

Carlo BORZAGA & Jacques DEFOURNY

CONCLUSIONS
SOCIAL ENTERPRISES IN EUROPE: A DIVERSITY OF INITIATIVES
AND PROSPECTS

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When the EMES network was established, the concept of “social enterprise” was already used by some third sector organisations and a few researchers. The adjective “social” or the qualifying phrase “with social aims”, together with the term “enterprise”, or with a specific legal form as the co-operative, were also envisaged in some national legislation. However, whether the so-called social enterprises were a generalised and well-defined phenomenon, with some common characteristics, was an open question.¹

Against this background, the EMES group set out four main goals as follows: to provide a definition of social enterprises capable of encompassing different national experiences; to verify the existence of this new entrepreneurial form in European states; to provide a first, albeit provisional, explanation for their development; and, to discuss their contribution to European societies and economies.

The common definition proposed by the network can be found in the introduction to this book. The national chapters presented in this volume demonstrate that in all the European member states there are organisations fitting the definition, and support the claim that social enterprises represent a common feature of the European social and economic environment. Although not yet in use in legal texts or other official documents in most countries, the expression “social enterprise” is a useful synthesis for several terms in use at national level, such as “social economic enterprises” in Austria, “socially-aimed enterprises” in Belgium, “co-operatives with social aims” in Spain, “social co-operatives” in Italy and Portugal. The theoretical chapters present and discuss some explanations for the emergence of social enterprises, by taking into account and adapting the more widespread theoretical explanations for the existence of non-profit organisations.

In this concluding chapter, we summarise the main results of the research, and focus on: the fields of activities in which social enterprises are engaged; the explanation for their emergence; the main differences among countries; the main contributions of social enterprises to European economies and societies; their weaknesses and the barriers to their development. We conclude by reviewing the development prospects and policy implications for social enterprises. These are also issues that seem to rank high on the political agenda of the European Commission.

1. THE MAIN FIELDS OF ACTIVITY

When the different national cases are considered together, social enterprises appear to be engaged in very different activities. However, it is possible to break down these activities into two main fields: work integration and social and community care services provision.

Work integration social enterprises are basically present in all the European countries. They have evolved from earlier experiences of sheltered employment workshops, but with at least two important differences: firstly, social enterprises generally are, or try to be, less dependent on public funds and pay more attention to market dynamics; secondly, they pursue the objective of ensuring that employed disadvantaged people earn income comparable with that of other workers. Moreover, several social enterprises have the explicit aim of providing disadvantaged workers with job training, and they increasingly organise their activity with the ultimate aim of helping workers to integrate into the open labour market. In some countries, work-integration social enterprises employ very specific groups of workers, mainly those not supported by existing public employment policies (as in Spain). In other countries, social enterprises encompass a broader range of people and employ thousands of workers (as in Italy).² Whereas the traditional sheltered workshops occur in the context of passive labour market policies, the new work integration social enterprises are innovative tools of active labour market policies for the same groups of workers.

The second field of activity of social enterprises is represented by social and community care services provision. These social enterprises are to be found in almost all European countries, but have major differences from those involved in work integration, both as to the number of enterprises and the types of service supplied. A significant number of social enterprises have been established to provide new services or to respond to groups of people with needs not recognised by public authorities or excluded from public benefits. Many of the activities were independently started by groups of citizens, with little or no public support. However, since the services provided were acknowledged to be of public interest, after some years the state or the local authorities decided to finance, totally or in part, the activity of several of these social enterprises. Nevertheless, the resulting dependence on public funds does not seem to have completely eliminated their autonomy. Indeed, there are many social enterprises funded both by public authorities and by fees directly paid by the users or combining public funds with resources coming from donations and volunteers. Moreover, a growing number of services provided by social enterprises secure the necessary public resources by participating in calls for tenders, thus competing with other social enterprises, third sector organisations and for-profits enterprises.

Yet the distinction between different fields of activity is somehow artificial. In fact, many social enterprises combine production of social services and work-integration activities. This overlap has different explanations. It can be due to the

fact that some social services are suitable for work-integration of disadvantaged workers, as they are labour intensive and appropriate for skills acquisition. It can also be a way to provide for the full social and economic integration of some disadvantaged groups, like drug addicts, for which service provision and work-integration activities cannot be separated. However, in some cases this overlap has been caused by the fact that, lacking clear public funding policies for new social and community care services, social enterprises have been forced to recruit unemployed persons, who are benefiting from employment subsidies, in order to develop these services. Social enterprises have accordingly been able, especially in France, to create innovative social and community care services, by integrating public social and labour policies. Yet they do not have adequate guarantees of survival in the medium term, since the employment subsidies are bound to be of limited duration. On the contrary, Italian law makes it statutorily compulsory for social co-operatives to opt either for the production of social services or for work integration, thus forbidding the overlap of activities.

Beyond the direct beneficiaries of their activities oriented towards work integration or social and community care services, social enterprises also significantly contribute to the development of local economic systems. In some cases, as for example the Finnish village co-operatives, and the UK business communities, such contribution to local development is among the explicit objectives of social enterprises.

Finally, the analysis of the different national experiences indicates that social enterprises are dynamic entities. In most countries, they are already extending their activities to other services, such as environmental and cultural services, less linked to social policies and more generally of interest to the local communities.

2. SOME EXPLANATIONS FOR THE EMERGENCE OF SOCIAL ENTERPRISES

The emergence and subsequent development of social enterprises is due to a mix of factors, some being common to almost all countries, though with varying relevance, while others are more specific to one or some of them.

