

# **Capitalism, Institutional Complementarities and the Third Sector**

## **The Private Institutions for Social Solidarity (IPSS) in Portugal**

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### **Introduction**

How can one explain the different configurations adopted internationally by the third sector? Why do the third sector organizations (TSO) assume different logics, dynamics and functioning principles in different countries? Why do they interact in such a diverse manner with the other sectors of the economy?

This paper uses the theoretical contribution of the varieties of capitalism (VoC) literature to provide an answer to these questions. Several studies on the VoC approach have emphasized that there are various forms of capitalism, each corresponding to different institutional arrangements, which have their own functional logics, as well as specific institutional interrelationships. When considering the VoC theoretical framework, the concept of institutional complementarities is particularly significant. It suggests that countries which develop their own particular forms of coordination in a given economic field tend to develop institutional complementarities in other sectors. In other words, the viability of an institutional form is conditioned by the existence of other, different, institutional forms, such that their conjunction offers more coherence than alternative institutional configurations.

Combining a quantitative and a qualitative analysis, this paper finds that the particular configuration of the third sector in Portugal can be explained through a dynamic process that involves the constitution of institutional complementarities which were being built via established compromises between social and political forces. The analysis focuses particularly on those TSOs which function in the social welfare sphere - the Private Institutions for Social Solidarity (IPSS) - and shows that their characteristics and form of functioning are related to the variety of capitalism operating in Portugal. The study also compares the IPSS with their English counterparts - the Charities. It reveals that their differences - related to the composition of the workforce by sphere of activity, their state-oriented or market-oriented nature, concentration or

dispersion level, volatility, innovation and marketing capacity, relations with the financial system and accountability - are explained by their embeddedness in the different models of capitalism, generally designated as the Mediterranean model and the Anglo-Saxon model, consolidated through a set of specific institutional complementarities.

The paper is structured as follows: first, the study of the third sector regimes is justified as an important theoretical tool, as it allows us to understand that the differences and similarities exhibited by TSOs internationally depend on a set of relationships that are established with the other institutional sectors of the socio-economic system. After that, it is shown that although the social origins theory is a valuable contribution to the study of the third sector it is possible to go further by using the VoC perspective. And so, after emphasizing some diversity and ambiguity in the VoC approach, mostly in the way in which the concept of institutional complementarities is used, it is claimed that Amable's definition of five capitalisms offers undeniable advantages over the other typologies. The Mediterranean and the Anglo-Saxon models are compared in the next section in order to better understand how the TSOs fit in each of these models. The *Johns Hopkins Comparative Nonprofit Sector Project* (CNSP) statistical data are then used for a first comparison between the third sector in Portugal and in the UK. It is found that their differences are the outcome of a long and complex historical process which determined the formation of different types of capitalism, marked by distinct institutional complementarities. It is from this perspective that the various characteristic and functioning dynamics of the Portuguese IPSS and the British Charities are explained. Lastly, the text concludes that the several conceptions of institutional complementarities reported in the VoC literature are present in this study, although varying in intensity and relevance.

### **Third sector regimes**

The different configurations adopted by the third sector in various parts of the world result from a complex historical process involving social and political forces, which shape their course and place in the governance of societies through a set of institutionalised compromises. That is why the reference to a 'French model' or a 'German model' as unique cases is justified in the analysis of the differences among countries. As it is easy to agree that each country is a unique case, why not just carry out a national-level analysis? In a more generalized discussion of capitalism models, Amable (2005: 23) gives a good answer to the question. On the one hand, we can find large institutional differences between the regions of a country and, within the regions,

differences between the activity sectors and the organizations that constitute them; this could justify a more desegregated level of analysis. However, the problem inherent to this kind of procedure is the potentially limitless choice of appropriate levels. On the other hand, if the analysis is carried on solely in a national context, the theoretical explanations are only specific to the country in question, which hinders international comparisons and does not allow the generalization of the theoretical framework<sup>1</sup>.

However, if we look for some theoretical generalizations when studying third sector regimes, there is a real risk of coming to simplistic conclusions. Firstly, we cannot always expect pure regimes. There are frequently discrepancies between the quantitative and qualitative criteria used in the definition of ideal-types, which leads the authors who employ them to conclude for the existence of mixtures of several models<sup>2</sup>. Secondly, as socio-economic processes are dynamic, hybridization phenomena frequently occur among third sector regimes<sup>3</sup>. These issues, however, do not undermine the usefulness of regimes' or models' definitions. On the contrary, by constituting a balance between the analysis or description of empirical particulars and the excessively abstract generalizations which characterize conventional economic theories, their study allows us to understand the formation of the third sector through a set of interactions that are established with the other institutional sectors of the socio-economic system.

### **Social origins theory**

One of the best-known typologies relating to the third sector was created by Salamon and Anheier (1998) within the ambit of their social origins theory<sup>4</sup>. Based upon Esping-Andersen's classification scheme (1990), and focusing particularly on the complex relations which are established between social classes and social institutions, these authors differentiate four types of

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<sup>1</sup> As Hodgson (2001: 39) puts it: "Science cannot proceed without some general or universal statements and principles. Explanatory unifications and generalizations that explain real causal mechanisms are worthy goals of science".

<sup>2</sup> See, for example, Archambault (2001: 21, 22) where the French associative sector is mentioned as having a mixture of Mediterranean, Scandinavian and Renan characteristics, or Salamon and Anheier (2000: 19) who, within the social origins theory, situate the UK between liberal regime countries and ones operating a corporate regime.

<sup>3</sup> The most prominent case may well be that of Germany after the reunification (Archambault, 2001: 21), but it is not the only one. For example, considering Portugal, Ferreira (2006) endorses the idea that the welfare regime and the role of the third sector in Portugal are now changing, partly due to the political influence of the European Union, after its entry.

<sup>4</sup> Before that, Anheier (1990) had already developed a typology of the third sector not very different from that of Esping-Anderson regarding Welfare States. Under the pilot program "Third System and Employment" (CIRIEC, 2000), the CIRIEC also distinguished four forms of relations between State and the third sector.

nonprofit regimes, involving two key factors: the level of government social welfare spending and the scale of the nonprofit sector.

In the liberal regime, represented by the USA and the UK, a low level of government spending is associated with a large-scale nonprofit sector. According to the social origins theory, there is a strong middle class in this kind of regime and the opposition of the working class or other groups connected to the land never occurred or had little impact. That would explain some ideological and political hostility to state intervention in social welfare. Although this intervention expanded after World War II, mainly in the UK, there was always some resistance to the expansion of welfare policies, with charity and voluntary activity being favoured instead.

In the opposite regime - the *social-democratic* - nonprofit organizations are scarcely involved in the production of collective services, which are assured mostly by the State. Historically, this model was influenced by the existence of a strong working class which exerted an effective power on the course of public social welfare policies. The reduced scale of the nonprofit sector does not imply a diminished role. Quite the opposite, the sector is quite active, not so much in the supply of services, but more in activities of political, social and cultural expression.

In the *corporatist* model, characterized by high government spending and a large nonprofit sector, the State is amply involved with the associations, such that the growth of one is associated with the growth of the other. In these countries, like France or Germany, the State chose or was forced to establish compromises with the nonprofit associations. In order to obtain the support of some elites due to the increasing pressure of the working classes, the alliance between public powers and a strong Catholic Church resulted in the assurance of a segment of social protection by volunteer private groups, many of which had religious affiliations. The result was a strong connection between State and third sector organizations (TSOs) and, as a result, a relation between high government spending and a large nonprofit segment.

