway the legal ownership belongs to either stakeholders or members depending on statutory regulations (not on contributed share);
- ⤴ *Governance is ruled according to the principles of private elections* even if, the social capital becomes relevant as well. Regardless of stakeholders and members' vote, in fact, it is possible to reinvest the social capital in order to finance the main mission. Profits gained from social capital investments could pay for the expansion and empowerment of the organization or be distributed to members, but not according to the size of share<sup>4</sup>;
- ⤴ *Members and volunteers are no longer distinctive human resources* because a meaningful extent of paid staff is recruited;
- ⤴ *Sources of financing such as venture philanthropy* are introduced in addition to sales, fees, dues, grants, traditional donations and legacies.

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<sup>4</sup> Anheier describes this ostensible violation of the *non-distribution constraint* as a social capital distribution based on membership, rather than on contributed share. Control exerted by members, in fact, is mainly based on the principle of “one vote one person” and not on the size of the economic capital provided (Anheier, 2014).

**Table 9 – Third/private sector hybrid model**

<i>Organic/enacted entrenched hybrid model</i>				
<b>Core elements</b>				
1. Ownership	2. Governance	3. Operational priorities	4. Distinctive human resources	5. Distinctive other resources
No <i>formal</i> ownership. Members/stakeholders as <i>legal</i> owners	Private elections (social capital restrictions)	Commitment about distinctive mission, <i>market competition</i>	Members, volunteers, <i>significant number of</i> paid staff	Sales, fees, dues, grants, donations, legacies, <i>venture philanthropy</i>

## **2. For-profit/non-profit blurring: ambiguities and challenges**

The second chapter of this writing looks at the theoretical framework outlined in the first one. It identifies a number of ambiguities and challenging aspects, that prevent hybrid TSOs from achieving their aims or making them strive for achievement. Internationally and historically, there are enormous differences between those activities that are considered to pertain to the government body, those which are part of the market economy, and those which, instead, are regarded as non-profit action. So, even in such a globalised world, it is quite complex to define an ideal-type of hybrid organization which is generally accepted. As seen in chapter 1, this is obviously due to the fact that it is rather difficult to identify universally dominant features of each one of the three sectors. The degree of democratisation is largely influencing this sectors' division, and affecting the blurring between each sector. From the 1970s, the shortage of resources and the need to face emerging social problems made it easier to grow the approval of sector crossing. The crisis of welfare state of the late 1980s lead to the restriction of the public capacity to cope with social problems (Anheier, 2014, p. 15). Since then, a great deal of entities with innovative and dynamic organizational structures expanded as vehicle for delivering welfare services, which formerly were supplied by the public sector. Many of those are «hybrid and entrepreneurial forms of service provision» (Evers and Laville, 2004, p. 239) combining commitment and attention to 'care' and to 'business' (Billis, 2010, p. 153). These multi-stakeholders enterprises efficiently answering to the social demand (the role of stakeholders in hybrid TSOs is explored in detail in section 2.2.3 of this chapter). Even though they are not driven by profit maximisation, they are becoming prominent economic actors, which produce and provide public services for the benefit the community. In this way, the dividing line separating the spheres of influence between the private non-profit and for-profit shrinks. Third sector organizations are no longer the providers of fixed and standardised mass services that the public agencies do not supply. Instead, hybrid TSOs rise and seek pioneering and personalised ideas to mix their structural features with those of the market. Their social purpose is steady, but irrespective of the conventional sectorial borders. What matters most is to meet the diversity of social needs. Not only the voluntary organizations, but also commercial ones start to specialize in services production and provision. The conception of capitalism needed to be reinvented. The concepts of corporate social responsibility (CSR) and shared value are more and more guiding the conventional business' investments in the community (Porter and Kramer, 2011). Marketing strategies and economic assets make of the marketplace an active competitor in welfare provision. So, the belief that the governmental one is the 'natural' sector responsible for social

service is lost (Ben-Ner, 2002). Besides, TSOs go beyond the reliance on volunteers and members exclusively. The safeguard of the social mission is still the key challenge for third/private sector hybrids. Issues of ownership are raised and the dilemma is whether stakeholders could be considered or not as owners (just as shareholders in the marketplace).

The changing role of the market, welfare state and inter-organizational systems with respect to social services lead to the emergence and growth of hybrid TSOs (Borzaga, Defourny, 2001; Minkoff, 2002). The recent tendency to dynamism let each of the three sectors contribute, with different motives, to the realisation of public and social policy purposes, therefore creating social value. The fact that non-profit/for-profit sector hybrids operate through market mechanisms and business models, in order to attain social objectives, constitutes both a chance and a challenge. As a matter of fact, beyond the great potential of the innovativeness, the hybridization process brings difficulties in terms of operational principles, governance and management of the organization. The side effects of combining diverging elements in such a hybrid character, thus, can be treated or lessen. Social enterprises, together with a complex and dynamic organizational landscape, are organizations able to do it (Cornforth and Spear, 2010). Chapter 2.1 and 2.2 outline first the positive implications of this attitude of constant innovation, and then, the tensions generated by the third sector hybridity. The following sections are not fully representative of all the advantages and disadvantages of a profit/non-profit blurring. Although that, they present some exemplifying points, in order to address most of such closely related issues.

## 2.1 Constant innovation, dynamism and steady social purpose as challenges

The main challenges issued from hybridization in TSOs are closely linked with welfare state's collapse (Webb, 1979; 1971)<sup>5</sup> and evolution. Public administrations and third sector agencies have seen a sort of modernisation process, and reconsidered their role due to the change occurred in the management of welfare (Marcon, 2012). The widespread concern about individuals' care, but also civil societies' increasing empowerment, and major self-awareness by nation states constitute the surrounding environment of third sector hybrid organizations' rise and development: the welfare mix. By promoting and supporting the achievement of basic needs, in fact, TSOs placed themselves in a particular position of parallelism with respect to governments. The evolution of one implied the alteration of the other (and vice versa) to such an extent, that the second half of the 1980s notably marked a changing point in the role of TSOs and welfare state (Marcon, 2012, p. 10)<sup>6</sup>. Social policies were no longer exclusive domain of the state, but openly and actively involved the citizenry, voluntary and business sectors. A lot of social services, that mostly world-wide used to be provided by governmental institutions became responsibility of third sector agencies. As regards Italy, with the welfare mix, or so called welfare pluralism, *a plurality* of actors had been involved in order to answer to the deficiencies of the public sector (Hinna, 2005, p. 22). The attempt to find an alternative to the monopoly of the governments, in responding to public needs, increased the phenomenon of hybrids. Acting at the same time for the empowerment of the same community, encouraged TSOs to be open and creative. Third sector's connections with governmental and commercial agencies inevitably raise many doubts about the incompatibility of values, and risks of interdependence. The future of the TSOs and hybrid third sector organizations is increasingly related to their relationship with the for-profit corporations. The spread of social enterprises, though, «does not represent a conceptual break with institutions of the third sector but rather a new dynamic within it» (Defourny, 2001 p. 175).

In chapter 2.1 a series of pros of private/third sector hybridity are presented. The outlined advantages only serve as an instance of how hybrid TSOs work successfully by merging different

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<sup>5</sup> Webb labels as the 'collapse of the pure doctrine of welfare state' the process of change occurred in the last decade of the 1980s. In this process, non-governmental entities gradually became producers and suppliers of social care. The role of voluntary sector in social policy increased (Webb, 1971; 1979).

<sup>6</sup> From welfare state to welfare society, to welfare community. The failure of the traditional welfare state conception started in the 1970s due to the neoliberalist movement promoting a welfare society, encouraged the co-operation between public and private sector. In a welfare society individuals are strangers, do not communicate, or fail in the communication process. In a welfare community, instead, individuals communicate successfully, know each other, and dialogue. The welfare community refers to services mandatorily and reciprocally supplied by and offered to a whole community, as a moral obligation. This is done in response to a social demand, to empower the collectivity, and without seeking any financial advantage.

sectors' features, and without losing their social purposes. Selected as representative of an effective for-profit/non-profit blurring, the matters presented below illustrate what I consider to be the unavoidable efforts of a successful third sector hybrid model building. Elements such as the source of financing, profit destination and distribution, economic and societal value of goods and services, staff employed and volunteers, are determining structural factors to consider in order to run an hybrid TSO. Since when the state was no longer the sole responsible for welfare, in fact, the civil society, third sector and marketplace gained authority in that. While governments remain in charge of strategic actions of welfare, the actual application of social policies is domain of both the public and private sectors. So, social policies cease to match with public policies. The use of economic needs to deliver such public services is legitimated<sup>7</sup>. The reinvention of capitalism allows private and TSOs to hybridise and adopt both economic and societal practices.

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<sup>7</sup> Pearson stated that «finding the economic process embedded in essentially noneconomic institutions [...] it would seem obvious to suggest that both the motives and the institutional means for accumulating surpluses would also be of a noneconomic character» (Pearson, 1957, p. 335).

### *2.1.1 Social investment and new capitalism*

Social policy in the United Kingdom was entirely led and guided by the public sector until the 1970s, the third sector had only a minor place in welfare provision (Billis, 2010, p. 5). As it was said at the beginning of chapter 2, the private sector was not engaged in social policy issues, not perceiving social needs as potential investments. It was only forty years ago when organizations from the private sector understood that it was worth investing money and time in order to respond to social needs. The social investment could be useful for society, and profitable in future for the whole collectivity. Despite that, it was still the voluntary sector the one which was identified as the auxiliary organizational system capable of replacing the government in meeting societal needs. Due to the collapse of the welfare state as only way of providing social services, associations, NPIs and other organizations of the third sector appeared on the scene as economic actors all around Europe (Osborne, 2008). The private marketplace realized how the role of the third sector was becoming competitive, and stopped underestimating the necessities of the individuals as a whole. At the same time, TSOs recognised the norms and attitudes that previously pertained exclusively to for-profit organizational structures. It was at this stage when the research for a third way between the government and the market became more intense (Hansmann, 1990; Billis, 2010, p. 7). In this scenario, TSOs expanded their role and began to combine voluntary and economic resources.

According to Bourdieu (1986) there are three types of capital: (1) economic, (2) cultural and (3) social. The distinguishing features of the economic capital are availability and convertibility. The social capital, instead, is scarce and unequally distributed. The conversion of social capitals into economic ones is expensive and urgent (Anheier, 2014, p. 87). Putman (2000) identified two kinds of social capital: bonding and bridging capital<sup>8</sup>. Conventionally, the third sector is considered to deal exclusively with two types of social capital: the voluntary labour and donations (Evers and Laville, 2004, p. 246). Volunteerism and philanthropy, though, are not the only social resources of a TSOs. Social capital is represented by the sum of non-financial and often intangible assets. It is linked with the membership in social institutions and with related ties such as: relationships of trust, cooperation, acquaintance, effective and efficient communication (Putman, 2000; Anheier and Ben-Ner, 2003). Economic capital refers to monetary earnings, financial resources and physical assets.

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<sup>8</sup> Bonding social capitals refer to strong and reciprocal ties, which can be established between people who know or trust each other. Such bonds are easier between individuals sharing the same demographic characteristics and/or socio-economic position. Bridging social capital, instead, refer to horizontal and inclusive connections joining different socio-economic groups or communities' members. Later also linking social capitals are distinguished, as those vertical bonds developing not only between strangers, individuals or groups, but between powerful more subjects, such as societies, institutions, state and non-state actors (Putman, 2000; Woolcock, 2001)

Cultural capital, instead, includes a variety of valuable non-economic resources, which are attainable through the process of socialization (such as knowledge, education, social relationships and networks). Hybrid TSOs' task is to serve as mechanism by which social capitals are exchanged for economic capitals and vice versa. This social investment can be both solidaristic and mutualistic. It involves the management of private contributions in order to achieve public benefits. The social capital increases the competitive advantage<sup>9</sup> of the enterprise. To invest in economic capitals does not mean to seek only assets, revenues or financial returns just as in the conventional economic sense. On the contrary, it concerns the sustainability needed for the provision of social services. Philanthropy, in fact, is not the exclusive way to invest in social value creation for TSOs. One innovative and economically sustainable solution is social entrepreneurship. This entrepreneurial activity could be regarded as an attitude, a way of working encompassed with the objective of grow the business. In spite of that, the economical growth stands behind the social purpose. Successfulness of social enterprise is measured depending on the social impact produced. On the contrary, in the market economy, the enterprise is an organization which produces and supplies good and services with the primary objective of generating profits. This is the reason why social entrepreneurship are considered as hybrid entities that blur the boundaries between the third and private sector. As a matter of fact, working with the non-profit and for-profit actors, they (Aiken, 2010, p. 156):

- ♣ *possess an explicit social nature* and benefit the entire community ,or a group of stakeholders;
- ♣ *have a high degree of autonomy*, gained by producing goods and services;
- ♣ *take economic risks* since members of the social enterprise are entrepreneurs who accept to assume commercial risks associated with the market forces;
- ♣ *apply the competitive advantage principles and entrepreneurial formulas* in order to cover economic costs;
- ♣ *partially restrain profits distribution* and allocate them depending on membership, not on capital ownership;
- ♣ *involve users, clients, citizenry and suppliers in the decision-making process* to a meaningful extent;
- ♣ *employ some paid workers.*

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<sup>9</sup> The comparative advantage refers to situation in which the relative autarkic price ratio of one good in terms of another is lower due to factor endowments, technological advances or social impacts. The last-named increase the competitiveness and create competitive advantage. In contrast, absolute advantage refers to the capability to produce more outputs than competitors, without increasing the inputs (Porter and Kramer, 2011; Reinert, 2012).