There is a clear and generalised coincidence between the emergence of the first experiences of social enterprises, at the end of the 1970s, on the one hand, and the decline in the rates of economic growth and the rise of unemployment that occurred in the same decade, on the other. These changes in economic performances were at the origins of the crisis in European welfare systems. In the beginning, this crisis was mainly of a fiscal nature and led to growing public deficits. While public revenues grew at a slower rate than in the past, public expenditures increased faster, especially in countries with generous subsidies for the unemployed and for the retired and pre-retired. In the first stage, most European countries reacted against the fiscal crisis both by reforming employment subsidies and by blocking or slowing down the growth in the supply of social

services. The increasing inability of traditional macroeconomic and employment policies to reduce unemployment, especially long-term unemployment among the disadvantaged and the low skilled, and to respond to an ever-swelling demand for social services, which proved to be increasingly differentiated and attentive to quality, gave birth also to a legitimacy crisis in European welfare regimes.

When European policy makers realised that the decline in economic growth was a lasting phenomenon, they tried to reform welfare systems with particular attention to services provision. Action was undertaken in order to steadily reduce the impact of the provision of some services on the public budget, and to tailor the supply of services to users needs. This was done by decentralising some power to local authorities to decide and implement social policies, by introducing prices and tariffs, by privatising some services, and by shifting from passive to active labour and employment policies. However, prices and tariffs often affected the more needy, as in the case of sheltered workshops in Finland and social housing services in Belgium.

Policies for privatisation of social services provision have been implemented both by separating financing responsibility, which was kept by public authorities, from services provision, which was contracted out to private enterprises, and by ceasing the production of some services. This set of changes has allowed for both a growth in the demand for private providers of social services by local public authorities, and for a wider range of **unmet** needs, which third sector

organisations, and especially social enterprises, have sought to satisfy. Moreover, the supply of services has been made more dynamic by de-centralisation and policies aimed at separating purchasers from providers. De-centralisation and the consequent shift of responsibility to local authorities, closer to citizens' needs, has allowed for a better acceptance of civil society's initiatives and has made their public funding more viable. The separation of purchasers and providers has stimulated supply and especially boosted the establishment of new initiatives in a sector that for-profit enterprises regarded as of little interest to them.

Another explanation for the development of social enterprises derives from the failures of traditional labour policies and from the difficulties in shifting from regulatory, and mainly passive, policies to active ones. These difficulties are associated with workers who find it hard to enter or re-enter the labour market, and whose number and duration of unemployment have progressively increased over the years, especially in France, Germany and Italy. This helps to explain the development of work integration social enterprises.

3. THE NATIONAL DIVERSITIES

Although European social enterprises have much in common, the national chapters highlight wide differences among countries regarding numbers, fields of activity and forms of organisation. While for some member states, the organisations analysed match the working definition adopted by the EMES group,

in many other countries the existing organisations do not meet all the criteria. Many social enterprises, especially those providing social services, are heavily dependent on public funds and have a low level of autonomy and economic risk. At the same time, social enterprises often pay more attention to the interests of their employees than to the benefits to the community and/or to the participation by the beneficiaries.

Moreover, the economic weight of social enterprises is unevenly distributed throughout Europe. In some countries (for example, in Italy), there are thousands of organisations which are quite consistent with the working definition. These have developed both in the provision of a range of social services and in the work integration of disadvantaged people, and involve several thousand members and employees. In other countries (Sweden and Finland, for example), the number of social enterprises is significant, but they mainly operate in very specific fields, such as kindergartens and employment services. Conversely, there are countries with a very small number of social enterprises (such as Greece and Denmark) or in which the existing ones are not all clearly different from public or traditional third sector organisations (Germany and the Netherlands). Nevertheless, **social enterprises** present innovative characteristics either in the services provided or in the organisation of the production factors, or in both. Furthermore, in some countries, social enterprises have undergone high growth rates (see Italy and the UK) and, above all, high levels of success in the pursuit of their aims (as labour pool co-operatives in Finland and work integration enterprises in several

countries). Other elements of differentiation include the degree of recognition within the legal system, the type of reputation achieved with respect to the local community and public authorities, and the degree of partnership with public authorities and for-profit enterprises.

These country variations can be explained by referring to a number of factors. The most common are: the level of development of the economic and social systems; the characteristics of the welfare systems and of the traditional third sector; and the development of the legal systems. We will consider these factors in turn.

DIFFERENCES IN ECONOMIC AND SOCIAL DEVELOPMENT

The level of economic development influences demand for social services. In countries with a comparatively low level of development (e.g. Greece and Portugal, but also Ireland until the beginning of the 1990s), the perceived need for social services is modest and to a large extent fulfilled by informal, mainly family provision. Demand for more structured social services is confined to situations in which both the family and the community fail. In these cases, supply is often guaranteed by traditional charitable organisations. Accordingly, in less developed countries, social enterprises providing social services are not widespread. Where they do exist, it is to face one of the main problems of these countries, viz. the creation of jobs for groups of people excluded from the labour market (e.g. women in rural areas or the disabled). They are mainly work integration social

enterprises and sometimes take the traditional form of worker or producer co-operatives.

On the contrary, in those countries where the level of development is higher and there is an increasing and larger demand for social and community care services, the spread of social enterprises is greater and their evolution is more lively. The differences found among these countries depend on other factors.