Lastly, in the *statist* model, the State exercises control over social welfare, which strongly constrains social government spending and the development of the nonprofit sector. In countries such as Italy or Japan, the State operates social policies independently of any pressure from the working classes, in contrast to the situation under social-democratic regimes. Its power, even when favouring the economic elites, is exercised autonomously thanks to a traditional culture of deference and a greater flexibility within religious groups. Bearing this in mind, one can conclude that a reduced level of government intervention in social welfare does not result in a large nonprofit sector, as in liberal regime countries.

The social origins theory makes an important contribution to the study of the third sector. Above all, it reveals that conventional economic approaches, based on State or market failure, do not satisfactorily explain the genesis, evolution and role played by TSOs in contemporary societies. Choices regarding the allocation of the production of certain services to the State, market or third sector are not made by individual consumers in an open market, as neoclassical theories argue. Quite the contrary, they are constrained by historical development patterns and by the options available in a determined time and place. And so the nonprofit sector cannot be seen as an isolated phenomenon “floating freely in the social space but as an integral part of a social system” (Salamon *et al* 2000:21), embedded in significantly particular historical conditions. Another important contribution of this theory is the focus on the complexity of the relations established between social classes and institutions.

In spite of the progress made by the social origins theory regarding conventional theories, some problems still remain. The first difficulties appear when we try to classify the array of countries in these four models. Statistical tests presented by the authors themselves do not seem to represent reality. If in some cases the data seem to validate the theory, such as in Australia or the USA, it is somewhat unclear in others. For instance, Spain and the UK appear in the social-democratic and corporatist quadrants respectively, which would not be expected. As in any other typology, it is only natural that not everything fits as predicted by theory. But even when some flexibility is allowed, tests presented to date do not seem have the desired level of consistency. We can still argue that this theory maintains a dualistic vision of a society based on State/nonprofit sector relations, not being very far removed, in this aspect, from the contract failure approaches that characterize traditional analysis (Wagner, 2000). It is clear that the dynamic of the third sector cannot be explained if its connections with the State and its policies are not kept in mind. As it has been amply shown, there is a very strong connection between type of State and main third sector characteristics<sup>5</sup>. The words of Estelle James (1989: 8) are relevant here, in the claim that a comprehensive explanation regarding the nonprofit sector necessarily requires a theory of the state.

However, a better understanding of the place and role of the third sector in the contemporary capitalist system requires its insertion on a wider scale, and the complexity of the

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<sup>5</sup> See, for example, the works of Ferreira, which have been clearly emphasizing that relations with the State have moulded Portuguese TSOs, while the contrary is also true (2000, 2005, 2006).

interdependencies with the other social and economic sectors to be maintained. Thus, the focus must be diverted from the analysis of a single sector and even from a dualistic relation (State/third sector, for example) in order to understand the internal logic of an institutional configuration within the economic and social system as a whole. In other words, what is intended here is not to fit the third sector just into a theory of the state, but into a theory of capitalism, too.

### **Varieties of capitalism and institutional complementarities**

In the decades following World War II, it became quite clear that the world's most advanced economies knew vastly differentiated growth processes. Naturally, a new generation of political economics studies started to appear, hoping to explain how different institutional arrangements engendered such diverse development paths in the various countries.

Despite the existence of some theoretical antecedents, the debate regarding VoC gained new impetus with the work of Hall and Soskice (2001) and their collaborators. It is intended to show that there are several possible choices regarding the organization of the production of goods, related to the kind of institutions that have an impact on the markets. Institutions were developed in the long term in order to form a set of coherent structures that connect the diverse parts of economies and give them some stability. Thus, socio-economic systems gain consistency through a series of institutional complementarities which shape a specific variety of capitalism. As has been shown, complementarities may occur between institutions set up in different spheres of the economy. For instance, Aoki (1994) showed that long-term employment is better suited to situations where the financial system supplies capital that is not sensitive to current profitability. On the other hand, more flexible labour markets may be more effective when the financial system allows a rapid mobilization of resources, favouring the creation of new companies and thus maintaining the demand for labour.

The concept of complementarities is not always used in the same way by the many authors, and the indistinct use of different significances by the same author is quite common, which causes a fair amount of confusion. Three different notions can be distinguished within VoC literature: i) complementarity as synergy ii) complementarity as supplementarity iii) complementarity as similarity (Deeg, 2005; Crouch, 2005).

Hall and Soskice (2001: 17), following Aoki (1994), define it in an economic sense: “two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency) the other”. This is complementarity in the form of synergy (Deeg:

2005: 3). It is also a perspective shared by Boyer (2005: 39) as he claims that the “complementarity of institutional forms describes a configuration in which the viability of an institutional form is strongly or entirely conditioned by the existence of several other institutional forms, such that their conjunction offers greater resilience and better performance compared to alternative configurations”. In the same fashion, Estevez *et al* (2001: 182) chose a synergetic view, stating that the resistance of some welfare regimes is “reinforced by institutions - collective wage-bargaining systems, business organizations employee representation and financial systems - that facilitate the credible commitment of actors to particular strategies, such as wage restraint and long-term employment, that are necessary to sustain cooperation in the provision of specific skills”.

The concept of complementarities is also associated with the idea of supplementarity (Deeg, 2005: 3), when the conception that the components of a whole mutually compensate for each other’s deficiencies in constituting the whole is transmitted (Hopner, 2005; Crouch, 2005). That being the case, two institutions are complementary when they show opposite characteristics, such that a whole comprises the two parts.

The association of the concept of complementarity with the idea of similarity must also be mentioned. In this case, two or more institutions share an identical principle that may facilitate interaction among actors from different areas. This, however, is a conception that differs from those outlined above, and it may be identified with *institutional coherence* (Deeg, 2005: 4) or even with *structural isomorphism* (Amable, 2005: 15).

In one way or another, all of these notions are pertinent and may be theoretically productive, as long as they are clearly explained in an adequate context. Moreover, not being exclusive, they can be used like the concept itself, complementarily, that is, as will be shown in due course.

The success of the concept derives largely from its intuitive and appealing nature. However, some care must be taken when employing it. Some critics have been pointing out the dangers of the institutional determinism associated with it (see, for example Crouch and Farrel, 2002 and Coates, 2005). The idea that the institutions had been developing through a set of interactions that gradually connect the different parts of the economic systems, thus contributing to their efficiency, coherence and robustness, may cause us to forget that incoherencies are also produced. As claimed by Crouch and Farrel (2002: 6) “institutional systems, far from being coherent, are characterized by redundancies, previously unknown capacities, and incongruities”. Within this perspective, Deeg’s (2005: 4) concept of acomplementarity, which stresses the

situation in which different sectors evolve through assorted coordination logics that create tensions and destroy positive complementarities, becomes meaningful.

The institutional determinism critique seems to be more directed at the economic angle of complementarity, connected to the idea of efficiency as defended by the works of Hall and Soskice (2001). However, Amable's concept (2003: 10) is broader and undoubtedly more productive. Rather than optimal solutions to specific problems, institutions are seen as "a compromise resulting from the social conflict originating in the heterogeneity of interests among agents". And so, the notion of institutions which is more rooted and situated at the macro level suggests that complementarity is not limited to an economic function, reflected in growing income and economic performance, but also embodies social and political aspects which may result in political stability and a greater social cohesion<sup>6</sup>.

