NGOs, enterprise and rural development

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Abstract

Non-Government Welfare Organisations (NGOs) in rural areas have traditionally relied upon the state for a large part of their revenue which in turn provides the state with the capacity to impose strict monitoring and evaluation. However the tightening of state funding has either forced NGOs to stretch their own resource to the limit or to become more enterprising and innovative in their desire to provide people with access to an ever-increasing range of community-based services and opportunities for connection with their local communities. The term that is often used for these new approaches is ‘social enterprise’ that has been defined as a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners’. It is most often seen as an interface between public and private sector, being part of neither but engaging closely with both through partnerships, stakeholding and joint ventures as well as through complex trading and contracting relationships.

Such broad definitions however do not give much guidance to how particular NGOs can shift to a social enterprise model and still remain within their chosen missions. It is the very processes of re-imagining and reforming their enterprise that is a vital element in moving to a successful social enterprise practice. Accordingly this project focuses on two NGOs in different parts of the world (Brophy Family and Youth Services in Warrnambool, Australia and Aberdeen Foyer in Aberdeen, Scotland) that have developed (and are developing) new ways of approaching their roles as service providers and early intervention agents for youth in their local areas. Since both organisations have faced (and are facing) issues associated with depleting state allocated resources they are attempting to break new ground in the ways in which they redevelop their work with youth. Both agencies are leading the way in developing a broader approach that draws together disparate element of a social enterprise model. The project analyses the processes used by these two agencies to develop as social enterprises and how likeminded agencies can use the model for capability enhancement.

Introduction

The NGO sector in rural and regional areas has been subject to increasing privatisation and competition in the delivery of welfare services during a period when neo-liberal economic models were adopted by the state. Many rural and regional NGOs have attempted to address the strain put on their resources as a result of the tightening of state funding by becoming more enterprising and innovative. One approach has been the adoption of a ‘social enterprise’ model that ‘incorporates commercial forms of income generation into non-profit organizations as a means to accomplish mission (social value) and achieve financial sustainability (economic value)’ (Alter, 2007: 57). A significant question for NGOs is how to develop the appropriate processes that balances the competing demands of a commercial model (with its emphasis upon efficiency and profit making) with those of social accountability (including equitable outcomes for clients and staff).

Two regional youth welfare agencies in different parts of the world that had experienced similar pressures are independently redeveloping their governance frameworks so that they can expand their work with youth. They are Brophy Family and Youth Services in Warrnambool, Australia that services south west Victoria and Aberdeen Foyer in the regional city of Aberdeen, Scotland that services the rural hinterland. This project will focus the ways that the two NGOs are developing organisational and governance processes to meet their needs for commercial and social accountability and to identify internal organisational and external environmental features that assist and inhibit such NGOs as social enterprises.

The specific aims of this project are:
1. To identify the features of NGO governance frameworks which enable them to balance commercial forms of income generation with social accountability.

2. To analyse the characteristics within youth welfare NGOs that enable them to act as social enterprises and inhibitors to such action.

3. To analyse the characteristics of the youth welfare NGOs’ environment, including legal, policy and social arrangements and the rural and regional context, that enable them to act as a social enterprise and inhibitors to such action.

4. To develop a social enterprise conceptual model and associated capability enhancement requirements that will allow NGOs to incorporate both commercial models and social accountability that will be transferable to other NGO contexts.

The project will deliver valuable insights into options for innovation in the field of youth welfare organisation arrangement in rural and regional areas as well as creating new avenues of debate about the nature of social enterprise itself. It brings together a multi-disciplinary team with research expertise and experience in governance and sustainability, enterprise education and social entrepreneurship in rural and regional areas. It also extends the relationships that have already developed between the two agencies (eg staff exchange) and the researchers (O’Toole, 2003) to embark upon an innovative partnership for re-thinking the conceptual framework of social enterprise in youth welfare agencies.