DIFFERENCES IN WELFARE STATE AND TRADITIONAL THIRD SECTOR

Although they are often innovative in terms of the type and quality of services provided, social enterprises operate in the same broadly defined fields as public authorities and other third sector organisations. Since they are the “late comers” it is quite obvious that their expansion depends heavily on the strength of the other providers, on the resources and the characteristics of the welfare state, and on the state of development of the traditional third sector. With regard to these aspects, European Union member states can be classified into three sub-groups. Although not all countries fit neatly into one of these groups, the classification helps to explain the differences in the spread of social enterprises.

The first group consists of countries with a well-developed, universal welfare state (identified by high public expenditure against GDP and high employment rates in social, and community care services), engaging both in public services provision and in cash benefits (pensions, unemployment benefits, and so forth).

Sweden, Denmark and, to a lesser extent, Finland fall within this group. Until the reform that led to quasi-markets, England too belonged to this group. In these countries, social enterprises are active only in specific sectors, namely, those in which the government or local authorities voluntarily reduced their own presence as providers, but maintained the role of financiers (as in the case of kindergartens in Sweden), or those in which there was not an organised public supply (as in the case of labour co-operatives formed by the unemployed in Finland). In these countries, the development of social enterprises has not been hampered by the traditional third sector organisations. The latter, being mainly engaged in advocacy activities, have not felt threatened by the newer organisations.

The second group consists of countries also having a developed and universal welfare state, although largely based on cash benefits, with a limited commitment on the part of government to direct supply of social services. Here, both the family and the traditional third sector, heavily funded by public authorities, play an important role in social and community care services provision. Germany, Austria, France, Belgium, Luxembourg, the Netherlands and Ireland are the countries that fall within this group. The development of social enterprises in these countries has been more complex and uneven. First of all, the widescale involvement of the traditional third sector in the provision of social services and the well-established financing rules, have made the need to change the structures of private supply units to a more entrepreneurial

approach, less pressing. Moreover, in some countries like Germany, traditional third sector organisations have more or less resisted the emergence of social enterprises. As a consequent, the latter have been developing in niches, mainly in new activities (like in work integration), where traditional non-profit organisations were not active, and by exploiting resources that are not specifically geared to the production of social services (e.g. using employment benefits for the development of social enterprises, as in France and Belgium).

The third group includes countries with a less developed welfare state - especially until the early 1980s - largely based on cash benefits, with public provision of social and community care services confined to a few sectors, such as education and health. As the provision of social and community care services was mainly entrusted to the family and informal networks, the third sector did not develop either. Italy and Spain as well as Greece and Portugal belong to this group. In these countries, the fiscal crisis in the welfare systems prevented the development of a public supply of services exactly in the years in which demand was increasing. Social enterprises were set up to bridge the increasing gap between needs and supply, with little competition either from the government or local authorities, on the one hand, or from the traditional non-profit sector, on the other. In some countries, social enterprises were even supported by the existing third sector and co-operative movement. The development of social enterprises was also supported by public authorities, which progressively realised that services provided by these new organisations

would actually meet a new demand for services and accordingly increased their funding role, instead of developing a public supply.

DIFFERENCES IN LEGAL SYSTEMS

Turning our attention to the national differences in incorporation forms, it is possible to note that the main differences lie in the level of autonomy and capacity to carry out productive activity that different legal systems confer on the two legal forms (the co-operative and the association) which social enterprises tend to use. Where, as in France and Belgium, associations are comparable with a quasi-enterprise or at least are allowed to produce and sell goods and services on the market as a means of achieving their social goal, social enterprises are set up mainly as associations. On the contrary, in countries where associations have mainly been characterised by ideal purposes (Sweden, Finland, Italy and Spain) and co-operatives are easy to establish, social enterprises have mainly chosen this legal form, though changing some of its characteristics. Although the emergence of social enterprises has followed different paths in the two groups of countries, it is possible to envisage a convergence in the organisational forms insofar as associations, by adopting a more entrepreneurial character have come nearer to the co-operative form, which, in its turn, by unfolding its social dimension and by extending benefits in favour of non-members, has come close to the associative form.³

The legislative changes, which have been introduced in some countries and are under discussion in others, seem to follow this convergence pattern. Since they tend to stress the entrepreneurial behaviour of the new organisations they have been favouring the co-operative form more than the associative one. This is also true of the Italian and Portuguese law on social co-operatives and of the proposal to establish a “co-operative of general interest” in France.⁴

4. MAIN CONTRIBUTIONS OF SOCIAL ENTERPRISES

Having established that social enterprises are present, albeit in various forms, in all European countries, we will now turn our attention to their economic and social role, and to the contribution they may make to the ongoing transformation of welfare systems, to employment creation, to social cohesion, to local development, and to the evolution of the third sector as a whole. Before analysing each of these subjects, it is important to note that social enterprises, although dynamic, still represent a small part of the supply of social and community care services and employ only a small proportion of disadvantaged workers. As a consequence, not all the contributions analysed have always a visible quantitative impact. They indicate possible trends rather than changes that have actually occurred.

TRANSFORMATION OF THE WELFARE SYSTEMS

The outcomes of the policies implemented to tackle the difficulties of European welfare systems, and especially of the attempts to privatise social and community care services provision, are still uncertain. Indeed, transaction and contract costs have increased more than expected, thwarting cost containment efforts. Furthermore, at least in some cases, the quality of services and jobs has deteriorated. These negative outcomes have emerged mainly in those countries in which governments have particularly relied upon market simulation and for-profit enterprises.⁵ As the chapter on the United Kingdom underlines, the nature of quasi-markets, by tending to use prices as a major criterion to discriminate among providers, often favours hard contracting. At the same time, existing regulations are often not sufficiently well defined to guarantee the desired level of quality, especially when for-profit enterprises are involved.

