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The emergence, institutionalisation and challenges of social enterprises: the Italian experience

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ABSTRACT

Italy is one of the few countries with a law on social cooperatives and a law on social enterprises. Even though both laws seem quite similar, their levels of success have been drastically different. The understanding of the different outcomes of the two laws can help in evaluating the process of institutionalisation amongst social enterprises. This is the main aim of the present paper that starts by describing the process of institutionalisation of social cooperatives. It follows presenting data on the diffusion of social cooperatives, especially through looking at the stocks of existing social cooperatives, their characteristics and their social and economic impact. It describes the main characteristics of the new law on social enterprises and introduces the first data on their diffusion. It explains the reasons of the different levels of success of social cooperatives and social enterprises in Italy. Finally, the paper concludes with a brief discussion on the prospects and new challenges for social cooperatives and social enterprises.

KEY WORDS: Social enterprises, Italy, emergence, social innovation, social cooperatives, institutionalisation, laws.

ECONLIT DESCRIPTORS: P130, I310, L260.

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El surgimiento, la institucionalización y los retos de las empresas sociales: la experiencia italiana

RESUMEN: Italia se cuenta entre los pocos países que poseen una ley de cooperativas sociales y otra de empresas sociales. A pesar de su aparente similitud, han cosechado unos niveles de éxito radicalmente diferentes. Una comprensión de los distintos resultados de las dos leyes puede ayudarnos a evaluar el proceso de institucionalización entre las empresas sociales. Con este objetivo principal, en el presente trabajo empezamos por describir el proceso de institucionalización de las cooperativas sociales. A continuación presentamos datos sobre la difusión de éstas, centrándonos en el análisis de las cooperativas sociales existentes, sus características y su impacto social y económico. Describimos las principales características de la nueva ley de empresas sociales y presentamos los primeros datos sobre su difusión. Explicamos las razones de los distintos niveles de éxito de las cooperativas sociales y las empresas sociales en Italia. Finalmente, terminamos con una breve reflexión sobre las perspectivas y los nuevos retos que afrontan las cooperativas y empresas sociales.

PALABRAS CLAVE: Empresas sociales, Italia, surgimiento, innovación social, cooperativas sociales, institucionalización, legislación.

L'émergence, l'institutionnalisation et les défis des entreprises sociales : l'expérience italienne

RESUME : L'Italie est l'un des quelques pays qui disposent d'une loi sur les coopératives sociales et d'une loi sur les entreprises sociales. Bien que ces deux lois semblent plutôt similaires, le niveau de leur succès a été radicalement différent. La compréhension des différents résultats des deux lois peut aider à évaluer le processus d'institutionnalisation au sein des entreprises sociales. C'est le but principal de ce papier qui commence en décrivant le processus d'institutionnalisation des coopératives sociales. Il poursuit en présentant des données sur la diffusion des coopératives sociales, en particulier en regardant les coopératives sociales existantes, leurs caractéristiques et leur impact social et économique. Il décrit les caractéristiques principales de la nouvelle loi sur les entreprises sociales et introduit les premières données sur leur diffusion. Il explique les raisons des différences de réussite des coopératives sociales et des entreprises sociales en Italie. Enfin, l'article conclut avec un bref examen des perspectives et des nouveaux défis pour les coopératives sociales et les entreprises sociales.

MOTS CLÉ : Entreprises sociales, Italie, émergence, innovation sociale, coopératives sociales, institutionnalisation, lois.

1.- Introduction

In the last 20 years, the concepts of 'social enterprise', 'social entrepreneurship' and 'social business' have been increasingly used not only by activists and scientists, but also by governments and international institutions¹. These diverse concepts are commonly aimed at identifying and qualifying private entrepreneurial initiatives which, while deriving their resources not only from donations, but also from the sale of their services too, generate social benefits at the expense of profit. The approaches, however, diverge when moving from general definitions to the specific traits that are expected to characterise such organisations.

First, proponents diverge on the need for institutionalising new entrepreneurial forms within a specific legal framework. Therefore, two approaches emerge, the one willing to regulate social enterprises as a specific legal form, and the other preferring to leave the choice of the form to be adopted totally freely and at the discretion of founders. The former approach characterises European scholars, and has been followed by several European countries; the latter is mainly supported by Anglo-Saxon scholars. The difference between these two approaches is clear: When social enterprises adopt a social aim is through a totally voluntary choice, over time, the decision can also be reversible; while when the aim is institutionalised, the action of social enterprises is limited by constraints that guarantee the pursuit of social aims both in the short and long term. At the same time, among the proponents of the need for institutionalisation, some are in favour of adopting a unique, specific legal form, while others maintain that different legal forms should be used with identical aims and constraints.

