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Financial Management: Social Agency, Social Enterprise and Social Economy

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Abstract

There has been a quiet revolution in financial management practice in social agencies in recent decades, symbolized by the transition from fund to enterprise accounting and increasing recognition of the 'third sector' of the social economy. The traditional voluntary agency model of donations has been joined by grants, performance contracts, 'managed care' and an array of other options, and traditional voluntary agency-based and public agency practice now exist alongside corporate for profit service delivery and various forms of private practice. Social enterprise and entrepreneurship are a common theme in all this diversity, as social agencies must aggressively seek out financial support. In this environment, two models of budgeting, termed 'common-pool' and social enterprise budgeting have emerged.

Introduction: The Quiet Revolution in Financial Management

Financial management refers to management decision-making and direction in social agencies concerned with identifying, locating, collecting and using money, time, and other fungible[1] scarce resources with which to enable the delivery of organized programs of social service as well as appropriate accountability for these activities. The topic embraces aspects of public and nonprofit accounting, including managerial, financial and cost accounting, fundraising, grants management, investment strategies, budgeting, managed care and other service contracting issues, nonprofit economics, and assorted other concerns unique to social service delivery. It is, along with human

[1] The term fungible refers to (physical or symbolic) objects capable of being exchanged, traded or substituted for other things. Given the largely intangible nature of most social services, the exchange of symbolic objects (professional advice and guidance in exchange for a client's account of personal troubles, problems, or conflicts constitutes one such fungible exchange. Precise measurement may be difficult but the very existence of social work for more than a century on the basis of external support attests to interest in the issue. The central problem of principal-agent theory is how the principal can assure that the agent will act in the best interest of the principal.

resources (or human capital) management, one of two major means- or resource-oriented concerns of social administration.

Accumulated changes over the past three decades in the role of financial management in social work practice have been very dramatic; in fact, they have brought about nothing less than a quiet revolution in social agency financial management practice and theory. Perhaps most visible to the majority of social workers are changes related to the spread of managed health and mental health care. As various sources have noted (Austin and Hopkins, 2006, p. 3-4; Franklin, 2001; Lohmann and Lohmann, 2002; Munson, 1997; Sowers and Ellis, 2001, et. al.) managed care has largely obliterated what once was a clear line of demarcation between administrative decision-making, on financial matters, and the resource-directing decisions of therapists, counselors, case managers and other direct service social workers who previously could practice with little regard for direct fiduciary[2] concerns. When case managers, therapists or group workers are hired explicitly to address client financial concerns and interests, given quotas for billable hours, and asked to solicit donations or write grants to develop or continue their practice activities, their actions are explicitly involved in the financial management system, and the demarcation of earlier times becomes blurry and unclear. Austin and Hopkins (2004, 3-4) provide a very succinct summary of the changes in social work practice that have brought direct practice into this mode.

While contemporary developments in managed care are an important part of the changing nature of social work practice, however, they are only part of a much larger and more complex and fundamental set of transformations in the financing of social work

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[2] The term fiduciary is used in the broadest sense here to connote those who must be concerned with the handling of other people's financial resources.

practice in recent decades. While most social workers are aware of the continuous daily manifestations of these developments – dealing with the details of public and foundation grants, client-paid fees, state contracts, insurance reimbursements, individual donations, liability issues or other financial instruments and intermediaries – the full extent of this transformation in the social economy of social work practice may not yet be clear.

This quiet revolution in social work financing has worked itself out slowly over several decades mostly by adding entirely new layers of possibility to the original donation-based "gift economy" which formed the financial undercarriage of social work practice prior to the New Deal. Each of these add-ons left many aspects of the older regimes largely intact, transformed others, and in a few cases added entirely new financial arrangements and possibilities, notably those associated with managed care. This is truly a record of accumulating complexity. While this revolution is fairly complete with respect to changes in the underlying accounting and reporting infrastructure, it is only moderately underway in certain other respects, notable in such areas as measured outcomes and performance management. It is important to trace in broad strokes the key transitions of this financial revolution. We will do so in terms of changes in the financial meaning of the common term social agency from the benevolent donative enterprise of the 1890s to the contemporary, multi-funded social enterprise and private practitioner as a 'social entrepreneur'.