In this context, social enterprises could contribute to the reform of European welfare systems in several ways, such as: by making the income distribution closer to the one desired by the community; by helping cost containment; by providing a greater volume of supply and, in many cases, by helping to maintain or to improve the quality of services and jobs.

The national chapters show that social enterprises, though privately owned and managed, can pursue a redistributive function, thus contributing to modifying the resources and income distribution provided by the joint action of the market and the state. Social enterprises are often created to serve groups of people with needs

not recognised by the public policies and base their re-distributive action on a mix of free (donations, volunteers) and low-cost (motivated workers) resources, some of which are not available to either for-profit or public providers. When a community in which social enterprises operate clearly benefits from this redistributive action, the enterprises improve their reputation and engender relations of trust.

The book presents several examples of this redistributive function. In some cases, social enterprises have replaced public authorities in their redistributive role. In Belgium, for example, social enterprises provide housing services for marginalised people who are unable to pay the growing rents and to satisfy the conditions required for social public housing. In other countries, social enterprises have autonomously taken up a redistributive action in favour of groups of people with needs not recognised by public authorities, as in the case of socially excluded persons in Spain. In countries where the supply of services organised through public policies is insufficient to satisfy demand, social enterprises contribute to the creation of an additional supply. This is the case for social services that governments are willing to fund only in part. In this context, social enterprises can increase supply through a variable mix of public, market and voluntary resources. This phenomenon can be seen in the experience of work integration social enterprises and services (like kindergartens in Sweden) for which users are willing and able to contribute.

However, social enterprises, like other third sector organisations, also influence redistributive public policies. By providing services to new groups of people with needs not fully recognised by public policies, they can move public resources toward these services.⁶ Moreover, social enterprises often mix their productive role with more traditional advocacy activities in favour of the same or other groups of users.

In creating new services, not only do social enterprises develop a re-distributive function; they can also innovate with regard to services provided. They can make completely new services available, but they can also use new ways of producing traditional services, mainly through innovative forms of involvement of consumers (as co-producers), of local community (volunteers) and of workers themselves. The new organisations created throughout Europe by social enterprises and the changes of both the associative and the co-operative forms are good examples of this innovative behaviour.

A third important possible contribution of social enterprises to the improvement of European welfare systems, occurs in the context of the privatisation of service provision. The effectiveness of privatisation policies depends on a competitive supply of social services, and there are several difficulties in establishing contractual relations between public authorities and service providers. Because of their specific nature, social enterprises can contribute to the establishment of a competitive environment and to contractual relations based on trust. Since the

aims of social enterprises often converge to some extent with the aims of public authorities, this makes negotiations easier for the provision of the services for which effective quasi-market cannot be established. They can also contribute to the reduction of production costs since they do not strive for profits and can mediate between non convergent interests of public authorities, consumers and workers, thus singling out, better than other organisational forms, the right mix of customer satisfaction and worker guarantees.⁷

EMPLOYMENT CREATION

Social enterprises can also contribute to the creation of additional jobs. This is clear for the work-integration social enterprises that normally employ workers with minimal possibilities of finding a job in traditional enterprises. However, social enterprises providing social and community care services can also create new employment since they make a sector with a high employment potential more dynamic, especially in countries in which the level of employment in the sector is still low.

The interpretations of slow employment growth and of high unemployment rates in most European countries have recently shifted their emphasis from the rigidity of labour markets to the rigidities of the product markets. These latter are seen as responsible for the slow growth of employment, especially in the service sector, mainly (by assuming the USA as a benchmark) in commercial and tourist services, in business services and in “communal” or social and community care

services.⁸ The level of employment in communal services is particularly low in the European countries with a welfare state mainly based on cash benefit (like Italy, France and Germany) and a low public provision or public financing of social services. Moreover, this public expenditure composition is a possible cause of the insufficient employment growth in the sector, especially if combined with the constraints in public expenditure that occurred after the 1980s. Public expenditure composition is also at the origin of the increasing gap between demand and supply of services to people and communities which is now experienced in several European countries.

However, currently the potential increase in employment in social and community care services cannot be achieved simply by increasing public expenditure. The pursuit of such a policy is impeded both by the constraint of reducing the public deficit and by the necessity to use savings on public expenditure to reduce fiscal pressure and indirect labour costs, in order to face the increasing international competition. An alternative policy can be pursued by changing the composition of public expenditure from cash benefits to services provision or services founding and by encouraging the growth of private demand. However, this is unlikely to be fully accomplished either by traditional third sector organisations or by for-profit organisations. On the one hand, most traditional third sector organisations are by now too heavily dependent, in defining their strategies and in finding resources, upon the public sector. On the other hand, for-profit enterprises have several shortcomings. They have, at least for the time being, little interest in producing

these services, due to low profitability and to information asymmetries that affect market relations both with consumers and local authorities.

Social enterprises, on the contrary, may help in developing both demand and supply, as well as in reconfiguring public expenditure composition. They present several advantages. Since they do not aim at profit maximisation, they can easily be involved in productions entailing low profitability and, if they rely on resources deriving from donations and on volunteers, they can reduce the production costs especially in the start-up phase.⁹ Cost reduction is also possible when social enterprises attract workers and managers interested in working in the sector for wages that are lower than in comparable activities.¹⁰ Moreover, by involving consumers and by being rooted in the local community, they can quickly adapt supply to demand and can rely on fiduciary relations to overcome the difficulty for consumers of monitoring the quality of services. This means that social enterprises can produce services for local authorities and for private users at the same time.