Undoubtedly, it is complicated and risky to undertake entrepreneurial actions for entities that are often voluntarily organized, and originally founded to serve the social interests of the stakeholders. For instance, one uncontested feature of the third sector, the non-distribution constraint is undermined by the creation of economic value. In the social enterprise the profits and surplus are fundamental for the economic sustainability, and are reinvested for the empowerment of the organization. This combination of contrasting principles generate tensions, which are managed depending on the nature, degree and paths of hybridity process. Social entrepreneurship is «an “umbrella” concept encompassing a variety of more specific hybrid social-for-profit organizational forms» (Molina, 2009, p. 11). A full analysis of social enterprises is well beyond the objective of this writing. Though, it should be noticed that several policies, within Europe and outside, encouraged the development of social entrepreneurship (Cornforth and Spear, 2011).

Entrepreneurial characteristics belong to the business tradition, but are increasingly applied to the development of the social capital. In order to understand this convergence, the non-distribution constraint should be regarded as a substantial feature, not as an imperative one. In fact, financial surpluses are the rational way to avoid unnecessary risks, but not a primary requirement in third/private sector hybrids. Profits are reinvested only in order to produce social benefit for the totality of the stakeholders. What matters in an entrepreneurial activity providing welfare services is the empowerment of the organization, and the increase of the beneficial impacts (not the profits' maximization and distribution). The profitable aspect is not fully neglected, but it is just instrumental in achieving as much social improvements as possible. The economic side of non-profit/for-profit hybrids is relevant to the generation and maximization of social capital, the management of the risks, and the economic sustainability of the organization. Although that, hybrid TSOs face challenges at the organizational level, which are linked with the recruitment of paid staff and with the consequent change of roles within the workforce. At the governance level, the management of such a complex structure compel hybrid TSOs to acquire well-equipped staff which is familiar with the business field, prepared to monitor, prevent and evaluate commercial risks and impacts on the the organization (the issue is dealt in depth in chapter 2.1.5). The governing body, the structure established within the organization in charge of the overall direction, control and accounts report (Cornforth and Spear, 2011), is constituted by members. In the third/private sector hybrids, the governing body acquire a new multi-structural configuration in order to integrate different roles and responsibilities, surged from the involvement of business features. As concerns the resources, these entities gain earnings from the increased economic activity, but incur the risk of

not being as eligible as before for donors, grants and tax relief. In addition, the generation of funds for the fulfilment of the social mission requires a great deal of transparency, monitoring, and accounting measures. Such operations could be costly in terms of time and money. The efforts taken to achieve the social goal are larger than those taken to attain the profits goal. The balance of those contrasting forces is challenging, and it may occur that market forces prevail over societal ones. This writing goes beyond the pessimistic idea that TSOs may decide to develop hybrid forms of governance just in order to gain resources and remain exempt from corporate income taxes. Instead, the kind of hybrid TSOs that are considered, operate with rectitude and rigour. Anyway, the hybridization process will be more or less effective and demanding, depending on the different nature, degree and paths of enactment of the hybrid organization. Precisely, as seen in chapter 1.2 and 1.3, the origins and roots of the third sector hybrid organizations are different, and their governance arrangements can vary considerably from the pure donative NPI (either mutual or public).

Early in the 1990s, especially in the US «a marketplace of ideas and beliefs» developed (Hammack and Young, 1993, pp. 1–3). American non-profit organizations started to gather ideas, beliefs and values from the business sector (Hammack and Young, 1993, pp. 1–3). According to the authors of *Nonprofit organizations in a market economy*, in fact, the existence of TSOs depends on their involvement in the ordinary arena of competitive and commercial transactions. Within this arena, for-profit firms generally detain the oligopoly (see note 19, p. 69). As a matter of fact, in the economic marketplace there is a condition of relatively moderate competition, which allows the private sector's shareholders to share the market essentially with others private sector's shareholders. Even though TSOs sell private and public goods as well, they usually do not compete with private for-profit firms. This is because they prefer to operate in a socially determined and demand-driven system of moral justice, rather than in a market-driven system regulated by profit competition, surplus and individual ownership. Hybrid TSOs' attempt is to develop that economic intermediate area, attentive to both society and environment, of which Sen (1982; 1984; 1987) and Shumacher talks about in his book *Small is beautiful: a study of economics as if people mattered* (Shumacher, 1973). Going beyond the traditional types of capitalism postulated in the present market economy<sup>10</sup>, a reviewed form of capitalism, which incorporates policies of social sustainable development and

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<sup>10</sup> The two main types are represented by: (1) *liberal market economies*, those ones whose private sector is more capable of operating freely, without strict governmental regulations; (2) *coordinated market economies* which, on the contrary, are those characterized by a higher degree of governmental influence, and more interdependence between public and private sphere. The former type is exemplified by countries such as the US, UK and Australia, the latter by France and Germany (Anheier, 2014).

economic progress is pursued. Market capitals are conceived as short-term sources of profit and, on the contrary, social capitals (capable of creating societal benefits) are conceived as long-term sources of profit (Porter and Kramer, 2011, p. 17). This new and sophisticated capital system maintains the economic and political patterns, since it still creates economic value. The impact on economics of societal factors, such as human needs and natural resources scarcity is considered in the meantime. So, this mature capitalism (Etzioni, 1973, p. 315) is willing to develop the private side of the nonprofit sector and to endorse its role. The distribution of wealth and good's equal provision and consumption affect these innovative capitalist principles, and cease to be issues addressed only by government states or TSOs. Together with for-profit business companies, third sector entities increasingly engage in the evolution of this capitalist model. As a result, the common divide between economic and social concerns is reduced, and hybrid TSOs grow. Of course, all around Europe and abroad a variety of different capitalism approaches developed according to the regime type in force (see table 10 – Welfare state models).

**Table 10 – Welfare state models** (Anheier, 2014, p. 502)

	<i>Commodification</i> <sup>11</sup>	
	Lower	Higher
<i>Stratification</i> <sup>8</sup>	<i>Conservative</i>	<i>Social-democratic</i>
Lower	Italy, France, Germany	Denmark, Sweden
Higher	<i>Post-socialist</i>	<i>Liberal</i>
	Czech Republic, Hungary	UK, US

<sup>11</sup> Anheier distinguished «*commodification*, i.e. the extent to which goods and services are extracted from the community and family obligations and traded on markets or contracted via public agencies; and *stratification*, i.e. the degree of social inequality in a society» (Anheier, 2014, p. 502).

### 2.1.2 *Beyond surplus and non-distribution constraint*

Chapter two heretofore stressed the fact that the TSO is an heterogenous entity, not founded in order to create profits, with one distinctive organizational structure, and meaningful but fluid sectorial boundaries. Its primary goal is societal, and although it may accumulate surpluses and undertake commercial activities, such earnings must be reinvested in the primary social mission and not distributed to its owners, members, founders or governing board (UN, 2003, p. 18). The *Handbook on non-profit institutions in the System of National Accounts* published by the United Nations in 2003, insists that TSOs' «productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units» (UN, 2003, p. 18). Hybrid TSOs, just as conventional TSOs are not entitled to profit financially from their operations. In this sense, as previously affirmed in chapter 1.4, the entrenched type of hybrid, which is driven *also* by private market forces, generates surpluses on its production but does not distribute them, should be considered as an entity on the way toward hybridization. Even entrenched hybrids, in fact, are non-profit distributing, and distinguishable from for-profit businesses. The restrictions on the use of the organization's income do not prevent NPIs to accumulate as much resources as they need to carry out their social mission. The tendency to obtain residual earnings from commercial activities is increasing among organizations of the third sector (Cornforth and Spear, 2010, p. 81). This growing trend demonstrates a gradual movement toward full hybridization forms, which combines both non-profit and for-profit attributes. Though, until the ultimate purpose is to address social needs, and the economic self-sustainability is instrumental to that purpose, TSOs have still to be considered 'pure'. The condition of integrity is granted especially by the non-distribution constraint, which improves the relationship of trust among stakeholders, i.e. users, consumers, citizenry, suppliers etc. (see section 2.2.3). Non-profit organizations constrain on profits makes them «less likely to degrade their products to maximize profits» (Anheier, 2014, p. 212) and, therefore, trustworthy in the stakeholders eyes. More confident stakeholders contribute to the existence of the institution because they feel secure about the financial behaviour and fairness of organizational operations (e.g. modest and inexpensive workplaces; restricted travel budgets; limited resource waste; environmental impact measurement). Moreover, the fact that none of the TSOs' subjects is entitled to the residual earning diminishes the risk of exploitation of asymmetric information<sup>12</sup> (Hansmann, 1990, pp. 65-66; Bacchiega and Borzaga, 2003, p. 30; Anheier, 2014, p.

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<sup>12</sup> Asymmetric information exists when either the supplier or the seller have more information than the consumers have. Indeed, organizations possess superior information (e.g. on product quality and value) and could make an opportunistic use of this in order to maximize their own profits. The unfair use of this knowledge to one's benefit

206). These aspects constitute the major sources of tensions for non-profit/for-profit hybrids. In fact, the lack of strict prohibitions on income destination cancels any trust-related advantage and rises skepticism. Obviously, these pressures can turn into opportunities for third sector hybrids, which could decide to prove the integrity of their action (through transparency measures and accurate performance accounting, for instance). If the constraint on profit distribution has to be marginally considered (Bacchiega and Borzaga, 2003, p 43), the advantages of this limit can be stressed (i.e. the trustfulness of stakeholders). This allows to see the constraint as a device to minimize monetary losses, and finance the non-monetary gains. As a matter of fact «monetary variables are still important when running the organization, for example, in guaranteeing its financial strength and its survival in the market» (Bacchiega and Borzaga, 2003, p 43) Financial and non financial resources are vital for the pursuit of the social objectives. Thanks to the non-distribution prohibition, socially inefficient investments are avoided, regardless of the fact that they may yield profits or financial returns. As seen in the previous paragraphs, the social maximization of non-profitable outcomes is the distinctive characteristic of the organizations of the third sector. In order to face both economic and societal costs, and generate larger positive effects on the social mission, TSOs and hybrid TSOs have to be economically sustainable. Resources gathered to meet consumers' demand are numerous, and diverse depending on the type of non-profit organization. It should be noticed that such financing methods correspond to those identified in the hybrid model organizations in chapter 1.4. The variety of sources of revenue on which the NPIs rely on (see table 11) witnesses the intrinsic heterogeneity of the sector. It is worth mentioning that the most significant source of pure non-profit organizations' income comes from capital investments, fees, dues and proceeds from sales of private products and services (Salamon and Anheier, 1996). On average, the higher percentage of total revenue is issued from private fees, and is followed by public grant and by donations (see figure 3)<sup>13</sup>. So, strategic autonomy decreases to the extent to which TSOs rely on proceeds from sale and investments, regardless of the degree of hybridization.

In the last twenty years, the demand for personal and community care services increased rapidly (Anheier and Ben-Ner, 2003, p. 32). This fast growth of the need, or desire for particular

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leads to the moral hazard phenomenon (Anheier, 2014).