The supporters of the choice of a unique legal form also diverge on the choice of the ownership structure to be preferred. Muhammad Yunus claims that the best legal form is the joint stock company. The only requirement should be the total constraint on profit distribution². In contrast, others support the cooperative form as the most consistent for building social enterprises. A third opinion is that social enterprises must be free to assume the legal form that the founders of the organisation want.

The alignment of these different approaches is becoming a condition for the consolidation of these new enterprises. Legislators willing to institutionalise the social enterprise in fact have three main scenarios to choose from: (i) to recognise social enterprises by adopting only one among the existing legal forms; (ii) to create a totally new legal form; and (iii) to define only the characteristics that identify the social enterprise by allowing all or part of already existing forms to assume the new status of social enterprise. What is the best choice when it comes to supporting the development of social enter-

1.- As an example of the adoption of these terminologies by international institutions, the European Commission delivered the communication entitled 'Social Business Initiative' [COM(2011)682/2] in October 2011.

2.- It is not clear, however, whether Yunus views this bond as the consequence of a voluntary choice by the social enterprise, or as a limitations imposed by law.

prises? This question can be better answered by looking to previous experience, which shows that, until now, the most widespread choice has been to adapt the cooperative form by strengthening its social aim and its collective dimension.

Italy was one of the earliest countries to approve a law on social cooperatives, and did so by changing the existing law on cooperatives. In the following years, the number of social cooperatives grew dramatically. The success of this new entrepreneurial form was followed by an increasing debate on the opportunity to create social enterprises using other organisational types. Between 2005 and 2008, a new law came to be approved that defines the traits that noncooperative firms must have to qualify as social enterprises. However, even though the laws on social cooperatives and social enterprises seem quite similar, their levels of success have been drastically different. The understanding of the different outcomes of the two laws can help in evaluating the process of institutionalisation amongst social enterprises. This is the main aim of the present paper.

The paper starts by describing the process of institutionalisation of social cooperatives (section 2). The following sections present data on the diffusion of social cooperatives, especially through looking at the stocks of existing social cooperatives (section 3), their characteristics (section 4) and their social and economic impact (section 5). Section 6 describes the main characteristics of the new law on social enterprises and introduces the first data on their diffusion. Section 7 explains the reasons of the different levels of success of social cooperatives and social enterprises in Italy. The paper concludes with a brief discussion on the prospects and new challenges for social cooperatives and social enterprises.

2.- The emergence and institutionalisation of social cooperatives in Italy

The story of the institutionalisation and diffusion of social enterprises in Italy can help to determine how to institutionalise social enterprises in general for two main reasons: (i) the extraordinary growth of the phenomenon and (ii) the approval of two different laws on social enterprises. Since the late 1970s, the provision of social services in Italy has been very limited and mainly delivered by public organisations; the Third Sector was underdeveloped in comparison with that of other countries (Borzaga, 2004). Over 25 years, a wide range of third-sector organisations were created to serve the needs of disadvantaged groups of people; thousands of voluntary organisations and associations, thousands of social cooperatives and hundreds of new foundations came into being as a result. This extraordinary growth is due not so much to the strengthening of already existing organisational typologies, predominantly foundations and religious organisations, as to the birth of completely new ones, largely as a result of the 'institutional creativity' of the promoters (Borzaga and Depedri, 2009). The most important of these

innovative forms is the social cooperative. Initially, the cooperative form was spontaneously chosen by the promoters, since it simultaneously answered the need to adopt an entrepreneurial form and to pursue a social aim; moreover, it was constrained in its profit distribution due to the obligation to accumulate profits to locked assets. The 'new cooperatives' played a decisive role in driving the growth of the Third Sector: They engendered the supply of social services by answering the needs of the socially deprived young, the elderly, the disabled, drug addicts and the homeless. They also succeed in organising activities to integrate disadvantaged workers into the labour market.