Social enterprises can contribute to job growth also if they are fully or partially financed by public funds. When social enterprises are financed with public money, it is because the services supplied are considered to be for the common good. Normally, the higher the re-distributive effect, the greater the public funding. However, social enterprises should not be considered a mere substitute for public authorities. Many of them started their activity without, or with

negligible, public subsidies and only after some time was their activity recognised by public authorities. As a consequence, they have contributed to increasing the public expenditure directed to services provision and along with it the related employment. Moreover, several social enterprises providing services with a predominantly private component (as in the case of kindergartens and many cultural services), also produce directly for private users, thus clearly contributing to net job creation. By taking into account data referred to in some country chapters (Italy and the UK), it is already possible to assess that a significant share of income of social enterprises derives from the provision of services to private households. This share could be much higher if the tax/income ratio were lower as it is in the United States. Evidently, social enterprises alone cannot either solve the problem of low employment growth in Europe or be a major response to such a global challenge. Yet they have shown the ability to contribute to it significantly.

SOCIAL COHESION AND THE CREATION OF SOCIAL CAPITAL

By contributing to solving or to alleviating the problems of specific groups, and by favouring the integration of disadvantaged people into the labour market, with higher wages than those paid by sheltered employment workshops and sometimes for-profit companies, social enterprises also contribute to improving life conditions, the wellbeing of communities and the level of social integration. Furthermore, social enterprises enhance user protection, especially of the most

seriously disadvantaged, thus improving service supply and promoting, in some cases, the involvement of users in the organisation.

In societies that are getting ever more complex, the causes of social exclusion are increasing and becoming more differentiated. It is no longer valid to assume simple correlations between unemployment, poverty and social exclusion. It is therefore more difficult to combat social exclusion by using cash benefits and standardised services. Rather, it is necessary to provide a capacity to address the needs of specific and relatively small groups of people within each community. Such an evolution of the causes of social exclusion has largely contributed to putting European welfare systems to the test, especially those with a high level of centralisation. Decentralising policies, which have been implemented since the 1980s in many countries, have reduced the socio-economic problems, but they have not solved all of them. Social enterprises can give significant support to identifying and to addressing the different and new needs of communities and of the groups of people more at risk. More generally, social enterprises make a contribution to the creation of social capital, by developing solidarity and mutual help, by expanding trust and facilitating citizens' involvement in the solution of social problems, through the promotion of volunteering and the involvement of users.

LOCAL DEVELOPMENT

Social enterprises are mainly locally based organisations. Accordingly, they tend to be small sized but, at the same time, they are among the actors involved in local development. Close links with the local community in which they operate are, for social enterprises, a condition for development and efficiency, because they facilitate the understanding of local needs, the creation and exploitation of social capital, and the working out of the optimal mix of resources (from public authorities, donations, users and volunteers).

The globalisation process and the diffusion of new technologies have spearheaded productivity growth in manufacturing sectors, but also the increasing instability of employment. They have also weakened the linkage between enterprises and territory. An increase in demand for goods no longer produces increases in production and employment everywhere. The new jobs are generally created in areas different from those where demand arises in the first place. These processes mainly discriminate against the less developed or declining areas, thus creating vicious circles. To tackle the problems of these areas, traditional incentives to localisation are often ineffective. Conversely, new social and community care services, requiring proximity between supply and demand and organised by small local social enterprises can help to create a more stable local source of labour demand. This contribution of social enterprises to local development through the creation of new jobs for people within local communities could increase in the future, if social enterprises expand their action from social services to other services, such as environmental improvement, cultural services, transportation,

etc. This process is already underway in some countries, especially where work integration social enterprises are more active.

DYNAMICS OF THE THIRD SECTOR

Social enterprises cannot be simply identified with the social economy, the non-profit sector or with the third sector. In fact, although they are part of it, social enterprises differ both from the traditional non-profit organisations and from the more established organisations of the social economy (such as co-operatives) in many respects. These can be summed up as follows: their innovative behaviour in creating new organisational forms and new services or in addressing new needs; their ability to rely on a more varied mix of resources; and their stronger inclination towards risk-taking especially when they start up new activities.

Moreover, social enterprises can be seen as a breakthrough in the European traditional third sector, because they stress the productive and the “entrepreneurial” dimension of not-for-profit organisations and underline the economic, together with the re-distributive, function of the welfare services. This helps to explain the search for new legal and organisational forms by social enterprises. It also sometimes explains the resistance to their development on the part of traditional non-profit and social economy organisations, along with for-profit enterprises and some branches of trade unions. However, this resistance is not generalised in all European countries. In many of them, the development of social enterprises has been, and is part of, a strategy of the traditional third sector

organisations, as in the case of the co-operative movement in Italy. In other countries for-profit enterprises do not seem interested in entering the activities in which social enterprises operate. Furthermore, social enterprises are contributing to the renewal of both the third sector and the welfare services industry and this explains the increasing interest in them.