Voluntary Social Agencies

In most large urban communities in the U.S., remnants of the original class of what were once known as "voluntary social agencies" remain intact, doing business much as agencies like them have for more than a hundred years. Since the 1980s, these older donor-supported agencies have been joined by newer gift-based charitable agencies, largely eschewing government grants and contracts for practical, ideological and other reasons. As financial instrumentalities, these organizations are the original source of the term “social agency”, a reference to the legal and management doctrines of principal-agent theory, and their legal-financial position as agents of their donors and grantors. As stewards of donations and gifts from others, these are service operations supported financially by common resource pools, as discussed below. Even today, their financial arrangements are much like the original charity organization societies, settlement houses, and other voluntary social agencies out of which professional social work arose.

These voluntary agencies deal with hard-core issues of poverty, social dependency, social care and other social problems including homelessness, substance abuse, and short-term relief of poverty and hunger. Most are small and community-based, with limited professional staff and ample opportunities for volunteers and nonprofessionals. Some (e.g. religious missions and some faith-based providers) have arms-length relationships at best with the contemporary social work profession while others are fully staffed by professional BSW or MSW social workers. Regardless of these permutations, the financial model of voluntary social agencies remains primarily a concern for periodically refreshing through gifts and donations, and even subscriptions and memberships, common resource pools that are subsequently “spent down” to support operations. In some ways, the American Red Cross and Salvation Army and their many local affiliates, large as they are, are exemplars of this type of voluntary agency. Most of the contemporary social agency community, however, has shifted to other revenue models.

Independent First Steps Toward Social Enterprise

Over time, some of the oldest and best known of these voluntary social agencies, some of which predate World War I, have taken quite different and distinct financial paths that have led them far beyond the donation-based common resource pools of the traditional voluntary agencies. Some, including numerous urban YMCAs and Good Will Industries, recognized their changing economic position, and began taking quaisi-commercial paths (sometimes amidst significant controversy), and transforming themselves into service businesses long before the term "social enterprises" arose to describe them. The many, complex reasons for such adaptations are not a primary concern of this discussion. We are only concerned with the resulting changes in the financial basis of social work practice. In this vein, a social enterprise can be defined as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for share holders" (http://www.res.bham.ac.uk/information/entrepreneurship/Resources/Resources.htm, (January 12, 2007)

This is not primarily a matter of ideology or intent, as it has so often been treated but of financial arrangements: With little shift in meaning, the definition above could be fitted to an entire class of social work social enterprises: *a mission-oriented, non-profit-distributing social agency using a variety of capital acquisition strategies, including donations and gifts, grants, and various types of sales of its services to underwrite its current operations and generate surpluses for reinvestment in the organization and the community it serves.* Regardless of the reasons, adoption of a fundamental entrepreneurial stance is, perhaps the key characteristic driving the transformation of social agencies, and that entrepreneurial stance is most often embraced not out of a desire to “make money” but directly out of the twin desires of social workers provide service and to meet needs.

For reasons noted below, many revenue-driven social agencies, especially those nonprofits driven by circumstance into aggressively seeking funding (activity which fully fits the ordinary business meaning of capital), now qualify as social enterprises in this sense, quite independent of any residual ‘anti-business’ or ‘anti-capitalist’ outlook on the part of managers, boards or the social workers employed there.

For example, national networks of faith-based providers, including local, state and national units of Catholic, Jewish, Lutheran or other Social Services, and others took a very distinct path into ‘faith based’ social enterprise when they embraced purchase of service contracting decades before the Bush Administration’s highly publicized initiative. Most did so not to ‘make money’ but to enhance their ability to serve, and contract-based entrepreneurship was the most direct route to increased services. Funded purchase of service contracts, based as they were on specifying units of service, quietly, almost surreptitiously, put these social agencies into an entrepreneurial posture not terribly distant from that of the Y’s or any small-business with a government contract. The financial problems of accurately gauging resources metered to the rate of service activity, actively managing accounts receivable and cash flow/operating capital concerns are basically those of the typical small service business – or the social worker in private practice trying to ‘make a go of it.’