<sup>13</sup> The data is revealed by the survey carried out by the 'John Hopkins comparative nonprofit sector project' in 1990. The countries considered are Hungary, Italy, Sweden, Japan, Germany, UK, France and US. The investigation revealed that «the average share of total nonprofit income originating with private philanthropic giving is only 10%, most of it (about 60%) from individuals, with corporations and foundations providing most of the rest. By contrast, almost half (49%) of all nonprofit income in these eight countries comes on an average from fees and sales, and this source is the dominant one not only overall but also in six of the eight countries. Finally a significant 41% of nonprofit income comes from government, and this source is actually the major one in two of the countries (Germany and France)» (Anheier and Ben-Ner, 2003, pp. 256–257).

commodities and facilities brought to a wider gap between needs and provision (i.e. between demand and supply). In addition, disadvantaged people use to have a reduced capacity of paying for services they are needing. TSOs normally produce and provide trust goods and services at economically significant prices. Nonetheless, the scarcity of paying demand pushes them to offer services at a lower price, or without any charge<sup>14</sup>. In the market logic the demand generate supply, and costs of supply determine prices. When the sale of outputs produces significant revenues, but less than the whole of their costs, roughly, two are the possible consequences: (1) the organization looks for other sources of income and undertakes different types of activities, some on a market basis and some on a non-market basis; (2) the value of the output is underestimated and the organization is likely to face economic risks. Therefore, it is extremely difficult to attain a simultaneous status of social efficiency and economic sustainability (Bacchiega and Borzaga, 2003, p. 32) and usually TSOs rely on donations and voluntary work to achieve that (UN, 2008, p. 459). As regards for-profit organizations, it should be observed that they have been influenced as well by the impact of emerging societal needs on economic performance (and vice versa). That is to say that also private for-profit businesses begun to consider carefully the effect of economic value creation on social value creation. The first signs of this process of change appeared in Germany in the 1930s, and soon spread all around Europe and in the US (Hinna, 2005, pp. 243-245). This fortified perspective changed the organizational behaviour and expanded the duty to give accounts and records on such behaviour. It no longer concerned a simple system of measurement of the performance, targets and economic results. It rather became a social function and a moral obligation with respect of both shareholders and stakeholders (Hinna, 2005, p. 243-245). This social accountability involved all the subjects participating in and contributing to the life of the organization. In 2001, the European commission first introduced the concept of corporate social responsibility (CSR), defining it as the «concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis». The approach mainly concerns (European Commission, 2011, p. 3):

- ♣ transparency on financial, social and environmental issues;
- ♣ a balanced multi-stakeholder policy (also non-business and governmental stakeholders);
- ♣ voluntarily-moved actions, over and above legal obligations;
- ♣ self- and co-regulation schemes,

<sup>14</sup> Notice that in the pure capitalist model this does not occur. Giacché explains it by affirming that the capitalist system only knows the paying consumers, except for the poor or the rascalion. «Il sistema capitalistico non conosce altre specie di consumo all'infuori del consumo pagante, eccettuate quella del povero o quella del "mariuolo"» (Giacché, 2009, p. 88)

- △ social, environmental, ethical concerns, and human rights safeguard into the business operations and core strategy.

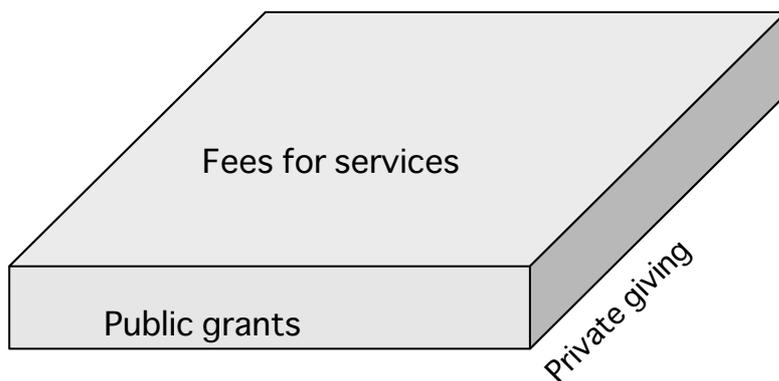
According to the European Commission, CSR aims at «maximising the creation of shared value for [...] owners/shareholders and [...] other stakeholders and society at large» (European Commission, 2011, p. 3). The organization responsibility for its own impacts on the society is reflected by the commitment to the maximisation of the shared value. The last-mentioned innovative principle spread thanks to the contribution of Michael E. Porter and Mark R. Kramer (2011). Both the CSR and CSV approaches encourage *all* enterprises to adopt a long-term and strategic *modus operandi*. Although that, the principles of CSV particularly emphasize the interdependence of the businesses and public sectors, and the need to apply the social responsibility approach to specific cases, not in general. The result will be an innovative for-profit business model, which contribute to societal well-being (comparable to that one which develops in entrepreneurial hybridity theories).

Even if the present writing does not deal with the issue of accountability, it is clearly a crucial dimension in both third sector and hybrid third sector management. The CSR and CSV theories, besides encompassing the dimensions of accountability, tend to accept non-profit/for-profit boundary blurring. As we have seen before, for-profit firms and non-profit organizations act in the same marketplace. The added value of the non-profit sector applying business model is that its primarily objective *is* the social benefit of the consumer. For-profit businesses' way to compete with non-profit agencies is to establish a positive reputation too (for instance, by considering the societal dimension of the activities run; non exploiting asymmetric information; behaving in a non opportunistic way). As it will be shown in chapter 3.2, the innovation stands precisely in sharing the economic value of commercial activities and services provided in order to create social value.

**Table 11 - Revenue structure of the nonprofit sector** (Anheier and Ben-Ner, 2003, p. 256)

Revenue structure of the nonprofit sector		
Public sector payments	Private giving and donations	Private fees and charges
<ul style="list-style-type: none"> <li>- <i>Grants and contracts</i>, that is, direct contributions by the government to the organization in support of specific activities and programs;</li> <li>- <i>Statutory transfers</i>, that is, contributions by the government, as mandates by law, to provide general support to an organization in carrying out its public programs;</li> <li>- <i>Third party payments</i>, that is indirect government payments reimbursing and organization for services rendered to individuals (e.g. health insurance, “vouchers”, or payment for day care).</li> </ul>	<ul style="list-style-type: none"> <li>- <i>Foundation giving</i>, including grants from grant-making foundations, and community foundations;</li> <li>- <i>Business or corporate donations</i>, which includes giving directly by business or giving by business or corporate foundations;</li> <li>- <i>Individual giving</i>, that is, direct contributions by individuals and contributions through “federated fundraising” campaigns.</li> </ul>	<ul style="list-style-type: none"> <li>- <i>Fees for services</i>, that is charges that clients of an agency pay for the services that the agency provides (e.g., fees for day care or health care);</li> <li>- <i>Dues</i>, that is, charges levied on the members of an organization as a condition of membership. They are not normally considered charges for particular services;</li> <li>- <i>Proceeds from sales of products</i>, which includes income from sale of products or services, and income from for-profit subsidiaries</li> <li>- <i>Investment income</i>, that is, the income a nonprofit earns on its capital or its investments.</li> </ul>

**Figure 3 - Revenue structure of the nonprofit sector** (Adapted from Salamon and Anheier, 1996, p. 258)



### 2.1.3 Use, exchange, social and blended value

«There is a close link between the characteristics of third sector organizations and the goods that they produce» (Bacchiega and Borzaga, 2003, p. 43). TSOs and hybrid TSOs are productive entities which offer public and private services and goods<sup>15</sup>. The major difference between the organizations of the non-profit and those of the for-profit is that the last ones produces services and goods, which are not necessarily needed by the consumers. On the contrary, the first ones' production depends on consumers' real needs (Hinna, 2005, p. 37). Eckel and Steinberg (1993) identified two kind of public goods: excludable or nonexcludable ones. Public goods are excludable when suppliers can control which users will benefit from them. Public goods, instead, are nonexcludable when they inevitably benefit a large group of users. They can also be rival or non-rival. We speak of rivalry of the goods when the individual use of them limits their potential use by others. In contrast, public goods are characterised by non-rivalry when the individual use of them does not reduce their availability for others (Anheier, 2014, p. 199). The non-rivalry is due to the fact that once the user benefits from the public service supplied, the good is not completely exhausted, and others users can benefit from it too. Economists exclusively regard as public those non-excludable goods «whose consumption is non-rival» (Eckel and Steinberg, 1993, p. 61). In spite of that, the broader conception yielded by Harris, and presented in chapter 1.3, has to be embraced as well. Moreover, both excludability and rivalry can manifest in the same good or service simultaneously, but to different degrees. For these reasons, Anheier introduced the concept of quasi-public goods, generally provided by TSOs, but sometimes supplied by the governments and for-profit businesses (Anheier, 2014, pp. 200-201). Quasi-public goods and services are often a sign that sectorial boundaries are easy to cross. As a matter of fact, in the transition from the welfare state to the welfare mix, public administrations, TSOs and corporate for-profit firms directly and indirectly engaged in the provision of public goods and services (as seen in chapter 1). In general, any good or service is considered to possess, alternatively or simultaneously, three sorts of value:

- ♣ *Exchange value*, i.e. the transaction of goods or services. It is symbolized by the price, which is determined by the costs of the transaction itself;
- ♣ *Use value*, i.e. the function implemented by goods or services, usually primary ones (i.g. food and necessities);
- ♣ *Social or relational value*, i.e. the social relationship established between subjects in the use-exchange transaction.

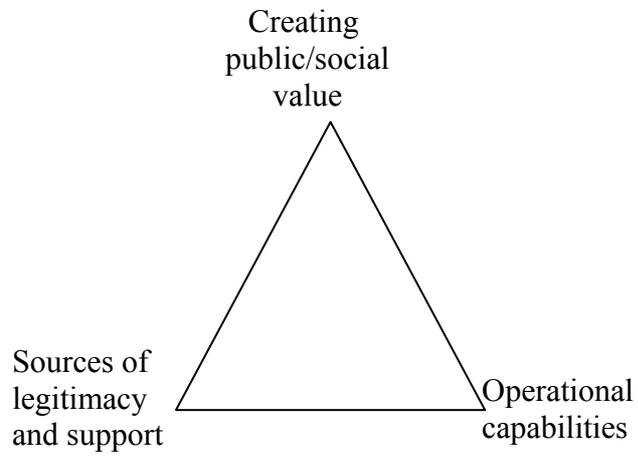
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<sup>15</sup> Pure public goods are characterised by the lack of property rights, whereas pure private goods have individual property rights (Anheier, 2014, p. 199).

The last-named is the most furthered aspect by public and TSOs but it is completely neglected by the classical economic theory. Archetypal of the so called 'trust' or 'relational goods', the social value is the essence of any social capital's assets. The social value is developed in those non-financial, immaterial, and difficult to quantify resources such as: interpersonal relations, sense of belonging, trust, cooperation, acquaintance, and communicational skills. The complexity and sophistication of these not market-driven values explain why the conventional business model alone might fail in the provision of public services. In order to produce social value, goods and services have to be highly personalised, and specifically developed depending on consumers' needs (Giacché, 2009, p. 89). Hybrid TSOs best combine this capability with a wider range of financial, human and operational resources. This attitude originates a *blended* conception of value, which has diverse and new priorities. Specifically, the indicators and methods of evaluation of what is valuable has changed. In fact, both efficiency and efficacy in production begun to play a crucial role, regardless of the sector's specifics. This mix of coexistent principles and objectives grew the instances of hybridity across the three sectors. The concept of blended value has been introduced by Emerson (2003) and it supposes that the value of any good, service or activity must encompass in the meantime economic, social and environmental dimensions (Sen, 1991). This theory is comparable to Moore's triangular vision of the strategy to create public value (Moore, 1995; see figure 4). According to him, three are the factors that have to coexist in order to be successful in creating public value:

- ♣ *Social*, i.e. the non-quantifiable or non-monetary revenue improving the well-being and increasing the social capital;
- ♣ *Economic*, i.e. the returns on investments which safeguard the sustainability and operational capabilities;
- ♣ *Socio-economic*, i.e. the legitimacy and support from the surrounding environment and the wider community.

**Figure 4 – Strategic triangle in creating social value** (adapted from Moore, 1995)



#### *2.1.4 Not only volunteerism*

Volunteers are usually an heterogeneous group of people acting on the behalf of one organization. They work both at the operational and board level (Anheier and Ben-Ner, 2003) without any monetary remuneration or personal gain. Volunteering means to donate time and money on quite a regular basis and without legal obligation. Individuals choosing to volunteer face net costs. The higher this net cost is, the more altruistic the choice becomes. Although that, the value of voluntary labour is estimated on the basis of the wage rates of employees undertaking similar work, and not on the opportunity cost of the volunteers (UN, 2008, p. 459). Voluntary staff is not an invisible group of unpaid and abandoned employees having no impact on the governance of the organization. In fact, the involvement of voluntary labor is one archetypal characteristic of the traditional TSO, and its centrality used to be one of the distinctive features of the sector. Generally, organizations of the third sector are labor-intensive. So, a large need for structural and professional management of voluntary staff is often needed (Jegers, 2008). Usually, accurate selections among candidates are made. The human dimension of voluntary labor is the added value of many organizations and it happens that conventional business involve volunteerism as well, especially while delivering public services or goods. Volunteers, in fact, are very often people who believe in the human principles that are typical of the social capital. Volunteering has four main aspects: (1) willingness, (2) remuneration, (3) structure, and (4) beneficiaries (Anheier, 2104, p. 257). Volunteers' motives to enter the organization can vary according to the degree of ongoing commitment to the activity. Altruism, solidarity, and empathy are the more virtuous reasons. Though, people could volunteer also to further personal gratification or to do their duty (moral, religious, political or civic).