The main innovation introduced by social enterprises in the economic and social arena is that they are neither outside of the market, as are most public and traditional non-profit organisations, nor outside of the public system of resource allocation, as are for-profit enterprises. Rather, they use the reasons and the rules of both the market and the State, though not identifying themselves with either of them. Such a peculiarity makes social enterprises different from traditional non-profit organisations, which tend to be either “third parties” with respect to the market and the government (this is the case when they are funded either through donations or volunteers), or depend exclusively upon the allocative action of the public sector. Indeed, social enterprises represent a concrete and successful example of how civil society and private organisations can directly and autonomously deal with some of the problems shared by the community, without necessarily relying upon public funds. The development of forms of social entrepreneurship, which the EMES research identified, are in most cases the result of a spontaneous dynamic of civil society at the local level rather than the outcome of the planned action of public policies or social movements.

Finally, the development of social enterprises is, in some countries, contributing to reducing the gaps between the different, and often separated, families of the third sector. Associations and foundations are moving towards more productive and entrepreneurial behaviour; foundations are somehow shifting to a more democratic governance; and co-operatives are rediscovering, in several countries, the primacy of social objectives. All of these changes contribute to explaining the growing interest in the third sector and the social economy.

5. INTERNAL WEAKNESSES AND EXTERNAL BARRIERS

The emergence of a great number and variety of social enterprises has occurred spontaneously, often despite the lack of an adequate legal framework and in the absence of clearly defined managerial and organisational models. As a consequence, social entrepreneurs, who, at the beginning, were often themselves volunteers, had to invent ways of organising the resource mix, to make volunteers work together with paid workers, to mediate between the differing interests of volunteers, workers and users and to establish a reputation with respect to the local communities and public authorities.

Despite its success, the organisational model of most social enterprises remains fragile, based on few well-defined rules and on a high degree of trust among members, sharing common social and re-distributive aims. Consequently, this model is difficult to maintain and reproduce. However, this intrinsic fragility is

not the only problem social enterprises have to face. Several other external factors have counteracted or at least slowed down the development of these new organisations. It is therefore useful to present and discuss the most common and important weaknesses and barriers. The main weaknesses may be summarised in four points as follows

The first is the scant awareness that social enterprises, their managers and the movement as a whole, have of their role in European society and economic systems and of their own specificity with respect to public, for-profit and non-profit organisational forms. In particular, there is a well-established capability of managing the plurality of objectives that define social enterprises and that bring together social aims with economic constraints. However, the lack of awareness sometimes prevents social enterprises from adopting adequate management and development strategies and contributes to their fragility.

A second weakness is the tendency towards isomorphism, that is to evolve into organisational forms that are better defined, legally stronger and socially more acceptable while being unable to keep and develop the most innovative characteristics in the new organisational forms. Nowadays, the most widespread risk is that social enterprises convert into associated workers' companies, consequently pursuing the exclusive interests of those employed, and losing the linkage with the community and the capacity of fully using social capital. This risk appears to be related to the increase in the availability of public subsidies and

the consequent decrease of the autonomous re-distributive role played by social enterprises.

A third weakness is the high governance costs of social enterprises, which derive from their character as organisations without well defined owners. Their apparent advantage, i.e. the involvement of various categories of stakeholders (clients, volunteers, representatives of the local community) in the production and in the decision making processes, turns out to be an element of inefficiency when conflicting interests limit the capacity of reacting quickly to a changing environment.

Finally, social enterprises are often of a limited size. Partly due to the strong ties with the local community, partly because of high governance costs, social enterprises are unlikely to be able to grow in size beyond a given threshold. This may hinder their capacity to respond successfully to bigger challenges posed by the surrounding environment and may also hinder their reputation building outside the local community. Moreover, if social enterprises managed to achieve significant growth, they could accelerate the processes of isomorphism outlined above. However, small size does not seem to represent a generalised handicap; in countries where social enterprises are more developed, they have demonstrated a specific ability of grouping together and of setting up groups of enterprises able to exchange information and innovations and to exploit the economies of scale in specific sectors.

In addition to these internal weaknesses, it is possible to identify at least four main external barriers to the development of social enterprises. The most general barrier is the belief prevailing in most European countries that for-profit organisations together with active public policies can efficiently solve all social problems and satisfy overall demand for social and community care services. This belief has led to an underestimation the potential role of the third sector and probably even more so of social enterprises. Both are often thought to be unnecessary or, at most, transitional solutions, useful as entities dependent on public policies or as organisations that should be active only for the problems that public policies cannot solve.¹¹

Such a negative attitude towards social enterprises is stronger in some countries, like Germany, where a very traditional view of the enterprise is still the norm. According to this view, only those initiatives that derive their income from commercial activities and pursue the sole interest of their owners can be defined as enterprises. Accordingly, the concept of enterprise does not include those organisations capable of innovating and organising the production processes in a new way, if they do not base their income on market exchanges and do not pursue the interests of their owners. In this context, social enterprises are looked at with mistrust and suspicion, up to the point of regarding workers involved in social enterprises as not fully employed. This attitude is common also in those countries where the competitive process is more emphasised, thus marginalising activities,

such as social and community care services, for which competition is limited by necessity. The argument of the economic importance of a competitive environment is increasingly used by for-profit enterprises, and their representative organisations, in seeking a revision of the fiscal and competitive advantages allegedly conferred on non-profit organisations and social enterprises, **even though these advantages are justified by the public interest of the services provided.**