Despite this slow, organic rise of entrepreneurship in social service, many in social work are still deeply wedded to a major, but quite obsolete, categorical distinction

– grounded in the Victorian idealism of the original charity organization society and settlement house movements, but subsequently rendered irrelevant by the development of the U.S. social economy – between morally elevated nonprofit/charitable "social service" and morally debased "for-profit" business. When looking at the financial base of social agencies, such a distinction has been rendered largely meaningless by changes in the larger social economy.

Events across a broad front have acted to strongly undermine that once-meaningful difference, from the development of nonprofit enterprise accounting, to the shift from grants to performance contracts, all of the associated focus on outcome measurement, and the growth of more robust forms of professionalism in social work. In an age of managed care, all social workers have to some degree become social entrepreneurs and all 'social agencies' have become less agents of their donors and more independent social enterprises in their own right.

The implications of this for financial management of nonprofit social agencies have been little short of revolutionary: As a pair of accounting authorities noted recently, "There are only two fundamental differences between for-profit and nonprofit organizations. First, for-profit businesses have transactions with shareholders, whereas nonprofit organizations do not. Second, nonprofit organizations [can] receive contributed capital[3] which businesses do not." (Anthony and Young, 2005, p.468)

[3] In the rhetoric of enterprise, 'contributed capital' means gifts, grants, and donations – the hallmark of the revenue base of voluntary social agencies. In social enterprise, such contributed capital functions along with other revenues from fees, earned income from investments, capitation payments and an increasingly wide variety of other revenue sources.

Orphans of Public Policy

The rise of enterprise in social agencies is also evident in a different group of agencies, where risks associated with limited, uncertain and insecure[4] financial baseshave given rise to yet another form of social enterprise. This group of social agencies includes community action agencies, community mental health centers, housing bodies, and local and regional aging agencies and many other community-based housing and social service agencies established during and after the Great Society period. The common trait here is that these social agencies were created or reformed in response to one or more federal policy initiatives, which were subsequently abandoned by public authorities and 'defunded'.

Many of the members of this large group of agencies were originally created for the explicit purpose of receiving federal program grant funding. Some – like the community action agencies – were literally abandoned with few visible means of public support due to shifts in federal policy winds in the years after 1970. Others, including community mental health centers and local aging agencies have been transformed (in some cases, several times) by shifting financial and program priorities.

More than a few of these community-based service providers did not survive changes in their original or subsequent missions, while others including hospices and Head Start programs have been able through organized effort to establish newer and more-or-less reliable federal and state revenue streams through Title XX, revenue sharing, social service block grants, Medicare, Medicaid, and other federal programs.

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[4] It is worth noting also that in the uncertain environment of the contemporary social agency managing substantial risk is one of the essential characteristics. Such risk management is also a characteristic often integrally tied to notions of enterprise and entrepreneurship. Thus, in one more sense, social agency managers are entrepreneurs.

Some of the agencies in this category responded to the loss of their public funding sources by moving into full social entrepreneurial mode as reflected by the literature on "grantsmanship" "defunding", "decentralization" and related topics, repurposing themselves as necessary often using classic goal displacement maneuvers like those described by David Sill's (1958) classic study and more recent work on that topic.[5]

The Chronically Underfunded Agency

A distinct subset of this group founds its way to social enterprise by a slightly different route. The central financial fact of life for this group of organizations is that while their tax-exempt status still allows donations and their discovery of at least limited public funding at least allows them to survive, neither revenue source has been adequate to robust pursuit of the missions these organizations set for themselves and additional funding is deemed desirable or necessary. This puts many of these organizations in a limited entrepreneurial mode. United Way funding, or independent donations, or a narrow spectrum of public allocation or contracts allows them to survive financially, but they can thrive only by leveraging the funding they already have to secure additional support. And, that pursuit requires them to become more entrepreneurial. This group includes a substantial number of "multi-funded" nonprofit human services, whose executive and/or boards have elected to pursue mixed revenue strategies combining gifts and donations, grants, fee-based services (perhaps including sliding scale fees and offering what are, in effect, discounted and pro-bono services).