Specifically the application of the outcomes of the research will be:

- In the organisational sense to develop new and innovative approaches for dealing with a broad range of youth utilizing social enterprise approaches through an increase in resources.
- In a learning sense to develop the capacities of rural and regional youth NGOs and their staff to tailor services to local needs through social enterprise.
- In the client sense to create new and diverse types of activities for a broader range of users through the provision of more resources for better conditions and remuneration.
- In the economic sense introduce new ways of funding the operations of youth welfare agencies.

For this research to deliver meaningful results it must be aligned with processes used by leading youth welfare NGOs and be transferrable to other like agencies. To that end the conceptual framework needs both a solid theoretical base as well as processes that can be applied to actual existing agencies.

**Background**

In recent years a great deal of discussion has arisen concerning the privatisation of the welfare system in developed nation-states and the extent to which this has led to a decline in the power of ‘the state’ and a concomitant increase in the responsibility of the non-government sector to manage the planning and delivery of services. In effect, since power was transferred to the ‘the market’ during the 1970s and 1980s, non-government organizations have been forced to transcend their traditional role as dependent agents of the state to become more enterprising and creative participants (Loughlin 2004). Yet, whilst adopting this more enterprising and creative approach, there has been an ongoing need to work within certain traditional boundaries because workplace commitments to staff need to be sustained; economic imperatives relating to funding and marketing need to be continued; and importantly, the primary role of service provider to those ‘at risk’ or ‘in need’ must be maintained (Harvey 2005). The welfare sector was transformed into a site of competition and complexity, requiring those involved to integrate new information and knowledge and negotiate understanding of ‘old’ and ‘new’ patterns of interaction and
organizational processes (Bovaird, 2005 Wong, 2007). This ongoing process of adaptation does not only occur within particular organizations but also between networks of associated organizations, government departments and community consultative mechanisms. Consequently, the transformative process has often resulted in tensions with old institutions and forms of governance being challenged as efforts are made to negotiate roles and adapt identities.

Prior to the neo-liberal ‘turn’, community participation and involvement in governance processes relating to ‘local’ welfare provision were almost non-existent, but with a minimization of the state role and a shift of significant responsibilities to the private sector and NGOs a new form of collective action emerged (Quiggin, 2005). This transition has been described as the Third way where there are more ‘inclusive’ goals for incorporating the market and community into the governance processes (Gray, 2000). In this process NGOs were described as ‘enabling’ agents for citizens to gain access to support and local communities and NGOs were drawn into partnership with each other and with governments (Borzel, 1998; Bovaird, 2005). Tensions have resulted within and between organizations as complexities over the state apparatus and the plethora of policy-making sites emerged, and, as local citizens and NGOs were re-constituted as stakeholders operating in a free market environment (Eddy, 2006). The ability to adapt to new knowledge and understanding and to a new role and identity were required by both NGOs and community consultation mechanisms to avoid being excluded from success in the competitive tendering process.

To sustain services and develop new directions in a competitive market-based system, actors and organizations have moved beyond traditional roles and boundaries, and, adapted to the complexities which have emerged through a hierarchy of networks fuelled by the rapid change in all aspects of life (Greene, 2007). To move forward and overcome the tensions, new ways were needed to be negotiated through the creative integration of different understandings and knowledge, and, through such creativity a culture of enterprise emerges and new structures and systems replace old institutional forms and governance processes, thereby enhancing the capability of those involved to adapt to, and cope with, ongoing change. Responsibility is delegated from the state to individuals or organizations and new knowledge and skills are derived from increased training and education.

The notion of an ‘enterprise culture’ in its original form was defined as ‘the prospect of economic growth and development based on the triumvirate of science, technology, and education’ (Peters, 2001:65). Enterprise culture derived from the policies of privatisation and contracting out and reflected the wider neo-liberal values of linking economic imperatives to social, political and scientific elements that aimed to develop skills and knowledge of value to the market. The term was also adopted by Third Way proponents who argued that the major aim of such an approach was to provide many people with the skills needed to overcome socio-economic exclusion. ‘Enterprise culture’ was consequently linked to concepts such as the ‘knowledge society’ and the ‘knowledge economy’ because the acquisition and sharing of new and diverse forms of knowledge were seen to be determining factors in overcoming exclusion.