A second important barrier can be found in the confused and often incoherent relationship between social enterprises, on the one hand, and social and labour public policies, on the other. The shift from direct public provision of social and community care services to the separation of financing responsibility from services provision, together with the autonomous development of private non-profit initiatives, has not been accompanied by a general and coherent change in contractual relationships and funding rules. Old ways of financing non-profit organisations have generally been maintained, while other new contracting-out rules have been established, especially for new services. More competitive practices were given an impetus by the introduction of quasi-markets in England and by the new European rules on contracting-out and public tenders. The result is an unclear mix of direct subsidies and contracting, more or less hard depending on the countries and the services. When contracting-out practices are applied, the specific characteristics of social enterprises are very often not taken into account. Contracting-out practices tend to favour large companies (for-profits or traditional

workers' co-operatives) that have no links with the territory or the community. These companies sometimes take advantage of the difficulties in writing, enforcing and monitoring contracts in order to cut wages, worsen labour conditions, reduce the quality of the services provided or simply try not to respect some parts of their agreements. As a consequence, social enterprises often have to operate in a precarious environment, relying on short-term contracts and without the possibility of planning their development.

Some rigidities of labour policies have accentuated this barrier for work integration social enterprises. Examples of these rigidities include the difficulties in transforming subsidies granted to the disabled into **employment** subsidies for the benefit of social enterprises that employ them; or the difficulties in making employment subsidies, granted to unemployed persons engaged in on-the-job training activities in social enterprises, flexible enough to be benefit them until they can find a job in the open labour market.

A third important barrier common to most European countries is the lack or inadequacy of legal forms suitable for social enterprises. Some countries have been adapting, or plan to adapt, the co-operative form, by making it assume the characteristics of the social enterprise, but running the risk of preventing the latter from taking on different legal forms. Other countries have allowed social enterprises to use the association form, but without giving it full entrepreneurial status. Only Belgium has specific legislation (yet to be completed) which allows

social enterprises to choose among different company legal forms. The lack of adequate legislation limits the workability and the possibility of reproducing social enterprises. At the same time, a legal framework that does not take into account all the characteristics of these new kinds of enterprises can foster the tendency towards isomorphism. Furthermore, legislative deficiencies hinder their activities as well as the possibility of taking part in tenders, of entering contractual and partnership relations and of developing human and financial resources.

Finally, the development of social enterprises is also hampered by a lack of access to industrial polices,¹² which are intended to promote new enterprises, and to public funding for innovative social services, in the provision of which social enterprises, already play a significant part in many countries.

6. DEVELOPMENT PROSPECTS

By taking all the results of the EMES network into account, it is possible to conclude that social enterprises can be considered as new organisational forms, diffused to a varying extent, throughout the European Union. Although still in an experimental phase, and far from being a well-established reality, the development of social enterprises constitutes a dynamic and innovative trend in the European economic and social arena. The theoretical contributions and country analyses suggest that social enterprises have the potential to develop further and become an additional force for good in the fight against

unemployment and social exclusion and for an increase and differentiation in the supply of social and community care services.

However, present circumstances do not allow us to affirm that this potential will be fully realised. The development and strengthening of social enterprises depend on several conditions. Among them, and of crucial importance, are better awareness and knowledge of their functioning and of their specific role in fighting social exclusion, and better defined links with public social policies. As already mentioned, European social policies are going through a serious transformation, but up to now, the reforms undertaken have not fully appreciated the potential of social enterprises. Only recently, have some aspects of social enterprises been taken into account.

To date, public policies designed to support social enterprises have been based on a minimalist approach, which results in interventions mainly aimed at overcoming specific problems. On the contrary, there is the need for a more general approach, which takes into account the role played by social enterprises, thus paving the way for their more autonomous development. This approach would require implementation of a strategy allowing social enterprises to operate jointly with public institutions and private enterprises, as fully entrepreneurial actors. This means that public policies should change from providing specific and often marginal supports for social enterprises, to becoming more broadly based and that new policies are required.

The first policy that would facilitate the development of social enterprises is their full legal recognition and regulation. Both are important for several reasons: i) to consolidate the most innovative organisational solutions; ii) to foster the replication process and the spread of social enterprises; iii) to protect consumer's rights; and iv) to avoid isomorphism. The fragility of social enterprises could be reduced through proper governance models that clearly set out legislation could help to define.

A second important aid to the development of social enterprises would be a shift from today's predominantly fiscal policy, based on tax relief for organisations fulfilling certain organisational requirements (usually the non-profit distribution constraint), to policies seeking to foster the emergence and development of new demand for services (both public and, in the medium term, private). Various means could be used to implement this policy. As regards public demand, financial constraints are presently the main problem. However, it is possible to transform part of the public expenditure from cash benefits into service provision in favour of the same groups of people. The emergence of private paying demand (by individuals and families) for social and community care services, and a change from the present informal provision, would be helped by reducing the costs of services through tax allowances in favour of consumers and through the provision of vouchers covering only part of the costs. The amount of the vouchers

could be related to the redistributive component of the services and to the real needs of the beneficiaries.

Another important policy would consist of better defined contracting-out and quasi-market strategies. These could be more effective if they recognised the specificity of social enterprises, and the redistributive component of the services produced. This entails acknowledging that social enterprises are based on a peculiar mix of resources and have a local dimension. Both of these require the preservation of strong trust and community relationships, where they exist, or an effort to create them where they do not. Competition is important to achieve efficiency, but it should be balanced with the need to guarantee the continuity and development of already existing network relations that produce trust and social capital and allow the creation of the mix of human resources that help to maintain flexibility and low production costs. A local dimension could be applied to contracting-out procedures, so as to reduce the extent of competition for social and community care service provision. Specific credits could be granted to social enterprises able to attract donations and volunteers and to involve users in their organisations. These proposed changes to the competition rules are warranted both by market failures in the production of social and community care services, although the demand is fully managed by public authorities, and the capability of social enterprises, and third sector organisations to directly and autonomously contribute to community welfare.