Notwithstanding the increasing role of these new cooperatives, their development was not supported by an appropriate legal framework for a long time. The legislative panorama under which non-profit organisations were operating was initially (and still is in some respects) quite complex. Until 1991, the Italian Civil Code, instituted in 1943, separated associations, foundations and committees (which were regulated by Book I of the Civil Code as ideal initiatives) from enterprises (which were regulated in Book V of Civil Code, including cooperatives). While the former had a public interest, but were not suited for production activity, the latter were designed only to pursue the private interests of the entrepreneur, or in the case of cooperatives, only or mainly the members. In order to acquire a legal personality, organisations needed to register in accordance with the conditions described under the code. From 1946, when the Italian Constitution recognised the social aim of all cooperatives, they were limited in the profit distribution both yearly and in case of dissolution of the cooperative (Borzaga, Laratta, and Depedri, 2010). These few dispositions were not completely consistent with the explicit pursuit of a social aim and with the production of social services that mainly benefitted non-members.

New regulations were needed to better define and institutionalise social cooperatives. This happened in 1991, when Law 381 on social cooperatives was enacted. The law established a new cooperative form aimed not at serving the interest of the members, but whose goal was *'to pursue the general interest of the community in promoting personal growth and in integrating people into society by providing social, welfare and educational services and carrying out different activities for the purposes of providing employment for disadvantaged people'* (Law 381/1991 art.1). The first innovation introduced by the law was therefore the opening of the cooperative form to social or general-interest aims.

The law distinguishes between social cooperatives supplying social, health and educational services (defined by law as type A social cooperatives) and social cooperatives integrating vulnerable persons into jobs (type B social cooperatives). The law establishes a clear distinction between the two types, since type B social cooperatives are not allowed to produce social services, but rather must be active in any sector other than social services. Moreover, they must have a clear occupational focus on disadvantaged workers, who must constitute at least 30% of their employees. In contrast, type A social cooperatives are instead required to only produce the services described above.

The law recognises other features of social cooperatives, by formalising the main traits which have come to social cooperatives in previous years (Borzaga and Depedri, forthcoming). First, there is their nature as collective organisations. In this sense, the cooperative form provides democratic participa-

tion and control by members, and the law allows social cooperatives to simultaneously include several categories of members in their ownership structures – from workers to users, from voluntary members to financing members, from individuals to legal entities. An important innovation was the possibility for social cooperatives to involve volunteers. While their activity must not be exclusively managed by voluntary workers and remunerated employees represent a key factor for the entrepreneurial activity of these organisations, social cooperatives are allowed to employ voluntary workers and most of them do so.

In comparison to other nonprofit organisations, social cooperatives are allowed to involve several classes of stakeholders in the decision-making process. An enlarged membership allows social cooperatives to grasp the real local demand for social services and ensure the prevalence of their social aims on the entrepreneurial and commercial dimension. Moreover, the law aligns social cooperatives with other cooperative forms when providing boundaries to profit distribution. Social cooperatives are allowed to profit, but a consistent part of the profits must be accumulated in asset locks. It is interesting to note that most social cooperatives spontaneously accumulate all their profits to reserves in order to increase their corporate assets.

Finally, law 381 states that cooperatives of both type A and B may stipulate contracts with public bodies for the delivery of services or work-integration activities. The law thus explicitly recognises an affinity of the mission of public bodies with that of social cooperatives, and while they must remain separate entities, it encourages collaboration between them. Although the government is explicitly considered a relevant partner for social cooperatives and a process of externalisation of social services from public bodies to social cooperatives is progressively characterising the welfare system, public authorities usually do not attain membership in social cooperatives, nor are they active in promoting social cooperatives. Rather, they continue to rise and develop as bottom-up and largely autonomous organisations.

3.- The evolution of social cooperatives

There is clear information on the development of social cooperatives thanks to the data analysis. The number of social cooperatives increased from a little over 2,000 before the regulation of 1991 to nearly double (3,900 units) by 1996, reaching 7,363 in 2005 (data of the national institute of statistics – ISTAT). This evolution continued until at least 2008. This estimation can be elaborated by using data from the Chambers of Commerce, which registered 13,938 social cooperatives in 2008, about 8,000 of these providing social services and 5,000 providing work integration (Carini, 2012). Therefore, about 20% of the social cooperatives that are currently active emerged before the law on social cooperatives

in 1991, 36.7% were founded between 1993 and 2002, 35.9% between 2003 and 2007, and 7.6% in 2008, demonstrating their continuous growth (Table 1). However, the recent global financial crisis has also affected the growth of social cooperatives. In assessing Chamber of Commerce data, it emerges that social cooperatives increased by only 324 units in 2009 and 98 units in 2010; meanwhile, 31 fewer units were registered in 2011. This trend relates not only to the market crisis, but also to the fiscal policy of the government, which has decreased the resources transferred to the local authorities and largely used for the externalisation of social services to social cooperatives, as well as the changing strategies of some social cooperatives, which have sometimes merged in order to achieve economies of scale.