The focus on enterprise culture as networking; inclusivity; and community participation has been adopted by NGOs (Chang, & Ying, 2007) in two significant areas: 1) the internal organizational features of NGOs; 2) the linkages and associations between the networks of actors, communities and organizations involved in the governance process. In the first instance, relations between management, staff and clients and the built ‘space’ need to be negotiated because changes in organizational processes arose with changes to the role of NGOs following the neo-liberal ‘turn’ and again with the emergence of ‘third way’ approaches to welfare sector reform. This included re-assignment of roles and tasks within organizations; changes to planning and delivery of services to clients; and
sharing of new tasks relating to planning programs and establishing parameters for competitive tendering processes. Furthermore, ongoing education and training for staff has become an essential feature of their employment, with the onus for provision falling on the shoulders of the NGO. As the state withdraws from direct provision of services in the welfare sector, NGOs take on more responsibility for a wider range of services which creates greater complexity for the organization and staff; the need for more staff and staffing patterns; a more diverse workload for staff; the need for more training for these staff; changes in programs and objectives; and the need for larger and more complex built spaces within which to offer an extended array of programs and services. The result is that the internal organizational features of welfare sector NGOs are in a continual process of change, which can lead to tensions for staff, management and clients if those involved are not able to transcend the ‘old’ organizational culture and negotiate a new and more flexible culture which can adapt to ongoing change and complexity (Elmer & Kilpatrick, 2008). Acquiring the capacity and capability to implement new and innovative programs is therefore a responsibility for clients, staff and management – not merely for the abstract NGO.

There are also a range of external features which impinge upon the role and identity of welfare sector NGOs and require ongoing negotiation between different parties including the growth of an enterprising and innovative approach to governance. In particular, through ‘community consultation mechanisms’ NGOs become stakeholders responsible for working in partnership with other community members to bring about particular types of change of benefit to both their clients and the wider local community. Similarly, the NGO is also charged with forming relations with other individuals and organizations through a myriad of networks often involving virtual teams operating in different locations (Elmer & Kilpatrick, 2008).

This change in governance creates a great deal of tension and requires novel and enterprising approaches to the replacement of permanent with mediating structures. Governance in this respect is not only the vertical or corporate role of Boards or Advisory Committees but also governance in a horizontal mode where all stakeholders including staff, clients and management understand how social value is enhanced through the extended entrepreneurship of the organisation.

Out of this changing governance role for NGOs has emerged a new approach – social enterprise which first appeared in Italy in the late 1980s. Social enterprises vary quite markedly and some of the most common forms are: cooperatives, fair trade, community development corporations, social firms (or affirmative businesses), microenterprises, venture philanthropists and NGOs with for-profit trading activities (Alter, 2007). The basic characteristics of social enterprise are: 1) enterprise orientation; 2) social aims; and 3) social ownership (Alter, 2007). Defourny & Nyssens, (2008:4) argue that social enterprises are hybrids ‘at the crossroads of market, public policies and civil society’ and ‘combine income from sales or fees from users with public subsidies linked to their social mission and private donations and/or volunteering’. However, while achieving the mission is meant to create ‘social value’ the methodology of social enterprise itself is mainly encapsulated in commercial financial models or income generation. The expectation is that adding profit-making businesses to social organisations will increase their sustainability and service capacity. Anderson and Dees (2006) suggest that care needs to be taken in placing too much emphasis on the commercial aspects of social enterprise as it may lead to some false expectations. Notions of financial independence or increased flexibility of expenditure on social programs need to be tempered by the reality that many start-up businesses in fact fail (Anderson & Dees, 2006).