Webb affirmed that: «some voluntary organizations – especially the largest, oldest and most specialized – rely substantially, or exclusively, on paid (often fully professional) personnel to deliver social work [...]. Others depend heavily, or primarily, on volunteer workers» (Webb, 1979, p. 43). Three decades after, Anheier emphasizes how, «in reality, a good deal of the activity of voluntary organizations is carried out by paid staff, and not by volunteers» (Anheier, 2014, p. 60). Indeed, it is fundamental to distinguish voluntary organizations from the principle of relying on voluntary action (Webb, 1979). In spite of the fact that volunteers are chiefly recruited by TSOs, nothing prevent public and private agencies from deploying them as well. In a hybrid third sector scenario, volunteers' role is often questioned. When TSOs begin to employ paid staff, complex dynamics develop. The transition into remunerated labour, as a matter of fact, could generate

conflicts and tensions. The roles' distribution being based on salary, and the consequential changing of responsibilities create a hierarchical scale (i.g. marginalization of voluntary staff; decision-making process and strategic functions reserved to paid staff only). The hierarchization rises the competitiveness, and makes cooperation and integration within the staff more complex (Bandini, 2013, p. 107). As a result, unpaid staff could blame hybrid TSOs for the fact that they do reinvest their profits, but do not provide a remuneration to the whole workforce. To limit TSOs to volunteerism is inadequate since the reliance on volunteers as a requirement has cease to be in force. The conventional centrality of volunteers has increasingly turned into episodic, sporadic and unreliable (Anheier, 2014, p. 260). The recent changes in voluntary action brought the traditional, dedicated and habitual involvement to more modern trends of one-off, virtual or tourism volunteering (Hustinx *et al.*, 2011). Instead, the probability of strong and continuous commitment of paid staff should be highlighted. Remunerated workforce could be devoted to the social mission, and also decide to occasionally allocate additional human and non-human personal resources. For instance, by dedicating free time, late afternoons, Sundays or festivities. Besides, former committed members, who used to volunteer in the TSO, may be recruited with a fixed salary (Billis, 2010, p. 59). Paid staff employed to support voluntary based activities, could be selected from the extern or from internal members and founders of the organization. The paid staff in non-profit organizations frequently accept that the salary is not regularly or relatively low paid (below the wage rate). This compromise is reached often because of the disinterested engagement in the mission. The shift from voluntary staff into paid one could bring also some positive results. For example, the conversion of the informal unpaid work into formal paid work<sup>16</sup>. Paid and contracted staff which enter into a formal and legal obligation, can assure a long-term commitment. Moreover, hybrid organizational forms combining remunerated and non remunerated labor help to avoid the excessive turnover of workers, typical of TSOs (Bandini, 2013, p. 105). Contract, working time and wage settlements definitely guarantee more availability and reliability, which are progressively lacking in pure voluntary action (Bandini, 2013, p. 104; Anheier, 2014, p. 293). Additionally, by contracting paid staff, the challenge of changing people is dealt.

Margaret Harris recognizes episodes of volunteers complaining about unpaid work as one of the pressure factors pushing TSOs into hybridity (Harris, 2010, p. 37). The fact that workers coming from the private and public sectors bring with them skills and knowledge from different organizational models increases the chances of hybrid configuration. Bandini as well admits that

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<sup>16</sup> Bandini includes certain types of conventional unpaid volunteers into the formal structure of volunteerism (Bandini, 2013, pp. 102–103).

volunteers could represent a vehicle for principles and patterns of the private for-profit sector (Bandini, 2013, p. 104). Non-voluntary labour employment frequently leads to TSOs' hybridization, but it is only a step forward full hybridity. Paine, Ockenden and Stuart (2010, p. 96) affirm that «the involvement of paid staff does not automatically move organizations into hybrid status». Finally, it should be observed that even in conventional types of TSOs paid staff is sometimes recruited. The issue of blurring between paid and non-paid workers in third sector is frequent, and faced diversely. Some TSOs decide to employ paid staff rather than volunteers in order to acquire professional expertise and specific skills; others are far from losing voluntary subjects and their peculiar features of enthusiasm, loyalty and tolerance (Paine, Ockenden, Stuart, 2010, p. 96; Bandini, 2013, p. 106). The use or involvement of both voluntary and paid labor is a successful answer to meet organizational objectives, especially in public services provision. Despite the probable tensions between paid and unpaid staff, the convergence of staff-led and volunteers-led organizations is possible (see table 12 for an outline of the ideal models of volunteers' engagement). Volunteers are fundamental for a social change, both in the third sector and hybrid TSOs. Their capability to develop strong ties (Hustinx *et al*, 2011) depends on the authenticity and spontaneity of their character, not on the presence of paid staff working for the same end.

**Table 12 – Three ideal models of volunteer engagement in hybrid TSOs** (Paine, Ockenden, Stuart, 2010, p. 108).

<b>Type of organization</b>	Association	Shallow hybrid	Entrenched hybrid
<b>Position of volunteers</b>	Owners	Members	Resources
<b>Management of volunteers</b>	Implicit – Mutual support	Informal – Home grown and developmental	Formal – Modern, top-down and workplace-based
<b>Engagement of volunteer</b>	Depth <i>but not always</i> breadth	Breadth <i>and</i> depth	Breadth <i>but not</i> depth
<b>Volunteering ethos</b>	Volunteering as an end	Volunteering as a means <i>and</i> an end	Volunteering as a means <i>to</i> an end

## ***2.2 Ambiguities issued from inner contradictions and cross-national irregularities***

As previously introduced in chapter 1.1, it is rather difficult to define universally which ones are the exact boundaries of the public, private and third sectors. Apparently, there are not exhaustive and internationally shared conceptions of state, firm and TSO (Molina, 2009, p. 18). The change of the welfare structure, besides, led to variations in the degree of the governmental, private and voluntary participation in the fulfilment of social purposes. Thus, the hybrid areas that surround each of the three sectors end up differing and fluctuating considerably according to national context. So, what is recognized as hybrid TSO oscillates as well. This issue of cross-national irregularities makes it difficult to identify a successful model of non-profit/for-profit hybridity, which is acceptable for all the countries. Broadly, it is possible to refer to a public, a private and to an inter-organizational level. However, depending on domestic circumstances the role of for-profit businesses and public agencies could dominate over limited inter-organizational activities. If in some socio-political contexts, the third sector can be seen as the most relevant alternative to the public and private for-profit sectors, it is not likewise elsewhere. For example, the United Kingdom can be distinguished for its private sector deficiency in the social policy issues (Billis, 2010, p. 5). The Japanese nonprofit sector, instead, is an instance of non profit sector development under close state supervision. This is due to the cultural and historical nature of the public and private powers (Anheier, 2014 p. 34). Any identified model of the third/private sector hybridity, then, has to be analysed taking into consideration that the process of hybridization itself is not homogeneous. As a matter of fact, the hybridity process is affected by factors and circumstances related with the country where it is taking place. Once international common paths in the way toward hybridization are identified, still, inner contradictions and ambiguities emerge. The combination of distinctive organizational features from different sectors rises problems of sectorial identity and legitimacy. The search for an identity which goes beyond the traditional set up is complex and ambiguous. Refusing to be either a sharply defined for-profit enterprise or a third sector organization can possibly undermine some of its own key principles. Hybrid TSOs, though, can act in the best interest of their social mission, even if they accumulate surpluses. Jegers making an economic research on the non-profit organizations' management is aware of the fact that the empirical analysis conducted in the American and in similar contexts are not comparable with the empirical evidence provided by European surveys (Jegers, 2008). A noticeable phenomenon identified in the English scenario by Margaret Harris (2010, p. 27) is that:

«Third sector organizations have become less cautious, for example, about collaborating with business to obtain donation in kind; to recruit volunteers; to obtain ITC, human resource management, public relations and other support services at low or no cost; and to benefit from event sponsorships and cause-related marketing. Furthermore, it is no longer unusual to find TSOs collaborating with for-profit agencies to deliver services to vulnerable people».

Chapter 2.2 presents a series of emblematic disadvantages, which describe how hybrid TSOs could work unsuccessfully when they mix different sectors' features. Showing the contradictory side of a non-profit/for-profit blurring, the matters outlined below illustrate what I consider to be the preventable but critical issues in the building of a third sector hybrid model. Aspects such as the main aim, mission, motivation, values, ownership right and entrepreneurial attitude are representative of what I reckon among the most crucial struggles of the third sector hybridity. In fact, they are determining factors of success or failure of a hybrid TSO. This is why it is of critical importance to examine them carefully while crossing the voluntary and for-profit sectorial boundaries.

### *2.2.1 Complex combination of multi-sectorial interests*

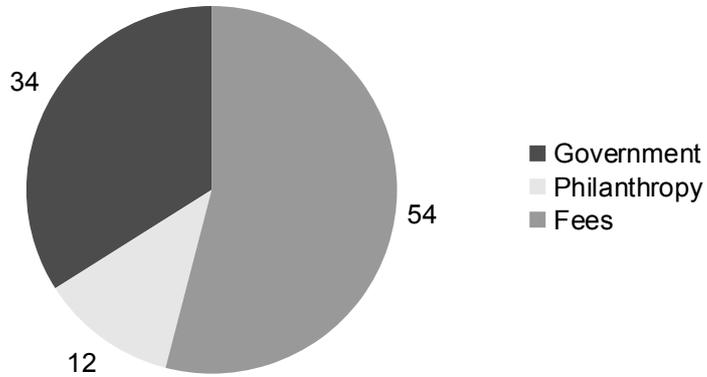
The development of one hybrid organizational model assumes that hybridity «will be more efficient and have more effective outcomes than actions taken by a single organization acting independently» (Billis, 2010, p. 26). According to Margaret Harris, to relate to or even to depend on another organizational entity ,while delivering welfare or other social services, increases the possibilities of accomplishment (Harris, 2010). Therefore, it is often necessary to cross sectorial boundaries in order to fulfil the complexity and variety of the social purposes. The achievement of the highest results with the least worthless effort and cost requires human and organizational endeavour on a large scale. So, in a sort of modern globalization of the social policy, the human well-being became responsibility of local, global, governmental and non-governmental entities (Taylor, 2011). On Molina's opinion (2009) the involvement of a great deal of creativity and innovativeness is the dominant strategy of hybrid organization. Each organization, in fact, has multiple interests and purposes. The richness of hybrid patterns in the third sector is due to this multiplicity. Besides, the plurality and originality of mechanisms adopted by hybrid TSOs is due to the fact that they offer relational or trust goods (Evers and Laville, 2004, p. 243). The trustworthiness is reflected by the strong believe in the soundness of the organization's management and *raison d'être*, with no more security than good faith (Osborne, 2008). Trust bonds stakeholders together, and multi-stakeholders TSOs are based on the reliability. This interpersonal property, instead, is underevaluated by shareholders' in private for-profit organizations. Each sector has broadly its own costs and limits. Social services are costly and unequally distributed. So, non-profit institutions often take the risk of not having enough assets to meet liabilities and expenses. On the contrary, in private for-profit firms, the inequality is expressed by the hierarchical division of roles and by leadership mechanisms. Although that, responsibilities and remunerations bestowed on paid staff endow the private sector with long-term stability and continuity. Unwaged or low-wage staff, instead, do not represent a long-lasting and reliable workforce. The funds whereby the private for-profit firms finance themselves and labor come mainly from commercial activities. The sources of income in private for-profit organizations are frequently estimated on the basis of past trends, thus, are relatively secure. TSOs' potential sources of revenue are several (see table 11 and figure 5). The complexity and variety of such revenue structure (Anheier, 2014, pp. 353–354) oblige to innovation, and often lead to hybridization processes. TSOs acquire monetary, in-kind and labor resources through cross-sectorial mechanisms. In order to achieve their final aim and to act in the interest of a wide range of stakeholders hybrid TSOs take the best attributes of the private for-profit

sector. This brings to the proliferation of many hybrid entities, which combine interests and mechanisms of the non-profit, for-profit and public sectors (see figure 6). This representation includes purely public, for-profit-driven, non-profit-driven and community organizations as well. The axle is the innovation, which enables the hybridization process. Such a circular dimension is possible if a continuum approach to hybridity is applied (see chapter 1. 3), going beyond the funding-orientation criterion. The continuity, indeed, is due to the fact that the private for-profit sector (as the third and the private ones) is conceived as an intermediary area (Evers, 2008, p. 280). Within this area some interests, concerns and behaviours could be imperceptibly similar to those of the other two sectors. In spite of the differences of the interests pursued by business firms, in fact, they have a surrounding sectorial area of hybridity too. Even if not spherical, also Alter's scheme reveals that the for-profit sector has hybrid and non-hybrid extremes (see table 6 - From traditional non-profit to traditional for-profit). Those extremes are joined with those ones of the other two sectors in Molina's wheel of hybridity.