Furthermore, the way Amable combines the concept of complementarity with that of institutional hierarchy is particularly useful for explaining institutional change, another point which has been criticized in the VoC approach. The notion of hierarchy suggests that when an institutional sector becomes dominant it imposes its logic on the system's institutional architecture as a whole, in certain circumstances<sup>7</sup>. And so, combining both concepts, we can conclude that if complementarities exist in a certain system, change in one institutional sector causes change in the other sectors, and it will be more intense when the institutional domain from where change originated is further up in the hierarchy.

In spite of the critics and a certain amount of ambiguity in its use, the concept of institutional complementarities, besides having already given empirical proof of its consistency (see, for example, Hall and Gingerich, 2004 and Amable, 2003), does seem to be a key point to the very conception of the system. The usefulness of its application to the analysis of the third sector will be tested below. However, it will be useful to compare some typologies described in VoC literature with social welfare and third sector regimes in order to draw some conclusions about their clear similarities.

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<sup>6</sup> As an example, in Germany complementarity between industrial relations and a financial system based on the banking sector's 'patient' capital not only results in a comparative advantage but also in a social compromise established in the post-war period (Kang, 2006).

<sup>7</sup> For example, if the financial system is dominant, one would expect that a market-oriented financial system would induce greater market orientation to the other institutional sectors (Deeg, 2005: 15).

## How many capitalisms?

The criteria used in the definition of VoC differ from author to author, which naturally implies the existence of different typologies within the available literature.

Hall and Soskice (2001) identify two kinds of capitalist economy: liberal market economy (LME) and coordinated market economy (CME). Opting for an actor-centered approach and for a relational view of the firm, these authors base their binary classification on the coordination principle. In LMEs, coordination is essentially based on market mechanisms. Market relations are characterized by the arms' length of exchange of goods and services, competitive relations and formal contracting and by the interaction of supply and demand, adjusted to the signs of prices. In CMEs, firms are more dependent on non-market relations, incomplete contracting and network monitoring, and a greater reliance on collaborative relationships can be observed.

Regardless of the advantages that the simplification of the empirical analysis presents, this dualistic view does have its inconveniences. First, it is a one-dimensional analysis, as only the coordination principle has to be borne in mind (Amable, 2005: 24); second, countries that do not fit in either of the ideal-types tend to be treated as deviations or anomalies, and last but not least, there is a clear underestimation of the role of the State, as it is admitted that the adjustments are made by the firms (Kang, 2006).

Alternatively, Amable's (2005) method is driven by a set of five criteria: product market, labour market, financial system, social protection and education system. This allows five capitalism models to be distinguished: neoliberal, continental, social-democratic, Mediterranean and Asiatic. Compared with the dualistic view, this typology has the advantage of identifying a wider range of capitalisms, overcoming the difficulties of excessive simplification mentioned above. Moreover, the role of the State is necessarily taken into account (in social protection, regulation of the product market and the labour market, etc.). However, for the goals of this study, Amable's classification provides another undeniable advantage: its 'coincidence' with other known typologies, defined for other areas, namely those of welfare regimes and, more importantly, those of third sector regimes.

As far as welfare regimes are concerned, Ferrera (1997) and Ferrera *et al* (2000) indicate the same models<sup>8</sup>. In fact, he is the first author to give autonomy to a fourth regime – the Southern regime – extending Esping-Andersen's (1990) known typology which considered only three

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<sup>8</sup> Despite the typology coinciding, the terminology used differs. For example, Ferrera (1997) talks about Southern European countries instead of Mediterranean.

kinds of Welfare State – liberal, conservative-corporatist and social-democratic<sup>9</sup>. As for third sector regimes, there are also identical typologies. Archambault (2001) distinguishes precisely four third sector models: the Renan (or corporatist) model, the Anglo-Saxon (or liberal) model, the Scandinavian (or social-democratic) model and the Mediterranean (or emergent) model. In the social origins theory, although a southern model is not recognized, the classification mostly coincides with the others. It should be noticed that the definition of clusters created by the Johns Hopkins Project (Salamon *et al*, 2003) from statistical treatment of available data for the nearly forty countries does not deviate from Amable's (2005) capitalism models. In fact, three third sector clusters are differentiated at a European level: Anglo-Saxon, Nordic and what authors call the European-style welfare partnership, where the other countries of Western Europe are included. Notice that although countries from Central Europe and Southern Europe are categorized in the same group, the Johns Hopkins Project (Franco *et al*, 2005) more recently pinpoints the particular case of Southern countries as possessing unique characteristics that sets them apart from the others.

The purpose of enumerating these existing typologies, based on criteria as diverse as the economy's institutional sectors, both State and third sector, is that the similarity found, far from being coincident, reinforces the theoretical ideas defended here: socio-economic systems are being constructed by a set of coherent structures that connect different parts of the economies and provide them with some stability through a set of institutional complementarities which configure a determined variety of capitalism.

### **The Mediterranean model versus the Anglo-Saxon model**

Due to the fact that the countries which will be subjected to empirical analysis – Portugal and the UK – are consensually included in the Mediterranean and the Anglo-Saxon models respectively, their main characteristics are highlighted in this section in order to show how the different institutional sectors of the social system are connected. The way in which the configuration of the third sector adjusts to the interconnections and complementarities described here is explained below.

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<sup>9</sup> Although recognizing some characteristics specific to the Southern model, Esping-Andersen (1990) included them in the conservative-corporatist model. Leibfreid (1992) also considered a 'Latin rim', but only as an underdevelopment of the corporatist model.

One of the main characteristics of the Mediterranean model, in which Portugal, Spain, Greece and Italy are included, is asymmetric capitalism development, at both a regional and sectoral level (Estivil, 2000). The product market presents low competitiveness, mostly based on prices rather than on product quality. The financial system is centered on a strongly concentrated banking system, financial markets are not very sophisticated and the development of venture capital is limited. On the other hand, the absence of short-term financial constraints, combined with the low level of competition explains the maintenance of strong employment protection. Neither specialization nor industrial structures have been demanding a high level of workforce qualification. Vocational training is superficial and education rates are low. In addition, industrial strategies are based on low salaries. Workers are not really stimulated to invest in specific skills, since social protection is poor (Amable, 2005). The income maintenance system, which shows corporative characteristics, is fragmented and exhibits large polarization with generosity peaks to certain social groups and grave shortfalls for others. The Welfare State, a mix of Beveridgian and Bismarckian traits, is less developed than in other countries and has paternalism and clientelism traits. The health system, although universal, is underdeveloped and reveals a vast boundary imprecision between the government and private sectors. State debility has been partly compensated by the family which plays an important role in social protection. A division of tasks between State and the Catholic Church (or the Orthodox Church in Greece), which is very marked in these countries, can also be noticed in the area of social protection (Ferrera, 1994, Ferrera *et al*, 2000; Leibfried, 1992).

