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Social Economy and the Dependency on Governments:
The Role of Collaborative and Competitive Strategies in the Diversification of Funding Sources

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SUMMARY

Social economy organizations play an increasing role in the societies.
However, many of them are **challenged by the lack of funds to develop their missions** and among the available funding sources, **public funds account for an important slice of their budget**. But **subsidy dependency can be fatal**.

This paper presents some alternative **competitive and cooperative strategies** that help overcoming this dependency problem many of them face. The solution is the **diversification of funding sources through these strategies**.
This has become a strategic issue considering the long term development of the organizations.

THEORY

1. Social Economy Organizations and Governments

There are two major approaches about the relationship between the governments and the social economy:

- **The "market failure/government failure" model** - the lower the role of the government social welfare, the higher the importance of nonprofit organizations as alternative public goods providers (Salamon and Anheier, 1997)

- **The "voluntary failure or partnership" model** - the activity of the government and nonprofit organizations is complementary and there is a "direct relationship between government social welfare spending and the extent of nonprofit activity" (Salamon and Anheier, 1997:5).
  This partnership can be problematic to the organizations if it becomes a **highly dependent relationship** because they can be caught in a **"subsidiary trap"** (Brooks, 2000:252) and there can be a **mission creep**, i.e. "a pernicious process of moving further and further away from the core mission" (La Piana and Hayes, 2005a:6).

2. Strategies for Diversification of Funding Sources –
Diversification of Funding Sources as part of the Strategic Management

Should organizations simply refuse government support?
A pro-active instead of a passive behavior is a much more appropriate solution, with the **hybridization of funding sources** (Froelich, 1999; Laville and Nyssens, 2000).
What else can social economy organizations do? **To develop strategies to diversify the funding sources** seems to be the answer.

The **diversification of funding sources must be part of the strategic management approach of social economy organizations**. Since no organization can survive to the turbulence of the environment without a long term vision of its path, strategy is an essential pillar to its sustainability and sometimes survival, as well as mission accomplishment.

Collaborative Strategies

These strategies help providing a more efficient service but still preserve autonomy and identity of the organizations.

- **Mergers**

Mergers in nonprofit sector have a financial rational, based on cost savings, solvency and sharing resources, but it is mostly driven by the mission and the ability to accomplish it. The merged entity should be better able to develop the mission (La Piana and Hayes, 2005b)

- **Strategic alliances**
  - **with social economy organizations** - a more collective action to produce social goods or services
  - **with companies in the context of Corporate Social Responsibility**

    Benefits for social economy organizations: increasing reputation and visibility, additional financial resources, technology and expertise (Austin, 2000), as well as managerial advice, technological and communication support and a skill volunteer workforce (Berger, Cunningham and Drumwright, 2004).

Competitive Strategies

These strategies help providing a more efficient service but still preserve autonomy and identity of the organizations.

- **Piggyback strategy**

investing in or developing unrelated or related businesses, yet considered safe investments, which are compatible with market opportunities (Nielsen, 1982; 1986).

Particularly important in the present context where social economy organizations face a variety of challenges:
- **increasing costs**
- **increasing competition** with similar organizations for fewer available donations and grants
- most recently, **increasing rivalry from for-profit companies entering the social sector**.

CONCLUSIONS, IMPLICATIONS AND FURTHER RESEARCH

The **need for strategic management** in order to both compete and cooperate in the sectors is required not only to minimize the subsidy dependency but also to ensure long term survival of social economy organizations with self-funding.

The **diversification of funding sources** is part of the strategic management.

The idea behind the diversification of funding sources is not to become a commercial organization, but instead, keeping its mission accomplishment through a **for-profit-reinvestment strategy**. This discussion can be **useful not only for researchers and academics, but mainly for practitioners** who many times struggle for alternative ways to get funds to develop their organizations' missions.

Further research on the **diversification of funding sources**, not in the financial perspective as it has been mostly done, but more towards **the strategic management approach** could be of great interest.

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