Table 1. Social cooperatives by year of registration

Year of registration	No.	%
Up to 1992	2,751	19.7
1993–1997	1,843	13.2
1998–2002	3,273	23.5
2003–2007	5,005	35.9
2008–2009	1,059	7.7
Total	13,931	100.0

SOURCE: Euricse Observatory.

Linked to the evolution of the stock of cooperatives is the increasing numbers of people involved. According to the ISTAT census, social cooperatives were employing more than 240,000 workers in 2005, while the Chambers of Commerce registered 317,000 employees in 2009, with an average of 23 employees per cooperative (meaning that 530 people are employed in a social cooperative per 100,000 inhabitants). Other than ordinary workers, social cooperatives also employ a huge number of volunteers (calculated to be more than 34,000 people in 2005); in 2005, B-type social cooperatives employed about 30,140 disadvantaged persons, while in 2008, the number had increased to more than 40,000.

Table 2. Social cooperatives: some data

	2003	2005	2008
Number of social coops	5,515	7,363	13,928
Paid workforce	189,134	244,233	317,000
Disadvantaged workers	23,587	30,141	40,000
Users	2,403,245	3,302,551	5,000,000
Total turnover	4,826 million EUR	6,381 million EUR	9,000 million EUR

SOURCE: ISTAT, 2003 and 2005; Euricse, 2011; Iris Network-Unioncamere, 2012.

In 2005, social cooperatives were serving about 3,300,000 users; in 2008, about 5,000,000 users received services from social cooperatives, mainly in terms of educational services for both ordinary scholars and disabled people (activities covered in total by 45% of A-type social cooperatives), home-based services and residential services for elderly people (services supplied by 37% and 36%, respectively, of A-type social cooperatives), recreation and entertainment services (32%), preschool education (22%) and healthcare services (23%). Most of users of A-type social cooperatives were therefore people aged under eighteen (including children and teenagers; 28.8%), other people in need (26.8%) and elderly people (21.8%).

Table 3. Service-providing social cooperatives: services supplied*

Services	Italy
Home-based services for disabled people	37%
Residential services for disabled people	36%
Recreation and entertainment services	32%
Preschool educational services	22%
Healthcare services	23%

*The sum of percentages is higher than 100% because cooperatives can supply more than one type of service. SOURCE: ISTAT, 2005.

The majority of the disadvantaged people employed by B-type social cooperatives were disabled people (46.3%), psychiatric patients (15.0%) and drug addicts (16.0%).

Table 4. Work-integration social cooperatives: disadvantaged people employed*

Services	Italy
Integration of disabled people	46.3%
Integration of psychiatric patients	15.0%
Integration of drug addicts	16.0%
Other	22.7%

*The sum of percentages is higher than 100% because cooperatives can supply more than one type of service. SOURCE: ISTAT, 2005.

The total value of production generated by Italian social cooperatives in 2009 was about 9 billion Euros, with 26.5% of the social cooperatives having a value of production no higher than 250,000 Euros and 15% of social cooperatives of large size (value of production over 1 million Euros). Most revenues came from supplying services to public bodies (74% in A-type and 53% in B-type social cooperatives),

but private revenues and the supply of goods and services to private firms increasing characterising social cooperatives, especially those focused on work integration (between 45% and 50% of their revenues come from private services) (Borzaga and Depedri, forthcoming). Social cooperatives' total assets, defined as the overall net amount that a business invests, was 7.2 billion Euros in 2009, although over 65% of the social cooperatives invested less than 250,000 Euros.

It is clear that social cooperatives represent a very important resource for Italy, and that their relevance in the social services provision has increased over time and has tended not to diminish, although it has been threatened by the recent economic crisis. From 2007 to 2011, the employment level throughout Italy decreased by 1.2%, while the number of employees in private enterprises has decreased of 2.3%; in contrast, the number of employees in social cooperatives increased by 17.3% (with a growth of 4.1% in 2011 alone) (Censis, 2012). The data presented are even more significant when considering the reduction in public resources registered during the last years and the stagnation in the number of social cooperatives.