'The Third Sector'

[5] The contemporary literature of goal displacement studies is vast – far too large to cite comfortably here.

These are just a few of the many pathways that have brought large numbers of social agencies into increasingly entrepreneurial positions. During the 1980s some underlying coherence arose out of the sheer variety of these voluntary, quaisi-public, contract-based, entrepreneurial, multi-funded and other nonprofit agencies through the growing popularity of the nonprofit, or third sector concept. Basic to the concept of an identifiable third sector – and human services subsector – in the U.S. is the notion of a common, legal "nondistribution" constraint shared by all of them. A national classification scheme, the National Taxonomy of Exempt Entities (NTEE) has gained acceptance with diverse national peak associations like the United Way of America and INDEPENDENT SECTOR and authoritative bodies like the Internal Revenue Service (IRS) and the National Accounting Standards Board (NASB). Organizations like the Foundation Center, National Center for Charitable Statistics (NCCS) and Guidestar (www.guidestar.org) and a growing body of researchers use this concept to advantage, and journals like *Administration in Social Work, the Journal of Community Practice, Nonprofit and Voluntary Sector Quarterly, Nonprofit Management and Leadership* and *Voluntas* have all published studies based on this organizing rubric. The underlying idea that much contemporary social service is not quite governmental in auspice, and not profit-oriented places it squarely in this other realm of the third sector.

The concept of a third sector juxtaposed against 'state' and 'market' leads rather easily to a view more expansive than simply tax exempt service delivery organizations. The European Union has stepped into the breach and revitalized an older concept – the social economy, which in the American context refers to public charities, foundations, cooperatives and financial ‘mutuals’ like credit unions and housing funds. (Lohmann, 2007)

“For Profit” Corporations

Even as the concept of the third sector was coming into widespread use, social work has also become increasingly established in conventional, profit-distributing corporations providing health and mental health care in nursing homes, children’s services and several other arenas. The growth of licensure-based private practice is one of the many dynamics that have subtly worked to weaken the older, Victorian linkage of ‘social agency’ with high moral purpose and allow for the practice of social work in purely commercial settings. Social work activity today is often carried out to serve ‘capitalist’ corporate bottom lines. This aspect of the financial management revolution has also occurred quietly without extensive discussion. However, it is beyond our focus here. The discussion of social agency enterprise as the basis of the quiet revolution in financial management is largely limited to nonprofit auspices and not primarily concerned with either profit-taking or capitalism per se.

Public Social Agency

The last major category of contemporary social services organizations (what are conventionally thought of as “social agencies”) from a financial management perspective are those public agencies, primarily in state and local governments, with a smattering of federal and local public agencies with human service missions as well. A few (FEMA comes to mind) conduct their own service delivery operations. The rest have, in one of the fundamental dynamics of the quiet revolution in financial management, undergone a series of dramatic transformations within the larger political economy. Today, many public agencies only pursue their legislatively-sanctioned missions indirectly through a variety of contracting, insurance, managed care and other fiduciary arrangements. In many respects, the shift away from public social service grants and toward public contracting and performance management closely parallels conventional government purchase of other goods and services from individual entrepreneurs, group practices (like many law firms) and corporations: This has brought fundamental changes in the public social agency financial model of practice. Notably, an entire class of public agency social workers is now engaged in contract management.