Countries fitting into the Anglo-Saxon model (namely the UK, the USA, Australia and Canada), generally considered examples of an efficient capitalism (see, for example, Sapir, 2005), are characterized by a high level of competition within product markets, with the firms being sensitive to adverse supply and demand shocks. The existence of a flexible labour market enables firms to react to these shocks by adjusting quantities when price adjustments are insufficient. On the other hand, market competition forces firms into a quick restructuring, which is made possible both by the labour market's flexibility and by the existence of sophisticated financial markets that guarantee risk differentiation. Poor employment protection and an underdeveloped social protection mean that workers make little investment in their vocational training. Firms' competitiveness, made necessary by the level of competition in goods and services markets, is favoured by a relatively modest standard of social protection (Amable, 2005). As far as social welfare is concerned, the level of decommodification is low and the State

tends to encourage the use of market mechanisms, providing less protection in order to stimulate entry into the labour market, or sponsoring private structures (Esping-Andersen, 1990). Social welfare benefits exclude those who are inactive or whose income falls below a certain standard (Ferrera *et al*, 2000). It should also be noted that, on the subject of social welfare, the UK is a unique case when compared with other countries that share this model, not only because of the wider range of benefits offered, but, crucially, due to the existence of a National Health Service. However, residualization measures taken in recent decades by conservative governments have introduced liberal traits characteristic of the other countries included in this model.

### **The third sector in Portugal and in the UK. A brief quantitative analysis**

One of the difficulties of trying to compare the third sector on an international basis is the lack of updated statistical data for the organizations concerned. However, data gathered by the Johns Hopkins University study - *The Johns Hopkins Comparative Nonprofit Sector Project* (CNSP) allows a comparative analysis of countries covered by the project, although the structural classification of the nonprofit sector does not tally with the European notion of third sector. Nonetheless, these data offer quite a useful reading of the characteristics and configuration of the sector, and one which, interestingly, does not deviate much from that obtained if the European concept is taken into consideration<sup>10</sup>.

Starting off with Portugal, a first reading on the third sector's dimension shows that we are looking at a 'major economic force', using the words of the CNSP authors (Franco *et al*, 2005). The sector's total expenditure is 4.2% of GDP and the total FTE<sup>11</sup> is 4% of the economically active population, equivalent to the employment provided by the transport industry. These figures, despite being significant, place Portugal below the developed countries' average (7.4%). However, the sector's dimension is similar to those of Mediterranean model countries, notably Italy and Spain, as Table 1 shows. Regarding the sector's cash revenues, Portuguese figures do not diverge much from those of developed countries. The sector's total fees amount to 48% of the cash revenues, with 40% originating from the government and 12% from philanthropy. At any rate, these figures show that the role played by the State is less significant than in developed countries, where government support reaches 48%. On the other hand, if volunteer work is

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<sup>10</sup> See Greffe (2003: 191). See also the data regarding the recent CIRIEC (2007) study on the dimension of the third sector, which generally does not differ much from data gathered by the CNSP.

<sup>11</sup> Full-time equivalent workers.

included, although it is less relevant than in other countries, philanthropy would reach 21% of the revenue total, but would still be significantly smaller than other revenue sources (see Table 1)<sup>12</sup>.

Table 1

<b>Mediterranean Regime</b>					
	Portugal	Spain	Italy	Mediterranean model	Developed Countries
<b>Workforce (1)</b>					
FTE paid	2.8%	2.8%	2.3%	2.6%	4.7%
FTE volunteers	1.1%	1.5%	1.5%	1.4%	2.7%
FTE total	4,0%	4.3%	3.8%	4.0%	7.4%
<b>Composition of workforce (2)</b>					
Service	60%	71%	62%	64%	65%
Expression	25%	26%	35%	29%	31%
Other	15%	3%	3%	7%	3%
<b>Cash Revenues</b>					
Fees	48%	49%	61%	53%	44%
Government	40%	32%	37%	36%	48%
Philanthropy	12%	19%	3%	11%	8%
<b>Total Support (with volunteers)</b>					
Fees	44%	39%	50%	44%	34%
Government	36%	25%	30%	30%	38%
Philanthropy	21%	36%	20%	26%	28%

1 As percent of economically active population

2 As percent of total nonprofit workforce (paid staff and volunteers)

Source: Johns Hopkins Nonprofit Comparative Nonprofit Sector Project

However, the most significant feature of the Portuguese nonprofit sector, even when comparing with Italy or Spain, is the importance of the social services field (see Table 2). In fact, the FTE accounts for 48% of the sector's total, while the developed countries' average is 22%. In contrast, the health sector is not very significant in Portugal (2% of total FTE, nine times less than in developed countries), nor is education. The relevance of the expressive activities field is also smaller in Portugal (25% of the FTE total, compared with 29% in Mediterranean countries and 31% in developed countries), which is explained not only by the lower importance of the culture and recreation field but also by statistical limitations<sup>13</sup>.

<sup>12</sup> The tables presented in this section are based on Franco *et al* (2005 : Figures 4 and 7, Tables 3 and 7), Salamon *et al* (2003 : Table 7) and <http://www.jhu.edu/~cnp/research/compdata.html> (Tables 1 and 3).

<sup>13</sup> Authors of the project for Portugal warn that these limitations prevented the full classification of 35% of volunteer time by economic activity. However, they suggest that much of this activity should be channelled into the fields of environment and advocacy, bringing the expressive share close to 35% of the total workforce (Franco *et al*, 2005: 16).

Taking the three countries which fit the Mediterranean model into consideration, a common pattern which typifies them can be found, as is also emphasized by the Johns Hopkins Project: the nonprofit sector is moderately-sized, substantially funded by the government and strongly service provision oriented (Franco *et al*, 2005: 21).

Table 2

Nonprofit sector FTE workforce, by field	percent of total nonprofit sector workforce				
	Portugal	Spain	Italy	Mediterranean model	Developed Countries
Education	8	21	15	15	19
Social Services	48	31	26	35	22
Health	2	11	18	10	18
Development /Housing	1	9	4	5	5
<b>Subtotal, Service</b>	60	71	63	65	65
Culture / Recreation	10	15	24	16	20
Professional /Unions	7	2	7	5	5
Civic /Advocacy	8	6	3	6	4
Environment	N/A	3	1	2 (*)	2
<b>Subtotal, Expressive</b>	25	26	35	29	31
n.e.c.	15	0	1	5	3
International	N/A	3	1	2 (*)	1
Foundations	N/A	0	1	1 (*)	1

(\*) Excluding Portugal

Source: Johns Hopkins Nonprofit Comparative Nonprofit Sector Project

The practical experience of the third sector is quite different in the UK and other Anglo-Saxon countries, where the sector is significantly larger than in Portugal. In fact, the sector's FTE represents 8.5% of total FTE, more than twice the Portuguese figure and higher than the developed countries' average (see Table 3). Another distinctive feature is the importance of volunteer work, more than three times higher than in Portugal and a bit higher than the average of developed countries<sup>14</sup>. Just as in developed countries, the sector is mainly financed by the government (47% of total support), despite the significant importance of fees (45%). These figures are some distance from those of other countries in the Anglo-Saxon model. Both the USA

<sup>14</sup> However, these traits are relativized by Kendall, who claims the modesty of the sector's dimension for a developed democracy (2003: 30), since it is ranked seventh by overall size of total paid employment and mobilizes fewer volunteers than many other countries (2003: 4).

and Canada have a nonprofit sector which is mostly financed from earned revenues and thus less dependent on government support. Also, note the reduced relevance of philanthropy to total cash revenues, representing a mere 9%. However, if volunteer work is included, philanthropy would be 29% of the total.