Others have suggested that social enterprise is more than just an adaptation of commercial models for use by NGOs. Reid & Griffith (2006:1) suggest that social enterprise should include a collective or democratic pursuit and be ‘institutionally different from earlier mechanisms to usher in a third way’. For Nichols and Cho (2006:102) ‘the application of market orientation to social purpose ventures is a
more complex construct that simply a path to generating financial as well as social returns’. Social enterprises have to address market failures where market and government institutions fail to address the need for new public goods while still largely working under the grant funding landscape that has become increasingly competitive and demanding. This is not an easy process especially where “there is an inherent tension between entrepreneurship and risk taking on the one hand and traditional role of trustees acting as guardians of values who are therefore almost constitutionally averse” (Mulgan, 2006: 92). Consequently, focusing on ‘social enterprise’ only for the sustainability of NGOs can be problematic. As Anderson and Dees (2006) argue, increased financial freedom and/or sustainability and perhaps some measure of financial self-sufficiency only make sense if they lead to greater positive social outcomes.

The place for social enterprise in rural and regional areas is contested one since local community members have always played a significant part in service delivery. In many ways community involvement through volunteerism is a long-standing practice in regional and rural areas and helps to unite local people and groups to respond to community needs (Edwards & Woods, 2004). However resources for community development are often lacking in regional and rural areas especially where there is a thin pool of people for leadership roles (Kilpatrick, Cheers, Gillies & Taylor, 2009). Added to this are issues like the recruitment and retention of suitable professional staff in rural and regional areas whether in the public or the private sector (O’Toole et al. 2008). Under these circumstances the introduction of social enterprise into new environments is not merely a process of adopting (or adapting) existing organisational frameworks but rather focusing on the purpose first and then developing the organisational form after (Anderson & Dees, 2006). The shift to social enterprise is captured in the following diagram.

![Conceptual Framework and Research Approach](image_url)

**Charitable Agency**
- Clients – Welfare for at Risk Youth
  - Externally Specified
    - Client Services at risk youth
    - Early Intervention for at risk youth
  - Staff – Particular Role
    - Workplace only
  - Separate Program Delivery
  - External Funding

**Social Enterprise**
- Service Users –
  - Open Youth Access
  - Externally specified + Locally relevant
    - Client Services at risk + open access for all youth
    - Early Intervention at risk + open access for all youth
  - Staff – Expanded Space for Creativity
    - Workplace and community interface
  - Joined up Service Delivery
  - External Funding + Trading

**Welfare**
- Capability enhancement
obtained. Since the two organisations will be involved in a systematic process for improving policies and practices through learning from the outcomes of their expanded social enterprise operations they will need to adopt a form of adaptive management. By targeting research about those operations to the needs of the organizations through monitoring, evaluation, review and reporting it is anticipated that there will be an improvement in the stakeholder capacity, skills and learning. Furthermore since the methods and techniques developed during the life of the project will become part of the operations in both agencies a significant element for an adaptive management approach is training in research and analysis for the agency staff. To that end the research team will work closely with nominated staff in the agencies who will be responsible for the continuation of the organisational learning process into the future.

To ensure that the agencies are clear about the research process the research design will closely follow the aims of the research project outlined above in the first section.

**First** the project team will identify the features of NGO governance frameworks which enable them to balance commercial forms of income generation with social accountability. In this process the project team will not only use a literature search that directly identifies the features of governance for commercial and social forms of accountability and the literature that focuses on blending the two forms it will also focus on the literature that critically appraises accountability in both economic and democratic institutions. While there is a growing literature on social enterprise (see Nichols 2006) there is still a large gap in the literature that directly confronts the issue of accountability and governance. Accordingly this part of the project is important in not only identifying a broader analytical framework within which social enterprise functions but also for identifying those elements that may cause concern for the stated missions of the two youth agencies.