Multiple forms of Private Practice

Relatively large number of social workers, otherwise employed for nonprofit, private, or even public agencies, supplement their individual incomes "moonlighting" as entrepreneurs (widely known as social work "consultants") to nursing homes, and an array of other service providers. Among the most difficult phenomena to describe and conceptualize are the bewildering array of financial arrangements associated with the growth of private practice of social work. While it is tempting to think of private practice as something akin to opening a law firm, dentist's or optometrist's office, or a pharmacy or clinic, such organized commercial social work firms or "companies" are still few and far between.

Much of contemporary private practice in social work consists of what can only be characterized as individual enterprise: joining an existing medical or psychiatric specialty practice or a multi-disciplinary/multi-professional group practice, moonlighting as a nursing home consultant, etc. Undoubtedly there are free-standing social work group practices, but many private social work practitioners are associated with medical clinics and centers, where the private practice of social work is enabled by assorted consulting contracts, fee-based service delivery, insurance reimbursements, and other financial arrangements not taught in social work education.

Financial Management Knowledge for Practice

How well understood is the vast array of contemporary financial arrangements, institutions, practices and possibilities? A growing body of knowledge of financial management practice exists, but not always in the traditional forms one familiar with the social work knowledge base might expect. Discussions of cost measurement for purposes of fee collection began to appear in child welfare and family service agencies and journals during the 1950s; a trend indicative of the (now largely collapsed) effort to build knowledge of financial management of human services within the knowledge base of the profession and social agencies. (Fitzdale, 1957; Hill & Ormsby, 1952; Hill, 1953; Hofstein, 1955;) Vinter and Kish (1985), whose first author was well known as a scholar of group practice, represents the most mature expression of this approach. Little similar work, in which authors pursue tight integration of financial insights with social work practice theory, can be found in the past two decades.

The more common approach has been to adapt financial insights from business and public administration to the challenges of the social agency. Such efforts have been carried out by a relatively small group of researchers in social work education and practice. In many ways, Eric Lindeman's (1936) study of *Wealth and culture: A study of one hundred foundations and community trusts and their operations during the decade, 1921-1930* is a largely-forgotten, but paradigm example of this approach. (See also, Feit, 1998; Hairston, 1981; 1985; Hodges, 1982; Lauffer, 1983; Lauffer, 1997; Lohmann, 1976; Lohmann, 1980a; Lohmann, 1980b; Lohmann, 1995; Lohmann and Lohmann, 2002, pp. 389-450; Martin, 1997; Martin & Kettner, 1996; Otten, 1997; Perlmutter, 1988; Perlmutter, 1997; Perlmutter & Adams, 1990; Rosenberg, 1984; Sherraden, 1986; Stretch, 1979; Sumariwalla, 1975, 1976; Vintner, 1985; Wedel, 1976; Wernet, Hulseman, Merkel, McMahon, Clevenger, Coletta and Leeds, 1992; for example.)

Nonprofit Financial Management

Recently, unique understanding of social agencies is more likely to have been folded into a broader and quite robust nonprofit financial management through the vehicle of the third, or nonprofit sector noted above. Within that larger arena, the financial management knowledge base is currently expanding quite rapidly even as fewer social workers are contributing to it. (See Braswell, 1984; Carver, 1991; Carver, 1996; Colvin, 2005; Conners, 1982; Gambino, 1981; Gronbjerg, 1991, 1993; Gronbjerg and Nagle, 1994; Gronbjerg and Nelson, 1998; Haas and Giambruno, 1994; Hankin, 1998; Holmgren, 1995; Lang, 1995; Larkin, 1991; Levy, 1999; Mayers, 2004; McMillan, 1994; Osteryoung, 1984; Shim, 1997; Wacht, 1991; Nitterhouse, 1997; Young, 2007).[6]

Nonprofit Accounting

As a key component of this, the nonprofit accounting literature is already fairly substantial and growing (ASAE, 2000; Anthony and Breitner, 2006; Berger, 2003; Elkin and Monitor, 1985; Greenlee and Keating, 2004; Lang, 2001; Lang and Rocha, 2000;

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[6] There are, as always, a number of exceptions and special cases. Robert Elkin, a CPA was, for a number of years, a social work faculty member at the University of Maryland; Dennis Young, a nonprofit economist, was until recently a member of the social work faculty at Case Western. Young, now holding the Brown chair in ____ at Georgia State University, and Michael Sherraden, Director of the _________ at the George Warren Brown School of Social Work at Washington University, are among the pioneers in the field of social enterprise, discussed below. Their contributions, however, have been little noted and even less understood in contemporary social work.