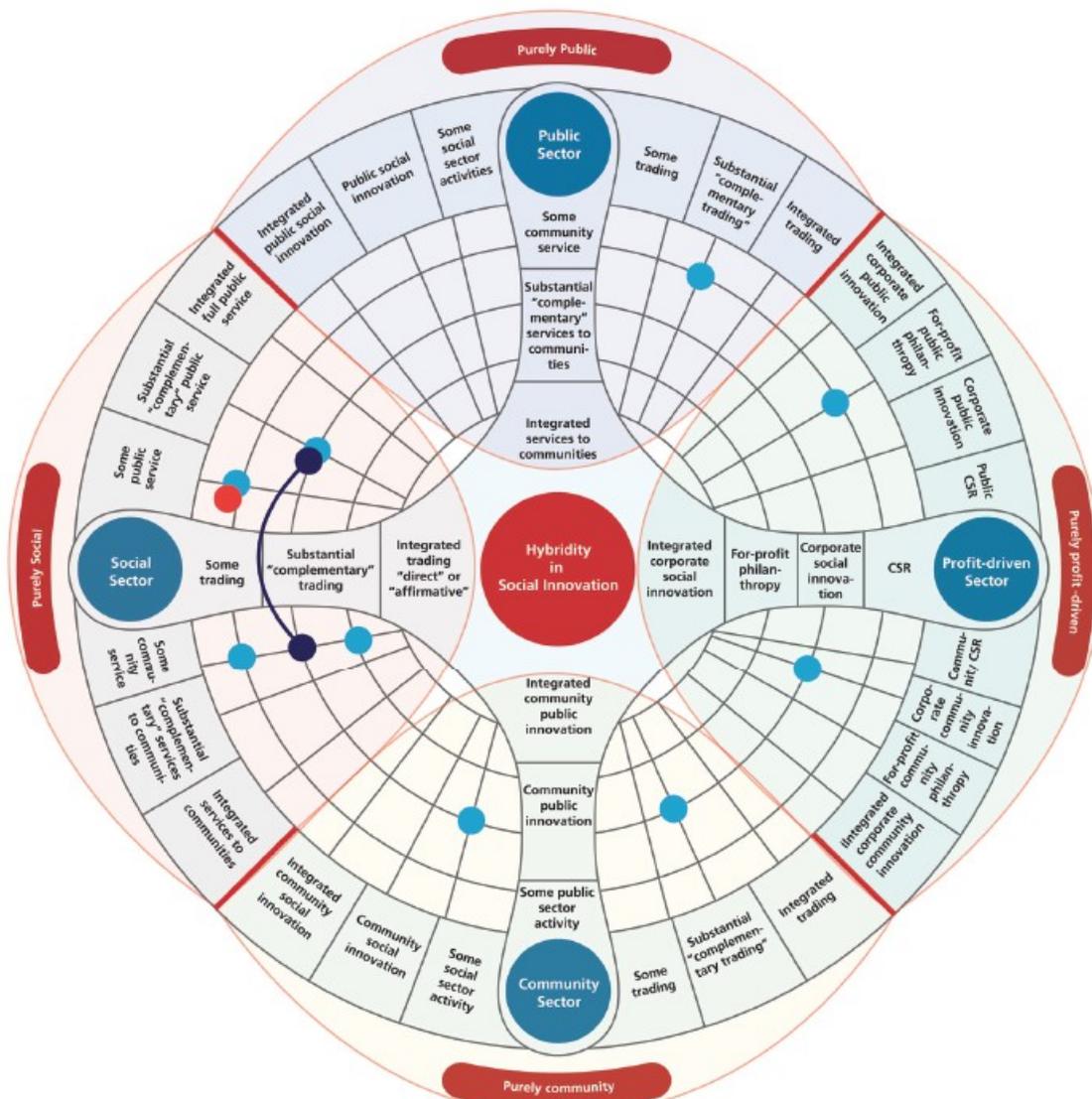
**Table 13 - Hybridity spectra for non-profit/for-profit organizations** (Molina, 2009, p. 19)

NON-PROFIT ORGANIZATIONS		FOR-PROFIT ORGANIZATIONS
Some trading (small amount of trading to support social value activities)		Corporate social responsibility (CSR) (supporting activities of social value with little or no relation to core strategic activities of the corporation). Corporate philanthropy
Substantial “complementary” trading (it produces surplus to cross-subsidize social activities)		Corporate social innovation (tackling social problems strategically aligned with corporation’s products/processes/ services)
Non-profit philanthropy (donations and grants with no access to the resources)		For-profit philanthropy (full company division tasked with philanthropic goals, with direct access to the resources of all other divisions)
Integrated trading: “direct” or “affirmative” (the trading operation itself creates the social value)		Integrated corporate social innovation (tackling social problems implying systemic innovation of one or multiple corporations’ products and business model)

**Figure 5 - Sources of nonprofit revenue in 34 countries in 2004** (as % of total revenue; Salamon *et al.*, 2004, p. 30)



**Figure 6 - Wheel of hybridity in social innovation** (Molina, 2009, p. 22)



### *2.2.2 Diverging economic and societal values*

As underlined in previous section by quoting Harris, through connections with the for-profit, NPIs attempt to gain resources in order to accomplish their social mission. The search for visibility, capitals and liquid assets is frequently regarded as a diverging strategy. Nonetheless hybrid TSOs challenge is precisely to stay focus on their mission in any case, getting the 'best of both worlds' (Etzioni, 1973; Mintzberg, 1979; Lewis, 2001; Billis, 2010). The fact that they combine diverse resources does not mean that they are going in a divergent direction. On the contrary, on De Bruijn and Dicke's opinion (2006) market mechanisms are the smartest way forwards for a more effective and efficient safeguarding of societal values. The operational structure in third sector is private, so the non-profit and for-profit sectors are not intrinsically diverging as it is thought. Economic rationality is important in any private organization also within the third sector. Non-profit organizations' functioning and governance can be analysed with the same instruments that are applied to for-profit organizations management. According to Jegers, in fact, the strategic planning and marketing techniques in the for-profit organizations are based on the same concepts of those ones of non-profit organizations (Jegers, 2008). Pure TSOs conventionally have to administrate public, private, financial and non-financial resources at the same time. According to the degree of hybridization, the demand for administration of those assets grows, together with the need to be ready to take quick managerial decisions or make risky investments. The negative impacts of the market mechanisms can be balanced with the access to new resources and influences, which previously were probably unattainable. This dimension of enrichment has to be considered together with the fact that market forces and public authorities may also exert some positive pressures. As a matter of fact, for-profit businesses are entities aiming at the maximization of the financial profitability of the capitals they invested (Vidal, 2011). The aim of third/private sector hybrids differs because the profitability that they attempt to maximize is that one of the social capital. Combining their interests with those of both private and public agencies, hybrid TSOs could attain their social responsibility purpose and maintain a long-term-economic-sustainability. It is important to keep in mind that both the private for-profit and third sectors have porous borders (Molina, 2009, Anheier, 2014). The overlapping between their respective spheres occur because they are intrinsically able to converge one into the other. Hybrid non-profit/for-profit organizations develop because they do not limit the source of revenue to donations, gift and subsidies conventionally gathered. They rather run profit activities and do investments in order to generate funds, which permit them to fulfil non-profit goals. This choice might seem controversial. Skepticism could rise,

many donors could be discouraged, and philanthropists could be persuaded from giving their own money, time and help. Increasing the risk of seeming a commercial business in disguise, maybe the third/private sector hybrids would assist at the shift from the pure philanthropy to active or venture philanthropy (this transition process is carefully examined in chapter 3.2). Regarding this, it should be considered that even conventional TSOs finance themselves in a mixed economy orientation (Anheier, 2014, p. 108). In such system the income is the sum of proceeds from commercial activities, private and public giving. Overall, three are the major challenges that hybrids face in order to merge successfully the economic and societal values (Hansmann, 1987):

- ♣ *Incentive compatibility challenge*, i.e. that the non-profit organizations' non-distribution constraint has to be respected to a meaningful degree. Incentives coming from profits allocation should be compatible with the degree of trust in the organizations;
- ♣ *Adulteration challenge*, i.e. trustworthiness gained by non-profit organizations should not be exploited by 'adulterous' individuals;
- ♣ *Reputation ubiquity challenge*, i.e. non-profit organizations' reliability as entities behaving on the interest of the consumers and not for individual interest's sake.

### *2.2.3 Membership versus ownership, shareholders and stakeholders*

This section describes the essential features of four of the subjects playing a crucial role in the hybrid TSOs' life: members, owners, stakeholders and shareholders. The remarkable characteristic of TSOs is that nobody owns the formal right to share any residual profit. Hansmann (1996, p. 228) notes that nonprofits rise when both the costs of contracting, and of ownership are too high for a category of patrons. In this case, defining the owners of the organizations may be quite complex. The TSOs can be structured as public-serving or member-serving entities (Anheier, 2014, pp. 100–101; see chapter 1.2). Membership associations provide services exclusively to their members. They use to ask for a subscription, as an advance payment for the services or goods offered. Nonetheless, the membership constitutes the social capital of many TSOs. The members' social satisfaction is placed ahead of the mere economic profitability since, in contrast to private sector organizations, human beings are more important than financial capitals owned. The nature of ownership is extensively investigated in the economic field, and concerns mainly two entitlements: the residual decision right and the right to allocate residual earnings (Hansmann, 1996) In the non-profit field, the conception of ownership is overwhelmingly questioned. Due to the non-distribution constraint, TSOs are considered not to have owners receiving residual returns, or exerting neither formal nor effective control.<sup>17</sup> For the organizations of the third sector ownership does not count, what is significant and determining is the social task. There is no one working in order to receive an income, profit or financial gain from the activity itself. Due to the limits on the income distribution, the social capital produced by the non-profit organization cannot pay dividends to anyone. Though TSOs are able to generate incomes, they cannot distribute them on a 'earning per share' basis. Members or stakeholders are often legal owners of TSOs, but not necessarily formal and effective ones. As a matter of fact, «the non-profit form abandons any benefit of full ownership in favour of stricter fiduciary constraints on managers» (Hansmann, 1996, p. 228). So, formal ownership belongs to the organization itself. Control exerted by members is not based on the economic contribution, but depends on the democratic principle of “one vote one person”. Due to the high relational value, the membership in TSOs does not simply mean being part of a group of beneficiaries. A member can also be a volunteer, a funder, part of the paid or unpaid staff. The TSOs' members are frequently a constitutive element, and represents the organization's existence itself. As regards this, Anheier speaks of «“quasi-ownership” among multiple stakeholders that

<sup>17</sup> Hansmann underlined how the right of formal control do not automatically imply the right of effective control. To exert formal control means to have the chance to express its own vote on issues such as dissolution of the firm. It is through effective control only that it is possible to dissolve the firm or to change its mission (Hansmann, 1996, pp. 11-12).

include board, management, clients and users, donors, and members, as applicable» (Anheier, 2014, p. 487). Billis mentions «different layers of owners» and explains why in hybrid TSOs there is a small «gap between *formal*, *active* and *principal* owners» (Billis, 2010, p. 53). Nevertheless, the formal members usually do not play an effective role like the active members do. The principal owners are those who have a crucial part since they define the history of the organization. Although this distinction, ownership has a multi-layered character and can flow between members, funders, volunteers, paid workers, etc..