Table 3

Anglo-Saxon Regime					
	U.K.	U.S.	Australia	Anglo-saxon model	Developed Countries
<b>Workforce</b>					
FTE paid	4.8%	6.3%	4.4%	5%	4.7%
FTE volunteers	3.6%	3.5%	1.9%	3%	2.7%
FTE total	8.5%	9.8%	6.3%	8%	7.4%
<b>Composition of workforce</b>					
Service	62%	78.8%	66.8%	69%	65%
Expression	33%	18.8%	30.3%	27%	31%
Other	5%	2.4%	3%	3%	3%
<b>Cash Revenues</b>					
Fees	45%	56.6%	62.5%	55%	44%
Government	47%	30.5%	31.2%	36%	48%
Philanthropy	9%	12.9%	6.3%	9%	8%
<b>Total Support (with volunteers)</b>					
Fees	35%	47.4%	51%	44%	34%
Government	36%	25.6%	25.4%	29%	38%
Philanthropy	29%	26.9%	23.6%	27%	28%

1 As percent of economically active population

2 As percent of total nonprofit workforce (paid staff and volunteers)

Source: Johns Hopkins Nonprofit Comparative Nonprofit Sector Project

The distribution of the workforce by service activities and expression do not differ much, in comparison either with the Portuguese reality or with the developed countries in general. However, the disparities are many if the data is analyzed by field of activity (see Table 4). The most striking aspects are the importance given to the fields of culture and recreation (28% of FTE), education (25%) and health (8%), and a lesser significance of social services (16%). As far as the health sector is concerned, a substantial difference can be found in the UK, even in comparison with its Anglo-Saxon partners, and this is naturally explained by the existence of the National Health Service, which again relates to the particular characteristics of the UK within the Anglo-Saxon pattern. We can still see the features common to the various Anglo-Saxon countries in the configuration of the nonprofit sector, i.e. relatively large dimension, the significant presence of volunteer work, the smaller importance of philanthropy in terms of cash revenues and the importance of service functions, especially among paid staff (Salamon *et al*, 2003: 35),

although the importance of each service field varies from country to country - education in the UK and Australia and health in the USA. As far as the UK is concerned, the available data seems to corroborate the idea that it cannot be considered a pure type of the Anglo-Saxon model, not only because of the relative distribution of the workforce by the several fields of activity, but also because of the importance of government support, as shown above.

Table 4

Nonprofit sector FTE workforce, by field	percent of total nonprofit sector workforce				
	UK	US	Australia	Anglo-Saxon model	Developed Countries
Education	25	19	18	21	19
Social Services	16	22	24	21	22
Health	8	34	15	19	18
Development /Housing	13	4	10	9	5
<b>Subtotal, Service</b>	<b>62</b>	<b>79</b>	<b>67</b>	<b>69</b>	<b>65</b>
Culture / Recreation	28	9	23	20	20
Professional /Unions	2	4	3	3	5
Civic /Advocacy	2	5	3	3	4
Environment	2	1	1	2	2
<b>Subtotal, Expressive</b>	<b>33</b>	<b>19</b>	<b>30</b>	<b>27</b>	<b>31</b>
n.e.c.	1	1	2	2	3
International	2	0	0	1	1
Foundations	1	1	0	1	1

Source: Johns Hopkins Nonprofit Comparative Nonprofit Sector Project

Summing up, this brief quantitative comparison between Portugal and the UK has highlighted the different characteristics of the third sector within these two countries. These figures reflect a long and complex historical process which leads to different institutional configurations. Thus, it is important to understand the individual logics and dynamics which have consolidated two different third sector regimes built up under different types of capitalism, and how specific interactions have been established between nonprofit organizations and other institutional sectors of the socio-economic system throughout history.

### **The evolution of the third sector in Portugal**

The long history of the third sector, whether in Portugal or any other country, cannot be fully described in a few lines, and to attempt it is a risky but necessary task if one wishes to analyze

the third sector in the wider context of the socio-economic system, explaining some particular characteristics of the nonprofit organizations.

In Portugal, as in other countries, the origins of philanthropic initiatives and charity are connected to the Church. However, there is one aspect which distinguishes countries of the Mediterranean model from the others, and this has been critical in shaping the evolution of the third sector: State and Church were not separate. From the beginnings of Portuguese nationhood in the 12<sup>th</sup> Century there were several nonprofit organizations connected to the Church or at least strongly inspired by the ‘works of mercy’ (*Obras de Misericórdia*) doctrine and Christian values (Franco *et al*, 2005: 27). The many institutions that appeared in that time, like hostels (*hospedarias*), leper hospitals (*gafarias*) and *mercearias*, were attached to the *Misericórdias* in the 15<sup>th</sup> Century in the wake of a major social assistance reform. These associations spread throughout the country and they still play a major role in social protection today. The *Misericórdias* are an example of the strong cooperation between State and Church which has marked the history of Portuguese society in general, and the third sector in particular. Even when the State and Church have been in conflict, as in the attempts to implement liberalism or in the early days of the Republic, religious power never stopped playing a dominant role in the country’s social life. In Portugal, as in other Southern European countries, it can be said that the Church assumed a quasi-public status (Archambault, 2001).

Related to this factor is another, which is that Portugal lacked a liberal tradition like that in Britain. The attempts to implement liberalism in the 19<sup>th</sup> Century were stopped by absolutist counter-coups, which conditioned the development of liberal capitalism and limited the already delayed industrialization. It was in the industrialization period that, still in the 19<sup>th</sup> Century, the mutualist movement expanded, although its medieval roots can be found in the craft guilds (*confrarias de mesteres*) and common granaries (*celeiros comuns*), organized on the principle of professional solidarity. Related to socialist and worker’s movements, the mutual organizations emerged in the health and education sectors, in credit and cultural activities. Also in this period the cooperative movement appeared, with its founding law published in 1867.

The 1<sup>st</sup> Republic was established in 1910, based on the principles of democratic liberalism, and it had a short and turbulent existence. In 1926, a 48 year-long dictatorial experience began, inspired by Italian corporatism and embracing strong economic protectionism, a strongly governed market, a centralized financial sector and industrialization based on low salaries and low workforce qualification. The corporate associations - Houses of the People (*Casas do Povo*),

Houses of Fishermen (*Casa dos Pescadores*) and trade unions – were harmonized according to the ideological values of an authoritarian nationalism, in alliance with the Church, celebrated by the dictatorship's motto of *God, Homeland and Authority*. The cooperative and mutualist movement was considered contrary to the values of a New Order. Mutuals nearly stagnated at birth (Ferreira, 2000) and the cooperative movement faced a hostile government (Namorado, 2005). By controlling civil societies' initiatives, welfare action was reduced to a mere corporatist welfarism, and assistance, which was organized under ethical and religious criteria, took the form of charity work (Hespanha *et al*, 2000: 121).

The 1974 coup d'état, the introduction of democracy and Portugal's entry to the European Union marked a new phase in Portugal's social, political and economic life. In the field of social policies, the State sees itself as the most important producer and supporter<sup>15</sup>. At the end of the '70s, State ensured the creation of a National Health Service and since then the development of the entire sector has been built on a basis of an alliance between government/private for-profit organizations<sup>16</sup>. Also, the public welfare system was supplemented more by the for-profit sector than by mutuals, which partly accounted for its stagnation.