Nitterhouse, 1997; PPC, 1994; et. al.) Entirely new accounting specialty literatures are appearing in topics such as the measurement of fiscal distress (Tuchman and Chang, 19Xx; Greenlee and Trussel, 2002; Trussel, 2002;) social accounting (Quarter, Mook and Richmond, 2001; Mook, Quarter and Richmond, 2007) and performance management (Clark, DeSeve, Johnson and USCoM, 1985; Martin and Kettner, 1996; Olve, Roy and Wetter, 1999).

Nonprofit Economics

Since recognition of nonprofit economics as a disciplinary specialty in the 1980's the microeconomics of the firm has moved well beyond the earlier, speculative work of such pioneers as Kenneth Boulding (1967; 1972a; 1972b; 1973; 1981) and Mancur Olson (1971). Today, a robust nonprofit economics has emerged (Ben-Nur, 1987; 1990; 1993; 1994; Hansmann, 1980; 1981; 1987; Hughes, 2006; James, 1987; Steinberg, 1987; 1990; 1994; Speckbacker, 2002; as well as Weisbrod, 1977; 1988, 1998; and Young, 1983; 1987; 1998; 2006.) This is based in, and closely related to, developments in nonprofit law (Brody, ; Hopkins, 1998; Oleck, 1995; Freeman, 2004) and fundraising (Greenlee and Keating, 2004; Lindahl and Conley, 2002; Zack, 2003; Kelly,)

Fundraising

Much the same can be said for the growth in knowledge of fundraising and foundations – except that one of the key changes in the financial management revolution has taken contemporary social agencies very far from the foundations and private philanthropy which were the basis of the original voluntary social agencies. At one time, the Russell Sage Foundation – known for almost forty years until the late 1940s as "the social work foundation" – was one of seven large, general purpose foundations in the

U.S. Today, when there are more than 10,000 comparably large foundations in the U.S., it is difficult to find even one – much less 1/7 – of all large foundations devoted primarily to social work concerns. Most private giving to social work programs and services is channeled through United Way and other similar workplace giving operations that have been among the slowest growing and least robust channels of contemporary private philanthropy. (Brilliant, 1990; Perlmutter, 1988)

Enterprise Budget Theory

One of several interrelated topics in which the quiet revolution in social agency financial management has had a profound impact is in budgeting. In social agencies as in households, governments and businesses, a budget is a list of planned revenues and expenditures. Budgeting is the process of preparing such a list and planning those same revenues and expenditures. In the remainder of this entry, we will briefly outline key features of an enterprise-oriented approach to budgeting that has grown up in social agency practice over the past forty years, joining but in no way replacing the earlier approach that we denote as "common pool budgeting".

Balancing Budgets

In all nonprofit and public settings, budget decision-makers in social agencies have no legitimate reason to maximize financial profits or even to seek the maximum amount of revenue possible.[7] In any given instance (an agency with its mission, a single program, or even an objective, all of which constitute *objects* for these purposes) social

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[7] There are a range of 'illegitimate' but fully understandable reasons, such as enhancing one's own self-interest, programmatic or organizational 'empire building, and the like. Budgeting surpluses for the explicit purpose of future investments in objectives or programs is not an 'illegitimate' endeavor in this sense.

agency budgeting only requires enough resources to achieve the stated purposes or "balance" the budget.[8]

There are three essential characteristics that define every social work budget, whether for an agency, a private practice, or a program conducted by an individual, group, organization or community:

1. A defined or established object (e.g., a mission, program, service, department or the efforts of a single worker or objective)
2. A plan for expending the resources necessary to achieve that objective (anticipated expenditures or costs)
3. A coordinate plan estimating the resources to be obtained on behalf of the same object (anticipated revenues)

The underlying assumption is that you can't achieve any worthwhile objective or purpose without an expenditure of resources, and you cannot expend what you do not have. Thus, budget objects generally involve some combination of group or organization, and its mission or purpose, together with resources, personnel and organization. Object as a financial entity is a recursive concept in which any object may consist of other, nested objects, which in turn consist of additional objects, and may itself be part of other objects.