Shareholders, also called stockholders are distinctive actors in the for-profit business sector and not in the non-profit one. Private for-profit businesses, in fact, typically pay an amount of money out of their profits to their shareholders. That amount is determined depending on the size of share contributed, and the chance to gain residual earnings strongly encourages shareholders to maximise those earnings. Unlike the stockholders, stakeholders do care about the production and delivery of public good. Stakeholders are a wide range of groups of people who have interests in or concerns about the successfulness of the organization.<sup>18</sup> They belong both to the organizational demand-side and supply-side, often simultaneously. They can be both internal and external subjects. According to the type of organizations, stakeholders could be: funders, owners, members, trustee, employees, volunteers, clients or users, customers, contractors, donors, supporters, suppliers, governments, customer advocates, environmentalists, media, special interest groups etc.. It should be noticed that within all these categories, several stakeholders' subcategories could be identified (Freeman, 2010). A theory about stakeholders developed in the economics and constitutes a theory applicable to all institutions. The organizational approach to stakeholders, though, is not generally acknowledged. A full recognition is not achieved especially within the private sector area, where the majority of the firms are self-interest-driven (Marcon and Dorigo, 2012). Nowadays, private for-profit businesses' capability of satisfying a larger variety of stakeholders' needs is straightened (see section 2.1.2). This change toward an enlarged social responsibility encouraged the blurring of the boundaries between the for-profit and non-profit spheres and originated a multi-stakeholders model, which consist of all subjects interested in the fulfilment of the social mission. They may all participate, to different degrees, in the the decision-making a hybrid non-profit organization. This multi-stakeholders board is bonded together thanks to a relationship of common interests and trust. The appointment of waged staff, growth in the amount of resources, and competitive mechanisms increase the extent of ownership related differences of hybrid TSOs (Anheier, 2014; Billis, 2010).

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<sup>18</sup> According to Freeman, stakeholders are «all those groups and individuals that can affect or are affected by the accomplishment of organizational purpose» (Freeman, 2010, p. 25).

The hybridity process, as a matter of fact, rises additional issues concerning the concept of ownership. Due to the hierarchization of paid and voluntary labor, the hybrid organization has to rearrange the role of many subjects in terms of operational tasks, ownership and governance. The last chapter of Billis' book (2010) titles 'Revisiting the key challenges: hybridity, ownership and change'. In those paragraphs the author does not exclude the possibilities of mission confusion, integrity and autonomy losses. Even though, he asserts that it is not experienced so frequently and that it is not completely predictable. The allocation of control rights is a difficulty which the pure TSOs typically face, and that their hybrid organizational form have inevitably to face as well.

#### 2.2.4 *Business model, competitive advantage and entrepreneurial formula*

Traditional TSOs becoming hybrid TSOs adopt distinctive features of for-profit businesses, in order to finance and efficiently manage their main mission. The aim of such behaviour is to increase the number of stakeholders and reinvest the surpluses for the expansion and empowerment of the organization itself (Dees, Emerson, Economy 2001). The objective of this section is to discuss about some of the major sources of tension of non-profit/for-profit hybridity. As seen in the course of the first chapter of this writing, the third sector has been encouraged to sector crossing. Non-profits serving public and private goods should trust each other and be ready to collaborate with any entity across sectorial boundaries. In fact, in order to be successful, the TSOs need to be:

«less concerned about preserving their own organizational boundaries and autonomy and to be more willing to collaborate with other TSOs, governmental agencies and for-profit business. The emphasis is on meeting needs in whatever way seems to work best, while not being too concerned about which organization, or combination of organizations, provide the services or which sector they are located in» (Harris, 2010, p. 28).

Being able to understand the other organizations' motives and interests could help to gain comparative advantage. Though, it might not be enough. The hybrids organizations may need to apply principles of the classical economic theory to their organizational structure. For instance, in the UK the public policy has been affected by the economic theory especially in the 1980s during the Thatcher governments (Harris, 2010, pp. 30-31). The discipline of the market and its principles was gradually introduced into the welfare provision. The organizations of the third sector begun to compete in order to provide care and social services. They no longer considered the welfare as an help to give *only* in accordance with principles of egalitarianism, altruism and trust. Among the economic concepts more and more relevant to the hybrid TSOs there are: demand curve, cost/price, competitive advantage and perfect competition<sup>19</sup>, social business plan. The hybrid TSOs, just as conventional TSOs «must consider when to compete and when to cooperate with other organizations» (Hammack and Young, 1993, p. 4). They act still considering the primacy of needs or rights, which they try to ensure. Though, the economic development became a condition to meet in order to guarantee social advantages. Many hybridities developed introducing themselves as supportive and innovative actors able to provide the fulfilment of public needs. According to

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<sup>19</sup> Perfect competition includes flexible prices, many small agents on both sides, and perfect information concerning the characteristics of good exchanged (Ben-Ner and Gui, 2003, p. 5). In perfect competition circumstances, many sellers accept the price determined by the market as a whole and each decides on a quantity to produce. At the opposite extreme occurs monopoly, «when there is only one seller of a good or service and no potential rivals. That seller is free to pick any price and quantity combination that is acceptable to buyers. In between is duopoly (exactly two sellers) or, more generally, oligopoly (a few sellers)» (Eckel and Steinberg, 1993).

Margaret Harris:

«Third sector organizations which move into mainstream services provision also need to ensure economies of scale; be focused on cost and prices; conform to public accountability principles such as a regular external monitoring and reporting; and be seen to meet quantitative performance targets (measurable outputs) of a kind familiar in industry and governmental agencies» (Harris, 2010, p. 33).

Both hybrid TSOs and TSOs are productive entities just as the majority of the organizations of the for-profit sector. They produce and supply public and private services and goods. Particularly, the sale of relational and trust goods or services below market prices is inefficient. This behaviour, in fact, does not benefit stakeholders over a long period of time. Underestimating the value of the resources means to operate without a foreseeing and long-term strategy. Assigning a significant price to products and services offered, allows to cover costs and increase the quality of the social action. Otherwise, economic self-sustainability is endangered and, consequentially, the life of the organization is threatened. In order avoid these mechanisms and to maintain the economic equilibrium, hybrid TSOs should operate in a perfectly competitive market and supply rival private goods (Ben-Ner and Gui, 2003, pp. 6-7). This means to apply the entrepreneurial approach or formula, which is adopted by social enterprises. Evers defines the social enterprise as «a special form of social service provision that take shape by hybridization» (Evers and Laville, 2004, p. 250).

According to him, it has the following characteristics:

- ^ *substantial degree of autonomy*, which enables an entrepreneurial management of its own activities;
- ^ *social purposes and market-based inputs balancing*, in order to have beneficial effects on the stakeholders;
- ^ *individual and collective positive social impact*, not only pursuing favourable effects for the members but also for the larger community.

This second chapter revealed how some of the pressures affecting the management and governance of hybrid TSOs can be avoided. Moreover, throughout the chapter it has been underlined which ones are the tensions likely to turn into opportunities.

### 3. Hybrid forms of organization

«The third sector provides a ready-made laboratory to study a creative variety of hybrid since it is here that many volunteer-driven associations have slowly adopted entrepreneurial and market-driven initiatives. A prominent example of welfare hybridity is the rise to prominence of social enterprises – organizations that illustrate in their title the fusion of third/public and private sector values» (Billis, 2010, p. 13).

The statement in quotes argues the very idea of sector, and proves that the organizational realities often diverge from the third sector ideal types. The sector boundary crossing is an acknowledgment that the economic, social and technological change globally affected and increasingly continues to affect the management of any kind of organization. In order to remain effective despite the changing environment, TSOs frequently adopt tools and principles of the private sector (Lewis, 2001, p. 100). Most of the hybrid TSOs' performance is determined by proceeds from private and commercial activities. The task of this final chapter is to provide an overview of the actual application of the theoretical framework identified and discussed in chapter one and two. The attempt to categorize TSOs hybrid forms might reaffirm the presence of a multitude of ambiguities and challenges in connection with the ideal model drawn in chapter 1.4. As a matter of fact, the large variety of conventional non-profit entities inevitably leads to a great number of possible hybrids structures. The result is a wide taxonomy of several categories of hybrids (Molina, 2009) with different roots, strategies and evolution perspectives.

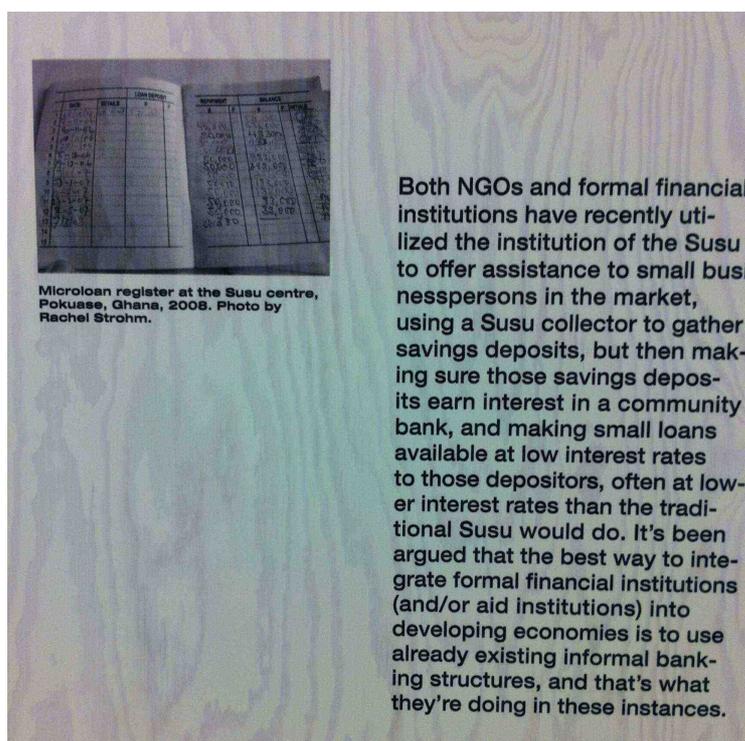
**Figure 7 – Hybrid forms of social change from 'Zero History'** (photo taken at the Greek pavilion, 55<sup>th</sup> International art exhibition La Biennale di Venezia, 2013)



### 3.1 Hybrid organizational models

There are many hybrid TSOs which are economically effective as well as concerned about the social needs of the community at large. As mentioned in previous chapter, the criterion used in this essay in order to identify non-profit/for-profit hybrids is «the degree to which organizations from the social sector implement motivations and activities that broadly pertain to the main purpose of organizations in the forprofit sector» (Molina, 2009, p. 11). The resulting third sector hybridity approaches are several, and include for instance: nonprofits with income generating activities, social enterprises, socially responsible businesses, etc.. All these categories blur the borders of one sector or more than one, in a multi-sectorial dimension. The typified models that are identified here are only instances of the multitude of those representing the hybridity between the private and third sectors. In fact, the types of hybrid outlined below in table 14 are some of the main categories part of a boundless taxonomy of hybrids, which build social and economic capital at the same time. The table lays stress on the strong points of each category and on the ambiguities, which might become either sources of weakness or strength.

**Figure 8 - One instance of hybrid forms of social change presented by 'Zero History'** (photo taken at the Greek pavilion, 55<sup>th</sup> International art exhibition La Biennale di Venezia, 2013)



**Table 14 – Types of hybridity** (Lewis, 2001; Molina, 2009; Billis, 2010)

<i>Type of hybridity</i>	<i>Summary</i>	<i>Key strengths</i>	<i>Key ambiguities</i>
<b>Trading charity</b>	A kind of charity which involves commercial activities in order to bring public benefits	- Broadening of the range of social activities and increase of the number of beneficiaries	- Tensions between charitable and business management styles; - Extent of tax exemption; - Hierarchization; - Lack of business skills
<b>Faith-based organization</b>	Community centre run by religious leaders and members, who volunteer encouraged primarily by their faith (as a condition of membership)	- Social purposes, not exclusively religious ones; - Mutual support development - Increase of fundings from local authorities	- Connection with a religious structure (the subsidiary owner); - Connection with TSOs - Religious as well as welfare functions; - Non-negotiable theological principles
<b>Fair trade</b>	Organization benefiting disadvantaged producers explicitly mixing profit-making techniques with social and environmental development's objectives	- Modernization of income generation; - Broadening of the range of social activities; - Development of local producers, educating - Consumers education to demand social, economic and environmental business standards; - Reduction or eradication of the poverty; - Local community empowerment	- Less interest on informal roles to develop role specialization; - Distribution of the trade profits on a share basis; - Widening of the rich/poor divide gap; - Hierarchization; - Neglect of local social origins and values - Growth of competition among the poor - Reduction of face-to-face, egalitarian and solidaristic relationships
<b>Community-based organization</b>	Associations, social action centres and development trusts operating to improve local people's lives through advocacy	- Experience with a multi-faced range of community's needs	- Connection with contracting bodies and paid staff employment; - Less interest on informal roles to develop role specialization; - Lack of community accountability and resources; - Multiple and divergent stakeholders
<b>House association</b>	Organization providing social housing for people in need	- More equitable distribution of housing right	- Finance secured on commercial terms through private borrowings - Interest on certain consumers rather than on collectivity's need