However, in general the socio-economic environment was favourable to the growth of the third sector. The number of cooperatives grew strongly and new branches appeared. The 1976 Constitution recognized their importance and in 1980 the Cooperative Code was published, transposing the constitutional norms to ordinary law. At this time there was also a veritable boom of the associative movement in areas as diverse as the improvement of housing and working conditions, parents' associations, teaching and special needs education, support for the elderly, first and second children, and drug addiction. It is in this context that the Private Institutions for Social Solidarity (IPSS), formerly known as Assistance Institutions, experienced unprecedented growth. From the outset the State recognized and gradually delegated a part of the Social Security System (called *acção social*) to them. Being part of the social security system, they are today responsible for about 70% of *acção social*, in partnership with the State.

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<sup>15</sup> The establishment of a Welfare State in a time when problems were starting to emerge in other countries was crucial to the construction of a singular and sometimes contradictory path in the process of consolidating social policies (Santos, 1993).

<sup>16</sup> This explains one of the differences mentioned above, which make the Portuguese nonprofit sector somewhat particular, compared with other countries: low involvement of the nonprofit sector in the field of health. The nationalization of the *misericórdia* hospitals in 1975 also played a part in this.

In spite of the profound political and economic transformations that have occurred, some socio-economic traits that characterized Portugal in the dictatorship period can still be found. For example: the centrality of the State in socio-economic regulation (Reis, 2007); the State/Church/third sector alliance, lower social protection of a Bismarckian character with clientelism and particularism aspects; the existence of a poorly competitive market with state involvement; a centralized and not very diverse financial sector; an underdeveloped education sector; poor workforce qualification, and major sectoral and regional disparities. These are, in fact, the fundamental features of the Mediterranean model, defined above. The analytical interrelations and complementarities that the third sector maintains with those institutional areas of the socio-economic system reveal some characteristics of its organizations: their state-oriented nature, the importance of religious organizations, a centralized organizational model, weak competitiveness, secondary role played by marketing, poor managerial professionalization and low diversification of income sources. These traits will be explored later, in the analysis of the IPSS. Before that, it is important to understand how the formation of another kind of capitalism in the UK moulded the third sector's evolution in quite a different manner.

### **The evolution of the third sector in the United Kingdom**

As in Portugal, the history of the third sector in the UK begins with close relations between Church and State (Taylor, 2004). During medieval times formal philanthropy was delivered by the Catholic Church. And, like Portugal, charity was associated with personal salvation. This meant that the poor played an important role: “they provided the better-off with opportunities for good deeds in life” (Alvey, 1995: 6). However, and differently from what happened in Portugal, the 1601 Statute of Charitable Uses marks a division of labour between State and Charity. The role of the State was now minimal and regulatory: its intervention in the social field was limited to the application of the Poor Law. Meanwhile, the Church ran local charities and schools intended for the poor, developing pioneering social security schemes (Taylor, 2004: 126).

One substantial difference in relation to Portugal is the kind of philanthropy developed during the 18<sup>th</sup> century – the associative philanthropy – which Owen (1964) compares to the growth of the joint stock companies in business. Due to this, a group of associations acting as intermediaries between donors and beneficiaries is formed. Its basis on members' subscriptions, with the possibility of them recommending it to other beneficiaries, was a way of enhancing social prestige “which has been one motivating factor of philanthropy” (Kendall and Taylor,

1996: 35). Along with the expansion of philanthropy, the guilds and livery companies system that developed in the 14<sup>th</sup> century marked the beginning of an independent voluntary sector associated with the development of trades and based on mutualism (Kendall and Taylor, 1996: 30). With the exception of the London Livery Companies, the guild system had disappeared before the 16<sup>th</sup> century, much sooner than in Continental Europe. In fact, that would explain the precocious development of trade unions and friendly societies (Black, 1987 quoted by Taylor, 2004:128).

From the second half of the 19<sup>th</sup> century, the Industrial Revolution entailed profound changes which affected every aspect of the UK's economic life and, consequently, the evolution of the third sector. The increasing opposition to the Poor Law by classical economists like Adam Smith and Malthus resulted in a decisive move in the development of the British capitalism. In 1834, The Poor Law Amendment Act abolished the principle of settlement and created a more centralized aid system, which was at the same time more selective, since the situation of the aided poor would be far worse than that of the worker. In addition, the definite passage to a liberal economy was ensured by the creation of a free trade regime with the repeal of the Corn Laws in 1846. The reforms in social assistance that occurred throughout the 19<sup>th</sup> century did not alter these principles. It is important to note that, contrary to what happened in Portugal, the liberal ideology was not contested, at least not strongly enough to shake the stability and formation of a market economy. The expansion of friendly societies and mutualist associations has to be understood in the context of the 'laissez faire, laissez passer' policy. These institutions, organized according to the principles of professional solidarity, were intended to ensure a minimum level of protection for their members, making up for the absence of the State.

In the early years of the 20<sup>th</sup> century the role of the State changed due to the growing influence of the Labour Party, the Fabian Society and the political pressure exerted by the working-class (Barr, 1994). Through important legislative reforms, the promotion of welfare and the relief of poverty shifted from the voluntary sector to State. These measures, like the 1909 Old Age Pensions Act, the 1911 National Insurance Act, the 1934 Unemployment Act, reach their peak with the publication of the Beveridge Report in 1942, which marks the genesis of a Welfare State. The wider intervention of the State relegated the role of the third sector to that of "the junior partner in the welfare firm" (Owen, 1964). However, the third sector was able to adapt to the context of change (Kendall and Taylor, 1996: 54). The State now provided assistance in health and income support, but many other fields remained in the hands of the third sector, like

education and social services<sup>17</sup>. Meanwhile, the professionalization of the larger third sector organizations was already clear, with a closer proximity to the market in areas as diverse as insurance for mortgages, retail distribution and adult learning (Taylor, 2004: 130).

During the '60s and '70s, when the inability of the Welfare State to resolve all social problems was already patent, the voluntary sector was revitalized with a boom of new social movements – feminism, civil rights, the consumer movement, the environmental movement and the peace movement (Kendall and Taylor, 1996: 55). Mutuals and social enterprises also enjoyed a new impetus with the formation of The Industrial Common Ownership movement (Taylor, 2004: 132). The '80s and '90s saw a return to the market ideology and the end of an era (Deakin, 2001: 22). The concentration and bureaucratization phenomena which were already present at the time of the Beveridge Report intensified. Within the context of a market based culture, bigger charities became increasingly entrepreneurial, adopted more aggressive attitudes to the fund raising marketplace and developed new commercial forms in pursuit of larger incomes. An identical movement influenced mutuals and countless other organizations, like housing associations (Taylor, 2004: 133-134).

The beginning of the 1997 'New Labour' Government, the definition of a 'third way' between neo-liberalism and the old left wing and the passage from 'government' to 'governance' gives a new protagonism to the third sector<sup>18</sup>. From the 1998 Compact period, which established new relationship principles between government and the third sector, to the creation of the Office of the Third Sector in 2006, the sector changed rapidly, with particular reference to the appearance of a new network of relationships connecting TSOs with agencies and quangos with several operating principles. The bigger changes seem to have been local, where new relations were created between voluntary organizations involved in service delivery and local authorities (Deakin, 2001: 29).

To sum up, the evolution of the third sector explained here, very briefly, allows us to draw some conclusions. The separation of State and charity and the strong liberal tradition which early marked the formation and history of British capitalism moulded the dynamic and functioning principles of TSOs quite specifically. In other words, the institutional sectors which configure Anglo-Saxon capitalism (competitive product market and a de-centralized and diversified

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<sup>17</sup> In some areas, organizations connected to welfare provision, counselling, cultural and leisure activities, self-help groups and medical research groups even expanded (Kendall and Taylor, 1996: 55).