The object (or entity) on which any budget is based involves a coordination of mission or purpose with a plan for anticipated revenues and anticipated expenditures. In those cases where resources are not already known or secured, this is the *social enterprise assumption*. A related consideration termed the *full-budget assumption* is that it is normally best to provide a complete plan for all the necessary revenues and expenses

[8] This is the "break-even" assumption (Lohmann, 1980), and is well established in practice, if not in theory.

of any given budget object. This will normally yield an "all funds" budget that is a complete reflection of the effort necessary to obtain a mission or object.

Despite these assumptions, not all contemporary social work budgets for all budget entities are expected to break even in the sense of listing anticipated expenditures and revenues that exactly match. Certainly, the "balanced" budget projecting revenues that exactly match or balance anticipated expenditures remains the semi-official requirement of every agency budget – especially those submitted to external grant authorities like United Ways, grantors and contracting agencies. Yet such balance is only one of three possible conditions for particular budget objects in contemporary social enterprises for which it is conceptually possible to budget.

In the contemporary social agency, some budget objects (or "entities" or "centers") are designed or intended to generate surpluses. Because they can, or because the activities involved are not central to the agency mission, or for other reasons, such budget objects can be designated as revenue centers (sometimes also known, colloquially, as profit centers even when there are only allocable surpluses but no actual distributable profits involved). For example, a social agency with its own fundraising department will ordinarily budget this unit as a "revenue object". Who, after all, would want a fundraising department that costs more than it brings in, or even just supports itself?

Likewise, cost centers or cost objects reflect mission-critical activities that must be carried out despite their inability to generate any (or sufficient) offsetting revenues. Agencies do not ordinarily do food or emergency disaster relief distributions for the revenue surpluses they will produce. Many of the most meaningful aspects of social work involve budget objects that always cost more than they produce in revenue, a reality which is deeply imbedded in social work practice wisdom. Sliding scale fees, for example, represent a related (and not always successful) budget usage of cost centers. Cost centers an essential part of social agency budgeting. Yet, it was the insight that some types of surplus-producing activities (revenue centers sometimes also termed "cash cows") can be used to offset the negative balances of cost objects that is the definitive budget characteristic of contemporary social agency enterprise.

Common Pool and Enterprise Budgets

The variety of the financial arrangements and possibilities in contemporary social agencies is truly daunting. From a budget standpoint, however, this array of complexity can be reduced to two principal budget objects: The traditional grant and allocation funded activities of one or more cost centers are most often budgeted as what we might term *common pool* distributions: A known and fixed (at least for the budget period) amount of resources are reserved or dedicated for a specific purpose (or set of purposes) for which costs have been estimated. Large donations or program grants in nonprofit agencies and annual appropriations in public agencies are grounded in the essential characteristics of such common pool budgeting. The amount of available resources is known in advance and will remain largely constant throughout the budget period.[9] Carrying out the program tends only to decrease the common resource pool throughout the budget period. This means that item #3 in the list above is ordinarily only a periodic and vestigial activity in common pool budgeting, and primary attention is on items #1 and #2.

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[9] That is, adjustments are always possible, but usually incident and "extra-ordinary"; that is they are seen as unusual or unconventional events.

By contrast, in the *enterprise* budget situation in all fee-based services as well as multi-funded agencies in which the very acts of service that cause the expenditure of resources are also acts that generate revenues and therefore modify the total of available resources. Enterprise budgeting must be concerned with all three items in the list. In addition, some calculation protocols like break-even analysis or microeconomics are necessary to predict the relation between variable revenues and expenditures. Further, while cash flow considerations can be important in both types, they are much more important in the enterprise budget, since funds are constantly coming in as well as going out, and the concern for cash flow and accounts receivable (monies earned but not yet received) becomes active considerations.