<b>Social business</b>	A particular form of social enterprise working primarily for the social benefit of the community and explicitly applying methods of profit maximisation	<ul style="list-style-type: none"> <li>- Long-term economic sustainability</li> <li>- Broadening of the range of social activities and increase of the number of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Tensions between paid and unpaid staff;</li> <li>- Social benefit in the form of dividends as well;</li> <li>- Lack of full organizational identity and legitimacy</li> </ul>
<b>Micro-credit programmes</b>	Financial service for disadvantaged people, such as small loans and saving accounts	<ul style="list-style-type: none"> <li>- Close understanding of local business opportunities in the community;</li> <li>- More equitable distribution of richness and development benefits</li> </ul>	<ul style="list-style-type: none"> <li>- Beneficiaries provided with dividends according to the size of share</li> <li>- Lack of knowledge about banking management practices</li> </ul>
<b>Social venture capitalism</b>	Organizations in which grant-making is considered as a social investment. Social venture capitalists, aka venture philanthropists or philanthropreneurs, apply market principles to their philanthropic efforts and distribute funds to under-served public issues	<ul style="list-style-type: none"> <li>- Long-term economic sustainability</li> <li>- Higher degree of expertise</li> <li>- Proactive strategies to find new funding ventures</li> </ul>	<ul style="list-style-type: none"> <li>- Charity as an investment with returns</li> <li>- Result-oriented approach;</li> <li>- Immediate relief of social need instead of fundamental long-term change;</li> <li>- Financial return as equivalent to social return</li> </ul>

### *3.1.1 Innovativeness in non-profit/for-profit partnerships*

Creativity is a problem-solving measure which is extremely helpful for any kind of organizational entity. The use of imagination and originality is especially advantageous for hybrid TSOs. The changing and complex nature of the social needs oblige the organizations of the third sector to be dynamic as well. The reciprocal link between innovation and hybrid character is deeply examined by many authors such as Molina (2009), Billis, (2010) and Bandini (2013). The common conclusion is that the more innovative organizations become the higher is the degree of hybridity and vice versa. New knowledge, instead of routinely management of resources, fundraising activity and staff is more suitable in the ambiguous circumstances faced by hybrids. As a matter of fact, a dynamic and changing scenario such as the social one requires a continuous modernization process. Innovative organizational structures are required in order to be constantly able to determine which ones are the major and latest necessities, and which methods should be applied to meet them. A pioneering approach is the only way to introduce up-to-date improvements and to enhance organizational learning. The hybridization process specifically implies that unfamiliar environments have to be tackled. With the introduction of creativity into the organizational structure and governance, hybrids might be enabled to rethink some fundamental strategies and to face complex tensions issued from a cross-sectorial environment (Billis, 2010, pp. 227-229). Decision-making processes, management of the risks and other technical knowledge can be learnt from the business for-profit sector through constant innovation. This could transform the third sector boundary crossing into a dynamic and successful act. The gathering of mechanisms such as economic self-sustainability, entrepreneurship and surplus reinvestment are vital for many shallow and entrenched hybrids. With a farsighted attitude, hybrids increase the knowledge and learning of key business tools and of social policy processes.

«An important trend in present-day social innovation is the marked blurring of sectoral borders with organizations from traditionally separate sectors coming together to make possible its creation and implementation. Prominent in this respect is the blurring of the rigid dichotomy between non-profit and for-profit sectors spurred by two convergent forces» (Molina, 2009, p. 5).

Molina's statement suggests that organization reshaping is possible, especially in the promotion and provision of well-being and care services. The social innovation is what helps to create social value, irrespective of the sector-specifics. Depending on organizational priorities and characteristics, particular organizational configurations will be planned (Mintzberg, 1979). The author of *Structure*

in *five: designing effective organizations* (1983b) defined the five main components of the organizational structure and their functions (see figure 9). His model identified the *strategic apex*, *middle line*, *operating core*, *technostructure* and *support staff*. Depending on the role and responsibilities taken by each of the outlined parts, a specific organizational configuration is constituted. Specifically, Mintzberg considers that each configuration is characterized by a dominant component and by related mechanisms of coordination that regulate them. The five parts or units are (Mintzberg, 1979, pp. 18–19):

- ⤴ the *operating core*, i.e. the unit where the work of the organization is performed and inputs become outputs, and goods and services are produced;
- ⤴ the *strategic apex*, i.e. the administrative unit where who detains power and control operates;
- ⤴ the *middle line*, i.e. the part joining the strategic apex with the operating core;
- ⤴ the *technostructure*, where the overall work is analysed and standardised;
- ⤴ the *support staff*, which sustains and strengthens the functioning of the operating core.

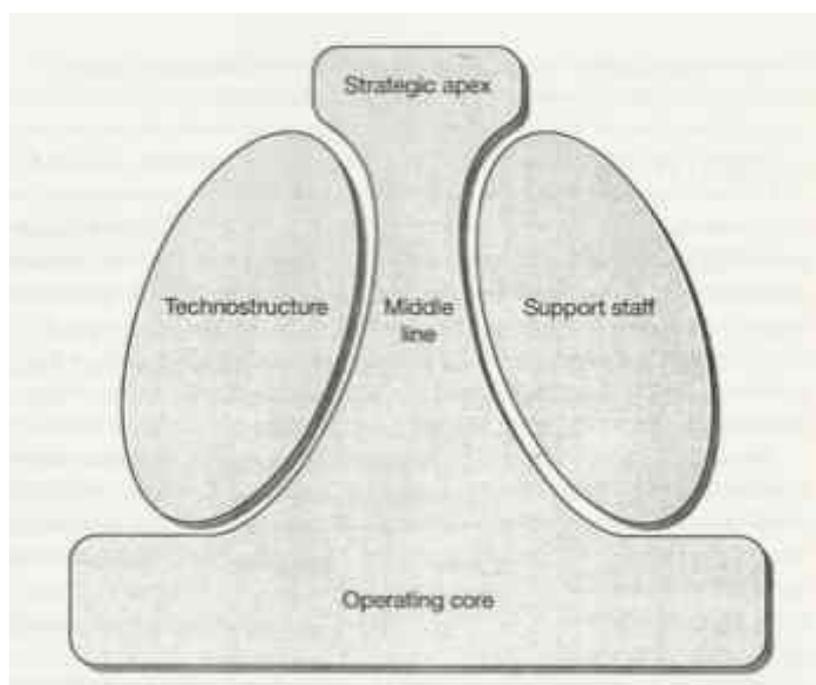
The five 'pure types' of organizational configuration identified according to the predominant components, coordination mechanisms and type of decentralization are; (1) *simple structure*, (2) *machine bureaucracy*, (3) *professional bureaucracy*, (4) *divisionalised form* and (5) *adhocracy*. The ideal types which could be considered to match most with the hybrid TSOs are the simple and the adhocratic organizational configuration<sup>20</sup>. Adhocracy is the more organic, loose and fluid structure among the five. Less stable than the bureaucratic one, it strives for both enduring and pioneering methods. The workforce operates in a dynamic and non-standard way. This allows mutual adjustment through informal coordination and constant innovation. Standardisation per se is avoided. On the contrary flexibility is the main feature characterising the workplace. In fact, in order to combine, estimate and maximize staff's knowledge and skills, 'shifting-work' procedures are applied. Adhocracy is a meritocratic configuration in which staff work in group. Often, administrators, owners or funders intimately engage in the activities collaboratively. Experts can be found everywhere and the decentralization is selective i.e. «power over the various decisions lies in

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<sup>20</sup> Mintzberg recognized the hybrid structure in the simplest organizational configuration, where no division in parts is established. «The simple structure [...] has little or no technostructure, few support-staffers, a loose division of labor, minimal differentiation among its units, and a small managerial hierarchy. Little of its behaviour is formalized, and it makes minimal use of planning, training, and the liaison devices. In a sense, simple structure is nonstructure [...]. Coordination is affected largely by direct supervision» or on mutual adjustment in the absence of direct supervision by leaders (Mintzberg, 1979, pp. 306–308).

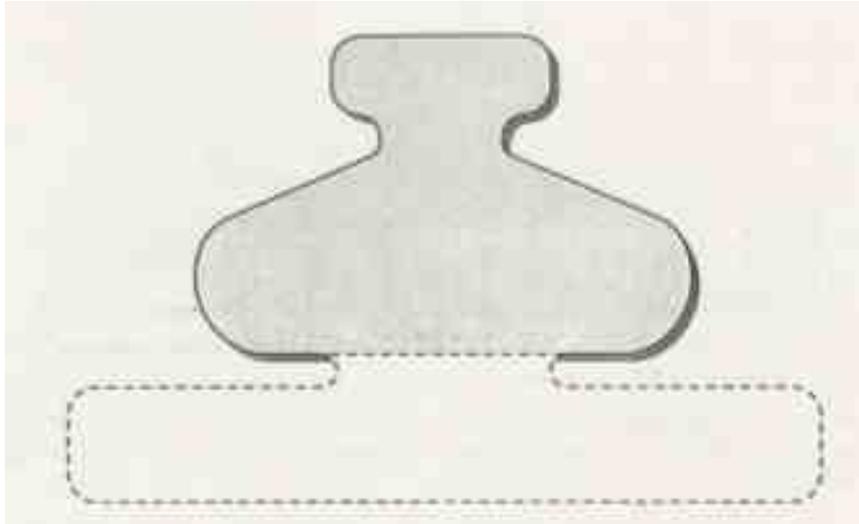
all kinds of different places in the structure, at every level of the hierarchy and among line managers, staff specialist and operators» (Mintzberg, 1983a, p. 395). The fact that none owns the formal right to control or exert power distribution structures the organization as an adhocratic form. In fact, «in adhocracy the various parts of the organization cannot be so easily distinguished» (Mintzberg, 1983a, p. 394). Coordination mechanisms could result critical due to the large number of possible team-groups. Nevertheless, the adhocratic configuration does not always identify the structural model applied by third/private sector hybrids. Non-profit/for-profit organizations often combine simultaneously different configurations on the overall structure, or even apply different configurations to each of the five parts of the organization (Mintzberg, 1979, p. 475). The need to respond to a pluralism of needs and forces obliges hybrid TSOs to configure as *divisionalised adhocracy* or *entrepreneurial adhocracy*<sup>21</sup>. Although that it is unlikely to identify the predominant configuration form for the myriad of hybrid TSOs. The dynamism of the environment surrounding hybrid entities, particularism and complexity of social needs force each hybrid organizations to choose more than one specific configuration and to continuously innovate it.

**Figure 9 – Mintzberg's structuring of the organization** (Mintzberg, 1979, p. 20)



<sup>21</sup> The first is an hybrid between the *divisionalized form* and *adhocracy* choosing one specific divisionalization (i.g. by region, product or beneficiary), but schizophrenically changing it and overlapping interrelated priorities. The latter, is an hybrid between the *operating adhocracy* and *simple structure* which tries to deal with the changing nature of the product or service supplied (Mintzberg, 1979, pp. 451-454).