**Secondly** following the initial appraisal of the literature the project team will adapt and utilize a Grid for Organizational Assessment for Learning from the Roberts Enterprise Development Fund (REDF) to analyse the characteristics within youth welfare NGOs that enable them to act as social enterprises and inhibitors to such action. This will focus on seven categories: agency mission and strategic plan; delivery of social service; the management and corporate governance structure; financial planning and reporting; sustainability of revenue and expenditure; social outcomes of clients; and staff development. The scoring system for each category will be derived from a range of variables that emerge from literature review designed to measure both social and economic values. Importantly it also assesses the capability of the agencies to adapt their processes for innovation. Parts of the assessment grid will be modelled as closely as possible on quality frameworks already used in the agencies to ensure that the agency can easily adapt its existing practices. This is an essential component of the research as the aim is assist with development towards social enterprise without significantly increasing cost and labour time in the agencies. Furthermore the process allows the agencies to reflect upon their present practices and confront any barriers that may impede their progress towards social enterprise.

Much of the data collection for the second part can be derived from existing records in the agencies. To test the validity of that data and to fill any data gaps there will be a survey of all groups within the organisation; members of the local board, the management team, program workers and clients. The survey will be based upon the variables developed for each of the categories in the Grid for Organizational Assessment for Learning and will be preceded by two focus groups to ensure that the language used in the survey is consonant with that used locally. However survey questions will need to frame the same issues for both agencies so that comparability of results can be obtained.
Once the data has been analysed the project group will share the results with the agencies’ members (board, management, staff and clients) in two workshops. These workshops will be co-run by a member of the project team and agency staff. This part of the method is fundamental to developing a learning process for the agencies which can then be tested in a second survey that will be followed by another set of workshops. Engaging all stakeholders in this way not only yields good data for decision-making it also supplies valuable learning for the organisation as a whole and is similar to the successful process used by Kilpatrick in examining the implementation of a quality improvement program in welfare agencies (Elmer & Kilpatrick. 2008).

In this second part of the project it will be important to collate and code the data into formats that allow for comparison across agencies. The aim here is to ensure that there are sufficient data extraction methods already existing in the agencies that can be utilized again by agencies for future reference once this project is completed. Furthermore there is a need to incorporate variables in the surveys that can form the basis of future reflection and planning in the agencies. Such surveys need to be designed for the agencies that both receive feedback from different groups on issues of concern as well as measures of development for board, management, staff and clients.

Thirdly the project team will analyse the characteristics of the youth welfare NGO’s environment, including legal, policy and social arrangements and the rural and regional context, that enable them to act as a social enterprise and inhibitors to such action. The will run in conjunction with second part and will include four elements: the regulatory framework; policy environment; competitors; and demographic characteristics of the catchment area. The methods here will derive mainly from desktop analysis as well as interviews with key personnel in the agencies, major funders and the government departments to which the agencies report. Once the legal, policy and social environments of the agencies have been mapped the data will be fed back to the agencies for inclusion into their social enterprise appraisal. This part of the project is important to ensure that agencies are fully aware of any legal, policy and social issues that may possibly inhibit any proposed activity. It also allows the agencies to act in an entrepreneurial way to work out ways in which apparent inhibitors may be adapted to become future opportunities.

Finally the project the team will draw upon knowledge learned from the other three parts to outline a social enterprise conceptual model and associated capability enhancement requirements to incorporate both commercial models and social accountability. The team will construct both a conceptual framework for basic learning in social enterprises that focus on youth welfare and also outline some approaches that may be applied to building adaptive capacity for agencies that wish to move down the path of social enterprise.

Application of the project
The importance of this research is that it not only re-theorises the issue of social enterprise and NGO governance in complex environments, but also provides a conceptual model for other agencies to follow. The researchers use a trans-disciplinary approach in working with two youth welfare NGOs in Australia and Scotland. To help the agencies better understand and communicate how their approach to social enterprise spans both social and commercial outcomes this research adopts a comparative approach to two specific case studies. The conceptual framework for the project draws together the disparate elements of social enterprise in the literature and demonstrates how these elements go beyond a traditional view of NGOs in the welfare sector.

The benefit of this project lies in focus on developing a model of social enterprise that can 1) improve the self-sufficiency of the NGOs, 2) offer better and expanded services for NGO clients 3) improve the working conditions of NGO staff and 4) create a more inclusive society. It can also be used to inform policy development
for welfare agencies and for other agencies working with disengaged and at risk groups.

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