Another of the key differences is that while the *budgeted reserve* in any grant funded operation is merely the amount remaining unexpended at any given time, the budget reserve of an enterprise operation is a highly complex, dynamic and uncertain calculation that must take into account not only what is collected and expended, but also what has been earned but not yet received (accounts receivable) and also what everyone involved is doing. And all of that fluctuates with the passage of time.

Time, Events and Activities

By convention budget planning generally occurs within a fiscal year framework. For the common-pool budget this is a necessity to periodically restock the pool with resources, since this does not occur spontaneously. In enterprise budget planning, the fiscal year becomes something of an anachronism, a mere convention because of the assumption that the social agency is an ongoing enterprise. A fiscal year for these purposes is any regular, 12-month period coordinated with the end-of-year closing processes of accounting and IRS and other state and corporate reporting requirements. A major part of what gives a current budget context and meaning typically is comparison – notably with last year's figures and next year's projections. Such comparison gives rise to two of the essential elements of enterprise budget theory.

Base and Increment

The most basic budget problem that arises in the development of a common pool budget is that the estimates of anticipated revenues and expenditures involved can be extremely complex to derive, and subject to change even as they are developed, and the larger the object we are budgeting for, the more difficult it can be to develop these projections on a timely and accurate basis. The more frequently these calculations must be repeated in the rolling enterprise budget the more difficult this problem of calculation becomes.

For many, the concepts of base and increment offer critical aids to calculation. For budget purposes, base refers both to the amount of revenue that can be taken for granted or assumed available for the budget period, and to the amount received last year. (These are often, for all practical purposes, one and the same). Base is thus a historical measure of projected financial position at the beginning of a new budget period. It is, in this respect, a measure of position, akin in some respects to the balance sheet. Increment in turn is a measure of activity and change in position, related conceptually to the income and expense and cash flow statements (both of which are process reports).

Budget Tryptichs

Like medieval paintings of religious scenes that consist of three separate panels hinged together into a meaningful whole, the generic time frame of past, present and future suggests a perspective longer than the current fiscal year that is very useful in enterprise budgeting: Last Year, This Year and Next Year. Patterns from other previous years set the base and may offer additional useful information, and the current year's actions will have implications into the future. In some cases it may be helpful to project further than one year into the future, but the budget tryptich, of past, present and future is, in most instances the minimum time frame for successful budgeting.

Identifying a set of budget objects – an entity or whole and the assorted revenue and cost centers associated with it – can establish a framework for bringing together the desparate perspectives of various common pool and enterprise budget centers. The familiar events and activities framework of PERT and the familiar logic of base and increment within the budget tryptich of last year, this year and next year offer the fundamental frame of reference for budgeting in virtually all types of social agencies.

The Recurrent Cost Problem

One of the most consistent errors associated with the application of base and increment in budgeting is failure to take into account the recurring nature of some costs. For example, adding a new permanent staff position will not only incur an increment in the next budget cycle, but that additional cost will henceforth be part of all future base budgets. The recurrent cost fallacy arises often in social agency budgeting, as one-time provision (such as grant funds or a one-time gift) is made for what will be an ongoing added cost to the base budget without consideration of the ongoing future obligations this represents. Without sufficient attention to this problem, social agency budgets can easily become unmanageable.

Conclusion

Financial management in social work has come a great distance from its origins in the donation finances and common pool budgeting of the original voluntary social agencies. Today, social agencies and individual social workers as change agents can be found in an amazing diverse set of circumstances. Yet, virtually all of this diversity, at least outside the corporate for-profit arena, can be reduced to varying combinations of the two options of common resource pools and enterprise budgets.

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Key Terms

Budget
Financial Management
Managed Care
Private Practice
Social Agency
Social Enterprise
Social Entrepreneurship