<sup>18</sup> According to Kendall (2003: 5), "other countries have witnessed new interest in this sphere but few if any have experienced quite such a step change in their situations".

financial sector, for example) are reflected in the market-oriented character of the TSO. On the other hand, State/third sector relations were never as strong in the UK as in Portugal or other Continental European countries, and, with rare exceptions, they were not based on the subsidiarity principle, once again due to the weaker influence of the Church<sup>19</sup>. Kendal (2003: 40) states that in the UK more than in any other European country, the situation of the third sector cannot be understood without considering the role played by the private sector in welfare provision<sup>20</sup>. The fact that TSOs act in the same areas as the private sector is especially reflected in their bigger capacity for competition and innovation, in the diversified use of income sources, in resorting more to marketing and in the higher professionalization level of their boards. These institutional differences will be stressed when comparing IPSS and Charities.

### **IPSS, charities and varieties of capitalism**

In Portugal, the statute of IPSS is granted to organizations which are constituted “without a profit motive, on private initiative, with the purpose of giving organized expression to the moral duty of solidarity and justice among individuals” (IPSS Statute, 1979). IPSS help children, young people and families, support social and community integration, assist the elderly and disabled, promote and safeguard health, education and vocational training, and resolve housing problems. Similar to the British Charity Law, the statute of IPSS is given to organizations that pursue a specific set of activities (Ferreira, 2006: 311). IPSS can take the form of social solidarity associations, mutual foundations, *misericórdias*, parish organizations and various religious organizations.

IPSS account for around 80% of nonprofit associations operating the area of social and family services. The great majority of their work involves care for the elderly (51%) and helping children and young people (37%). Of less significance are the areas of rehabilitation of the disabled (5%), family and community (5%), while the remaining 2% are engaged in work linked to drug addiction, HIV/AIDS, respite care and mental health (GEP/MTSS, 2006).

They have been considered as part of the public social security system ever since the 1983 revision of the IPSS Statute. The government’s relations with IPSS are regulated through

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<sup>19</sup> The subsidiarity principle only seemed to have influence in the activity of the third sector with the creation of the ‘dual system’ (Kendall: 2003, 42). Observing Table 4 again, the importance of education in the total of the sector’s activity can now be better understood.

<sup>20</sup> This explains the reduced weight of social services in the whole of the sector’s activities, stressed above (See Table 4).

cooperation agreements. Under these, the government ensures their funding as a percentage of the cost of the services provided. This figure may vary between 70% and 80%, depending on the facilities and capacities. IPSS can also receive state aid for constructing and renovating social amenities. The fees paid by users are related to their income. This sum varies from zero to the full cost of the service, which should be very similar to the cost of services in for-profit associations (Ferreira, 2005: 8). The cooperation agreements are signed each year by the Ministry for Social Security and the peak associations that represent the IPSS.

As this section will show, the different features, dynamics and working modes of TSOs depend on the relations of complementarity they establish with the various institutional sectors that mould the kind of capitalism to which they belong. We shall look at some of the factors that distinguish IPSS from charities, and try to show that these differences are the result of their embeddedness in different kinds of capitalism, based on a variety of relations of complementarity.

*State-oriented vs market-oriented.* Even though IPSS have their own legal identity and are autonomous, the fact is that their inseparable relationship with the State crucially affects their structure (Hespanha, 2000). The most striking characteristic to emerge from an analysis of IPSS is their state-oriented nature. And so, thanks to their cooperation relations with the government in the provision of social services, IPSS and TSOs in general tend to be seen as an expression of *solidarity*, as is the case in other countries in Continental Europe (Anheier and Mertens, 2003: 282). The image of solidarity is also bolstered by the impact of religious organizations (around 30% of all IPSS) and by the very nature of what they do: their activities are centred on *social services*, as we have seen.

These are the main distinguishing features between IPSS and charities. The importance of the liberal tradition and the kind of capitalism that has coloured the history of the UK have resulted in charities being more *market-oriented*. It is not that relations with the State have not been important, but these relations are rooted in a different ideological tradition, and it should be noted that, at various times in history, they have been marked more by opposition than cooperation. In the UK, then, charities and the TSOs are overwhelmingly seen as an expression of *individualism* (Anheier and Mertens, 2003: 282). The smaller influence of the *social services* in the sector's sphere of operations, together with the greater importance of the areas of *education* and *culture*, also has some bearing.

*Dispersion vs concentration.* The fact that State and market mechanisms occupy a different place in the institutional hierarchy of the two countries has other implications in TSO. One of the most interesting aspects that should be examined is the extent to which the *process of concentration* is, or is not, present in TSO. Although the available data may not always be directly comparable, they are completely unequivocal. In the IPSS, which are less subject to market mechanisms, the phenomena of concentration are not only missing, but, in dynamic terms, it is even possible to see an opposite trend of dispersion, or, at least, a stability, depending on the indicators used. In 2006, there were around 4448 IPSS (GEP, 2008), representing a growth of around 51% over the 2953 in existence in 1996 (Reis, 2003: 103). The greatest growth can be seen in smaller organizations, those employing fewer than 5 people. In 2006, these accounted for 22.7% of the total, a proportion considerably higher than the 16.2%, ten years earlier (GEP, 2008). So there is a phenomenon of *dispersion*. When the sales turnover is used as a relative indicator, again no process of concentration is observed, but a certain stability can be seen. The total of IPSS with turnover of less than 500 thousand euros, for instance, is around 40% in 1996 and in 2006 (MTSS/GEP, 2008).

As a matter of interest, the rate of growth of charities in the last ten years has not been very different from that seen by the IPSS. But the way in which this growth occurred is completely different in the two cases. In 2006, the total number of charities (around 169 thousand) was considerably more than in 1995 (approximately 120 thousand). This is around 40% more, which is slightly less than the growth rate of the IPSS (NVCO, 2007a: 19). But there was something very different in the growth process. The number of large charities, those with an income of more than £1 million, doubled in that period. Two factors account for this: first, the smaller charities grew, and second, some new charities entered the sector and these had significant resources (NVCO, 2007a: 1). The figures for the total income of the charities also clearly show this concentration process. For example, between 2003/4 and 2004/5 the sector's total income rose by £800 million. But the total amount generated by organizations with incomes of less than £10 million fell, with the increase being wholly absorbed by the stratum earning over £10 million. Currently, around 70% of total income is generated by just 2% of the charities. At the same time, a certain *volatility* can be seen in charities' income, with about 10% moving up or down an income band between 2003/4 and 2004/5 (NVCO, 2007a: 24-25).

*Innovation and marketing capacity.* The greater or lesser closeness to the market or the State also influences innovation capacity. As we have seen earlier, relations between the government

and IPSS are regulated by provision of services agreements. While this does confer a measure of stability on IPSS, at the same time it is an important source of *institutional isomorphism* (Ferreira, 2006: 311-312), in the sense taken by DiMaggio and Powell (1991). In fact, the lack of innovation capacity has been one of the problems indicated as affecting IPSS (Hespanha, 2000; Melo, 2005) in terms of products, processes and management<sup>21</sup>. This poor innovative capacity is doubly linked to the low level of competitiveness. In the first place, since there is no competition between IPSS when it comes to the award of public funds, as the amount is fixed according to the services provided, there is no incentive to innovate. In addition, where there is any competition in a goods and services market which itself is not very competitive, the lack of incentive to innovate is reinforced. Their low level of market orientation and poor competitiveness also explain the weak marketing, although some concerns have recently been noticed at this level.