Some specific changes in social policies would be important in assisting the development of work integration social enterprises. A clear distinction between employment policies for long-term and disadvantaged unemployed, and policies designed to increase the supply of social and community care services, is the first of these changes. Employment subsidies for long-term unemployed could work better if designed to reduce labour costs in order to compensate for lower productivity, irrespective of the goods or services produced. Also some flexibility in the duration of the subsidies, if applied to the more disadvantaged, could help in facilitating more complete integration of these unemployed.

Work integration social enterprises could make a more significant intervention in favour of the unemployed if there was a sufficient and stable demand for the goods or the services they provide. At least part of this demand could be guaranteed by local authorities, through the so-called “social clause”.¹³ The employment of long-term unemployed by social enterprises could be stimulated also through specific contractual agreements. Criticism of the possibility of restricting participation in public tenders for actions devoted to employing disadvantaged workers to work integration social enterprises (**social clause**), **since this would** reduce competition or **would** generate unfair competition, is not relevant. The share of demand reserved for work integration social enterprises tends to be a small part of public demand, and is mostly in activities that are of little interest to traditional enterprises. At the same time, contractual agreements are not sufficiently developed to avoid opportunistic behaviour on the part of for-

profit enterprises.¹⁴ Indeed, these may formally abide by the social clause but they can also discharge disadvantaged workers after winning the bid.

Finally, the development of social enterprises could be helped by a set of supply-side policies with the aim of: reinforcing their entrepreneurial behaviour; enhancing the managerial skills of their personnel; favouring the creation of second/third level organisations and increasing their natural propensity to spin off and create new and autonomous organisations. Support for start-ups should take the form of financing the development of new social enterprises (according to models that have been already successfully tested as for-profits), aimed at integrating private and community resources.

In the future, the development of a large sector of social, personal, cultural, environmental and community care services will depend less than in the past on public expenditure and more on the interaction between private demand and supply. Nevertheless, for most of the activities included in the social and community care sector, transactions cannot be based only on market rules. The creation of quasi-markets, where implemented, has often **caused a decrease** in the quality of the services **without a significant reduction of** public expenditure. The other way to enhance the development of the sector is through the strengthening of new organisations, which are able to combine private action with production of collective goods and to mix the productive with the re-distributive function. Therefore, European economies need new organisational forms, similar to those

that compose the third sector, but more entrepreneurial. Social enterprises are an example of these forms. The research summarised in this book demonstrates that they can exist and develop. Whether they will be able to develop further depends to a large extent on the decisions of European governments which may choose to rely more or less exclusively on quasi-market policy or decide to combine the latter with a strategy to foster the expansion of new forms of organisation.¹⁵ This book shows that the latter orientation is possible, and is probably more promising.

¹ During this research the term “social enterprise” was used also by other groups. See OECD, (1999).

² For a wider presentation and a theoretical analysis of the work-integration initiatives, see Defourny, Favreau and Laville (1998).

³ This point has been already stressed at the end of the introduction to this volume (see graph n.1).

⁴ There are also attempts to provide other forms of social enterprises such as joint-stock companies with several constraints (in profit distribution, in the rules of management, etc.). The most prominent are the law on the “enterprise with a social purpose” in Belgium and the draft under discussion in Italy on “social enterprises”. However, to date the result of these attempts is unclear.

⁵ This seems to be the case of some social services, like home care services in the UK (see Young, 1999).

⁶ This is the case in countries with a limited public provision of social services like Italy where several services (day centres for handicapped or teen-agers, services for drug addict rehabilitation, etc.) were initially created by social enterprises without systematic public supports. Only after several years did national and local authorities decide to fully support the financing of these services and of the organisations providing them.

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- ⁷ The few comparative studies on employment relations in social service provision (for Italy see Borzaga, 2000, for the United Kingdom see the national chapter in this book) indicate that social enterprises tend to pay wages lower than public service providers and higher than for-profit enterprises.
- ⁸ As demonstrated in several documents of the European Commission. See, among them, European Commission (1998).
- ⁹ A specific category of start-up costs faced by organisations willing to provide new social services are the entrepreneurial costs (Hansmann, 1996), i. e. the costs related to the assembling sufficient volume of demand to sustain a stable and efficient production. By often consisting of users or their representatives, in many cases, social enterprises can evaluate the potential demand at low costs.
- ¹⁰ This specific advantage can be misused and can create perverse effects on the wage level of the employees. However, when correctly used, it represents an important advantage.
- ¹¹ As suggested by the explanation of the non-profit organisations as “problem non solvers” (Seibel, 1990).
- ¹² Since in many countries social enterprises are not regarded as enterprises in every respect, they cannot benefit from the subsidies provided for all other enterprises.
- ¹³ The social clause is a specific contractual requirement by which local authorities request enterprises participating in bidding to employ a percentage of disadvantage workers.
- ¹⁴ Social enterprises are often regarded as less costly contractors for government. **As Steinberg (1997, p. 176) states:** “non-profit organisations deserve some preference in bidding because they provide benefits to the government (reduced opportunistic behaviour and reduced transaction costs of negotiating, monitoring and enforcing a contract) that cannot be enforceably written into a contract with for-profits”.
- ¹⁵ For an analysis of this pluralistic context see OECD (1996).

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