**Figure 10 – Adhocracy organizational configuration**(Mintzberg, 1979, p. 443)



### 3.2 From philanthropy to venture philanthropy

The word 'philanthropist' means 'mankind lover' and has its origin in the early 17<sup>th</sup> century from the greek *philanthrōpos* [*philein* 'to love' + *anthrōpos* 'human being']. Conventionally, philanthropy is the donation of money and in-kind goods for charity. The term refers to the voluntary use of personal tangible and intangible resources for the sake of particular public causes. Although the scope is the public benefit, the act of giving could have different hidden motives. The purpose of this chapter is precisely to underline how the inner motivations pushing people to donate can have a great economic and social impact on the prospects of change. The awareness about their own role and about the effects of the donation on beneficiaries' lives turns simple philanthropists into active and engaged philanthropists. This passage changes the features of the traditional philanthropy and led to the proliferation of new philanthropic initiatives such as donor-adviser funds, donor-designated funds, strategic philanthropy, e-philanthropy and venture philanthropy. Such evolution allowed to think in terms of investment rather than in terms of gift (Mauss, 2002). The conventional philanthropic act is questioned especially in the hybridization process discussed heretofore. We have seen in chapter 2.1.2 that, regardless of the common thought, philanthropy is not the dominant source of revenue of TSOs. A more recent study (Roger *et al.*, 2012) reaffirmed that the private giving is the least economically significant source of income for nonprofit organizations. In many non-profits, in fact, the private donations are used to be regarded as a lifeline when they face insolvency (UN, 2008, p. 459). For hybrid TSOs the dependence on private, individual and corporate giving is often high. Enacted hybrid enterprises which provide welfare services tend to establish, from the very beginning, alliances and collaborations with philanthropic actors from the business sector. Similarly, several TSOs stopped relying on grants and started to invest in the creation of social value by engaging in considerably risky business ventures with private philanthropists. This tendency is argued first for the loss of autonomy, and second for the risk of endangering the integrity of the social mission. In this regard it is essential to distinguish between *endogenous* and *exogenous* elements of philanthropy. Anheier (2014) defines the first as the donor and recipient's intrinsic features, and the latter as the socio-economic environment influencing the philanthropic process. Within the endogenous component, the main factors are linked with the degree of awareness of the need, altruism, wealth and education, expectations of benefits, gender and marital bond. The exogenous component, instead, comprehends the solicitations and pressures exerted, political-legal regime and provided evidence of the impacts of the charity. Philanthropist might be private individuals, foundations, TSOs acting as philanthropic

intermediaries (see table 2) or other analogous institutions. In each one of these cases, the giving act, as it is traditionally conceived, might present some weaknesses (Anheier, 2014, p. 214; Hammack and Young, 1993, pp. 8–9; Salamon, 1987, pp. 111-112):

- ⤴ *insufficiency*, i.e. that resources provided are neither enough nor trustworthy;
- ⤴ *particularism*, i.e. that only a part of the beneficiaries or stakeholders are served. Sometimes, in fact, philanthropic action may tend to focus on some groups of disadvantaged people in particular;
- ⤴ *paternalism*, i.e. that the philanthropist exerts extreme control on the allocation of the resources provided;
- ⤴ *amateurism*, i.e. the presence of unskillful and unaware people engaging voluntarily in the philanthropic process and not apt to professionally manage it.

On the contrary, the innovative forms of philanthropic social investment that are spreading, are managed by prepared and expert who aim at high quality standards. Active or engaged philanthropism has a steady stream of funds, relatively reliable and adequate to deal with the tasks of the social mission. Expectations of financial *and* social returns are high. Venture philanthropy (VP) is the one of these initiatives which spreads increasingly. The main characteristics of this financing method are presented throughout next section, and the innovativeness of its objectives, mechanisms and results are stressed. More and more used to invest the capitals of start-up social enterprises, this entrepreneurial solution acts on a large scale and is able to develop an economic strategy coherent with social goals. The investment fund is managed by professionals with a specialized expertise who administrate the financial resources on the behalf of the social organization. The expected returns could be medium or high and so could be the degree of incurring risk. Nonetheless, the management of the financial risks is strongly linked with the management of the social enterprise itself (Bandini, 2013, p. 305). The venture capitalists' interest in the outcomes of the investment is proportionate to their interest in the successfulness of the social mission. So, the efforts to improve the efficiency, efficacy and originality are promoted and encouraged. Experts in financial management practices are *intimately engaged* in the social activities, work by frequently *shifting* their position and have *power over the various decisions* throughout the parts of the organization. Such organizational configuration leads to a *selective decentralization*, which is typical of what Mintzberg calls *adhocracy*.

### 3.2.1 A case study of venture capitalism

The case study that follow has been chosen as representative of the venture philanthropy (VP). The aim is to understand how some of the challenges, which the third/private sector hybrids face, can affect venture capitalism as well. The characteristics of the Italian case 'Oltre venture' are reported by outlining the major details about its genesis and evolution, statute, objectives, activities, operative methods, governance, sources of income, staff and partners. The main purpose is to present an instance of non-profit/for-profit hybridity and to describe the tensions and opportunities outlined heretofore with reference to empirical reality.

The spread of social venture capitalism plays a crucial role in the perspectives of social change of contemporary societies. Its impact, in fact, has been powerful because this financial tool to sustain the purposes of social enterprises is (Harrow, 2011):

- ♣ *on a large scale*, providing trustworthy and adequate amount of resources;
- ♣ *diversified*, reflecting diverse objectives and an high degree of personalization, so that the beneficiaries or stakeholders served are different and changing;
- ♣ *embedded*, since the philanthropic act is not transitory;
- ♣ *highly specialized and regulated*, skilful and conscious staff able to manage hard and risky goals.

Venture capitalism (VC) in the non-profit and third sectors rose in the US and then developed in Europe (Bandini, 2013, p. 305). The first Italian case of VC set up in order to create social value is 'Oltre venture'. (2011) The initiative established in 2006 arose from the foundation 'Oltre' and gives economic, organizational and strategic support to existing and startupper non-profit institutions. 'Oltre's function is not merely to fund non-profit partners, but also to cooperate with them in the fulfilment of the social mission. The final objective, indeed, is to grant the economic and financial sustainability of the social enterprise. This equilibrium allows to increase the returns of the investments or, at least to preserve the original size of share provided by the investors. The surplus are reinvested to improve the positive impacts and the development of the organization. 'Oltre venture' finds co-investors and partners, invests their capitals and redistributes the profits to the social enterprise sustained. The profit maximisation sought in order to bring a social impact and through social sustainable methods. This activity also called impact investing (EPVA, 2011a) aims at achieving strong effects on specific social issues such as health, care, housing, unemployment, microcredit loans, immigration, family bonds, elderly. Therefore, the professionals engaged in the governance and decision-making processes are not only highly skilled entrepreneurs but also

specialist in welfare provision mechanisms. Operating core and support staff, strategic apex, technostructure and intermediary line constitute a team with a deep knowledge of the non-profit sector. 'Oltre' provides know-how and innovative competences about social business. Although that, the intervention is not merely a grant distribution or a gift like in traditional philanthropy (EPVA, 2011b). Venture philanthropy is rather an engaged gift in which the donor truly care about the impacts on the beneficiary (see figure . This interest is represented by the willingness to compromise. The active engagement is witnessed by the selective criteria that 'Oltre' applies to the choice of its investments. As a matter of fact, projects must be intelligible, consistent and repeatable; provide a detailed social business plan, which demonstrates long-term economic sustainability and an entrepreneurial attitude (Oltre, 2011). Investors, in fact, are pioneering subjects who are aware of the social outcome of their investments. They could be individuals, foundations and business firms and usually commit because they understand the importance of both the social and economic value creation and equal distribution. Together with conscious investors, 'Oltre venture' efficiently and effectively responds to the complex variety of social needs that are unattained. The limits and difficulties of both governments and private for-profit firms need to be supported by hybrid solution like this. However, this modern approach to giving and philanthropy is often contested and nicknamed as 'philanthrocapitalism'. Edwards (2008), for example, argue that social philanthropists lack of understanding the complexity of the social change, therefore, cannot achieve it. Moreover, he claims that the capitals invested in such a social change are often produced by for-profit businesses, which are themselves cause of social problems. Even if it is a symptom of unequal distribution of wealth, the social venture philanthropy is fighting against this inequality. In order to eradicate the divide between the rich and poor parts of the society, the values of the philanthropic giving must be revitalized. The philanthropic impulse is non-return-seeking (Harrow, 2011). So, we should trust those for-profit businesses, which follow this impulse and invest in initiatives such as 'Oltre venture'. Indeed, they are seldom pushed by opportunistic interest, otherwise they would have chosen to invest their money in more lucrative commercial activities. Social VC investors are for-profit businesses, which understand the need for a social change, and acknowledge the fact that environmental resources are scarce and limited (Alleruzzo, 2013, pp. 15-16, Sen, 2000). They are aware of the obsolescence of the non-profit/for-profit net dualism. In fact, the third/private sector hybridity is a reciprocal advantage, both increasing TSOs' resources to fulfil the social mission and giving private sector firms the chance to make a change.

**Figure 11 – Social venture philanthropy (Oltre venture, 2011)**



**Table 15 – Oltre venture**

	<i>Oltre venture</i>		
The 'trigger'	Oltre Foundation - Oltre Gestioni srl		
Initiated by	Luciano Balbo		
Governance	Luciano Balbo, Lorenzo Allevi, Fabio Raineri, Giorgio Mercogliano		
Membership	Fondazione CRT Fondazione De Benedetti Cherasco 1547 FM Social Investment Fondazione Exodus Cleops srl De Agostini spa Eurofinleading Fiduciaria spa	Euromobiliare Fiduciaria spa Mais spa Tetrafin spa Fa.Ro srl Oltre Gestioni srl Micheli associati srl Gisei srl	Luciano Balbo Riccardo Casalegno Marta Ghirardi Massimo Antonetto Lucio Zanon di Valgiurata Maria Cristina Alpi Raffaella Alpi Carlo Alberto Marsiletti
Mission	Fulfilment of primary and relational needs of the collectivity		
Accountability	Bank of Italy		
Distinctive human resources	Members		
Distinctive other resources	Investors		
Results	Housing Microcredit  Unemployment Health and care	500 3000 30 200 13000	places for disadvantaged people microcredit lent micro finance institutions financed individuals employed users served at low rate

## **Conclusions**

This piece of theoretical and empirical research has been written to discuss an issue of current relevance to social policy. This writing is addressed both to the society at large and to other researchers. The objective is so far to improve human understanding about the topic, in particular of those who engage in social services' provision. The first implication drawn from the analysis of the theoretical evidences already provided is that substantial changes in the sectorial division occurred. The three sectors' roles and responsibilities towards social value creation grown as consequence of the collapse of traditional welfare state. Deep processes of hybridization begun and affected the stability and permeability of the sectorial boundaries. So, TSOs are no longer auxiliary entities in the supply of public goods and services. Instead, they affirm their role of productive and high value organizations capable of serving societal needs just as the public and private sectors. Sectorial identity and legitimacy are questioned and the presence of hybrid zones is highlighted. The concept of sector is reconsidered and underestimated due to the vast array of pioneering organizations born in between. Especially, identifying the elements of attractiveness that pressure TSOs to turn into hybrid forms of organization. In fact, the fluidity of the sector's borders increasingly encourages innovation and dynamism as fundamental feature to cope with the complexity and diversity of the social environment. So, economic entrepreneurship, business model and competitiveness become significant aspects of TSOs' management. Third/private sectors entities developed turning ambiguities and challenges into opportunities to create social value. If a pessimistic and suspicious attitude is overcome, the combination of businesses mechanisms with social principles can be accepted as means to respond efficiently and efficaciously to costly and complex social problems. Coordination, collaboration, co-production and ventures across organizations and sectors is envisaged. Both economic and social sustainability are required and the integrity of the social mission is to be preserved. This led to the necessity of insights into the hybrid organizational models and structures. Ideal type and distinctive features of the third sector does not match with the organizational realities and behaviour. Consequently, the definition of a third/private sector hybrid model is tentative. Even Mintzberg's configurations do not help steadily to identify the structural model of organization used by third/private sector hybrids. Indeed, what emerged is that hybrid TSOs can be characterized by more than one structural configuration at the same time (Mintzberg, 1979). The divisionalised and entrepreneurial adhocracy should to deal with the dynamism of the environment surrounding hybrid entities. Nevertheless, the particularism and multiplex of personal social needs oblige the hybrid organizations of the third sector to learn and adapt continuously

choosing more than one structural configuration and to frequently innovate it. Despite that the hybridization process is part of a coherent strategy. As a matter of fact, hybrid TSOs are often committed and highly determined to bring a social change, not only attempting to cope with lack of resources. Cultivating more than one sectorial dimension, TSOs may acquire additional tools and give better answer to the variety of social needs. Hybridization in third sector could appear an ambiguous and too rational solution that considers organizations isolated from the context or sector in which they act. The writing established beyond doubt that the imaginary boundary's lines of each sector can blur and that this is due both to incapacity and to skilfulness. The capability to collaborate and share its own distinctive skills leads to hybridities within and between sectors. The incapacity to meet the complexity and variety of needs stimulates the hybridization process as well. The spread of hybrid TSOs witnesses the fact that a more sustainable development is attainable, in large part, thanks to the transformation of organizational forms. The blending of different types of organizations implements a multitude of innovative value-creation models, which are able to provide simultaneously economic and social benefits. One of these initiatives is venture philanthropy, a measure in which capitalists' interest in the outcomes of the investment is proportionate to their interest in the successfulness of the social mission. Unlike traditional philanthropy, donors are investors intimately engaged in the social destination of the funds. They have power over the decision-making processes throughout the organization. The Italian eminent instance of venture capitalism demonstrates that maximising individual profits while satisfying the social needs of the collectivity is possible and can still preserve the integrity of the social mission. Nonetheless, the theories and empirical arguments presented in this paper should be treated as developments in progress since further researches and investigations are necessary to prove their validity and future trends. In particular, the spread of the multi-organizational hybridity phenomenon acknowledges that the study of hybrids has to be carried out in a more intricate multi-sector approach as well.

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