Charities, however, are governed more by the institutional principles of the market and exhibit a greater capacity for innovation and a higher degree of competitiveness. Not only do they compete with one another for funding, but they compete with other for-profit private sector organizations, too. Furthermore, since they compete in a highly competitive goods and services market that is characterized by the introduction of radical innovations (Hall, 2001), their capacity for innovation is additionally fostered. Many of them adopt a marketing attitude so as to compete more efficiently for funds. The use of marketing techniques is widespread, and most charities favour marketing strategies (Arbuthnot and Horne, 1997). The notion is gaining ground that the more marketing-oriented organizations achieve higher incomes (Bennett, 1998). It has been shown, too, that a charity's competitive market situation influences its level of market orientation and hence its adoption of relationship marketing (Bennett, 2005).

*Relations with the financial system.* There are also substantial differences between Portugal and the UK in this area. IPSS have a poor relationship with the financial system. There are several reasons for this. First, they are bad at attracting their own resources (Hespanha, 2000: 180), and this is related not only to the relatively stable public funding system but also to their limited capacity for innovation and the lack of qualifications of their employees and management. Second, the centralized and not very diversified financial system does not help. These characteristics do not favour the development of financial instruments capable of supporting

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<sup>21</sup> These observations should be seen as a tendency, not as a generalization. Some organizations have shown dynamism and capacity for innovation, but these are the exception, rather than the rule, for IPSS.

IPSS, or TSOs in general. This helps to explain the high mortality rate of organizations, in the absence of State subsidies (Melo, 2005: 19).

In the UK the funding environment in the nonprofit sector is becoming increasingly sophisticated and complicated. The development of new financial instruments and the shift from funding to finance (e.g. the expansion of loan financing) are evidence of a more mature marketplace, and a growing number of organizations are using loan finance for revenue, possibly as an alternative to grants (NVCO, 2007b). These trends are the outcome of several factors. First, there is more and more competition for funds, owing both to the expansion of the sector, and to the polarization of the large and small organizations and competition from the for-profit private sector. Furthermore, the greater impetus for innovation and the existence of a diversified, sophisticated financial sector are other influential factors.

*Degree of professionalization.* Another contrasting aspect is the degree of professionalization of managers, technical staff and employees in general, in these organizations. The employees of the IPSS have quite low levels of professionalization and qualifications. It should be noted that this is not merely the result of budget constraints, but the lack of qualified human resources in the labour market. (Hespanha, 2000: 176). This lack of professionalization is also obvious at management level, and is one of the clearest weaknesses of the IPSS (Hespanha, 2000: 178). The consequences of this deficit at management level are particularly important, since leadership tends to be centralized in the manager. Poor pay is another factor in the low level of professionalization in the sector. Recent figures show that average salaries are only slightly above the national minimum wage (MTSS/GEP, 2008).

In charities, and in TSOs as a whole, there is a high level of professionalization, and this is, moreover, a feature of the third sector in Anglo-Saxon countries (Archambault, 2001). This is assumed since the organizations have a more business-like approach and the labour market is characterized by a higher level of vocational qualification. In the context of the growing competition of the last few decades, there has been a change towards increased professionalism (Parsons and Broadbridge, 2004). At top management level, for instance, professionals are hired from the for-profit private sector, and they bring to the charities the management practices and policies developed in the commercial sector. So salaries are naturally higher, even though they are slightly below those paid in the private and public sectors.

*Accountability.* Finally, there are significant differences in terms of accountability, too. It is freely acknowledged that accountability and transparency are weak points in IPSS (Hespanha,

2001), which is partly due to their semi-public nature and the lack of links to the market. The choice of an action strategy is very often related to economic survival rather than the needs of the users, and this subverts the day-to-day management, and implies a diversion from the goals established in the organizations' bylaws. Another problem is the lack of information and the provision of financial data to both the public and to the regulators. The scarcity of human resources means that supervisory action is not effective either.

The promotion of accountability in charities and other nonprofit organizations is a clear concern for the government (see, for example, Strategy Unit, 2002), the umbrella organizations (NVCO, 2007b) and the sector's regulator – the Charity Commission – as well as, increasingly, for the charities themselves. Their greater proximity to the market goes some way to explaining the demand for greater transparency and more accountability. This does not mean that there are not some suggestions that the organizations sometimes do not produce information for the public that is sufficiently accessible and relevant, but even so, public trust remains quite high. And a lot of charities have been using new forms of governance to improve their accountability. These include membership or federated structures, user representatives on the board, stakeholders forums, user surveys and social audit approaches (Strategy Unit, 2002)

### **Final remarks**

The main theoretical idea this paper seeks to support is that TSOs should not be studied in isolation but in tandem with other structuring institutional elements of governance, since logics of complementarity are developed in the other sectors of other countries' socio-economic frameworks. These institutional complementarities configure a particular kind of capitalism. So it makes complete sense to link the study of the origin and role of TSOs to the specific forms that capitalism can assume.

We have tried to show that TSOs in Portugal and the UK have developed over the years through a series of interactions that have connected them to different part of the socio-economic system, thus giving it a certain coherence. It is clear that the various configurations of IPSS and charities in terms of a set of defined variables – oriented more towards the market or the state, degree of concentration, innovation and marketing capacity, relations with the financial system, degree of professionalization and accountability - can be explained by a close-knit network of complementarities that connect them with societies other institutional sectors. That leaves one question to be answered. Bearing in mind that, as we saw earlier, the literature contains various

concepts of complementarity on kinds of capitalism - complementarity as synergy, complementarity as supplementarity and complementarity as institutional coherence - which notion emerges most strongly from the study?

All the concepts are present one way or another, but with varying intensity and scope. The economic notion, i.e. complementarity as synergy, can make sense when the relations between charities and the financial system, or the connection between innovation capacity and the existence of a competitive market for goods are examined. But it is not a good idea to reduce the concept to its economic sense, especially when an economy does not have the market as its main coordination mechanism, which is Portugal's situation. In fact it is hard to say, for example, that the poor innovative capacity of IPSS is due to a complementary process of efficiency or synergy. The notion of complementarity as supplementarity is useful, however, especially when we need to explain how the production of goods and services is shared by the State, the market and the third sector. The place of IPSS in the social security system, or the role of charities in the education system can be seen in the light of the notion of supplementarity. But this is only part of the explanation, since it fails to cover all the institutional aspects of the organizations.

The notion of complementarity as institutional coherence has emerged as the most relevant, in this study. The institutions reflect a compromise between the different, sometimes contradictory, relations of social forces, and so complementarity cannot be simply reduced to the economic aspect. In fact, it embraces social and political facets that can result in greater cohesion within the social system. This does not mean that the various components of the social system do not have independent, and sometimes contradictory, goals. But, as Hollingsworth and Boyer say (1997: 2) in relation to the concept of the social system of production, there is an institutional logic in each society that leads the institutions to coalesce into a complex social configuration. As we have seen, the IPSS and charities have emerged under different varieties of capitalism, based on different principles (or sometimes the same principles, but in a different institutional hierarchy), which have given rise to different institutionalized compromises. And this explains how organizations that produce exactly the same goods and services can have such different configurations in these two countries.

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