Although the national census does not provide further information on social cooperatives, national investigations on representative samples of social cooperatives can shed additional light on the main traits of these organisations. For example, the Investigation on Italian Social Cooperatives (ICSI2007) collected data on 308 Italian social cooperatives and help to defining some of their main traits.

First, they pay a lot of attention to people involvement. Although the law does not oblige social cooperatives to be multi-stakeholder organisations, 69.7% of them involve diverse classes of stakeholders in their membership and one-third of them include workers, volunteers and other classes of stakeholders in the board of directors. As a second and strictly correlated characteristic, social cooperatives also tend to be involved in networks and collaborations with local institutions and the community. The ICSI2007 investigation shows that over 70% of social cooperatives collaborate with local institutions, citizens and representatives of the community in order to coordinate their interests and the activities, other than sharing needs and values; they also work with local public services to plan activities in 80% of cases.

Although most social cooperatives are autonomous organisations and invest in their growth, those involved in networks tend to innovate more in terms of their services (Fazzi, forthcoming), and multi-stakeholder governance generally results in a higher level of autonomy (64%, as compared to 43.3% of single-stakeholder organisations), higher volunteer involvement (86.7% have volunteers against 27.1% of single-stakeholder organisations) and higher agreement in accumulating profits to asset locks (98% of profits on average are accumulated to asset locks against 85% in single-stakeholder organisations) (Borzaga and Depedri, forthcoming). As a final consideration, it must be mentioned that 74% of social cooperatives interviewed were achieving profits in the period 2003–2006, and due to the legal boundaries, all of these profits were accumulated as locked assets, with a consequent increase in the stability of the organisation.

All of the data presented above help to illustrate the success of the social cooperative model. Not only has the rapid evolution of social cooperatives in the 20 years after institutionalisation been unexpected, but these organisations have also experienced innovations in their sectors of activity, entered into new types of relationships and exchanges with private and public partners, achieved high levels of autonomy and increased the benefits produced for local communities.

4.- Economic and social impacts of social cooperatives and social enterprises

While the data presented above give an idea of the dimension of the phenomena and of the main traits of social cooperatives, other investigations and experience provide evidence of social cooperatives' great potential to support economic development, both in general and at the local level. Social cooperatives are making an important contribution to economic dynamism and growth from various perspectives. In environments characterised by poorly functioning markets – such as the social, health-care and educational services sector – they contribute to reducing market failures and improving the welfare of people and communities, thus supporting economic development.

The impacts and benefits generated by social cooperatives are mainly the consequence of their distinctive features: their governance structure, their connection with the local community, and the enjoyment of trust and reputation among their stakeholders. These aspects represent levers for increasing welfare effects other than at the production level. This raises the question of what we mean by welfare effects, and how we can sketch the main benefits produced by social cooperatives.

The first, most direct and most obvious impact is the ability to answer to social needs not satisfied by other public or private providers. As demonstrated by the sectors in which social cooperatives perform and by the data from some investigations, social cooperatives supply their services to a huge number of clients. Furthermore, they frequently perform in areas in which neither private organisations nor public services are present; thus, their clients would not be provided with any service if the social cooperative did not exist.

The second type of impact is the role of social cooperatives in generating jobs. Social cooperatives develop new activities and create new employment in the sectors of social and community services. Moreover, work integration social cooperatives integrate employees into the workforce who would otherwise be unemployable due to mental disorders, physical disabilities, dependency on drugs and alcohol, and so forth. Furthermore, one must not underrate the relevance of all types of social cooperatives in employing workers with high difficulties in finding a job in the labour market as ordinary workers in good working conditions. Women with children who seek flexible jobs (part-time jobs, for example)

compose the greatest part of the human resources of social cooperatives. A recent investigation into Italian social cooperatives has also demonstrated that at least one third of ordinary workers in work integration social cooperatives are older and undereducated, with long-term unemployment experience (Borzaga and Depedri, forthcoming).

The role of social cooperatives is not limited to providing jobs; they also provide good quality jobs. Most of the contracts offered are open ended, and the percentage of flexible or irregular contracts is less than that in for-profit firms. Wages provided to workers by social cooperatives are in line with those in for-profit firms, and they are significantly lower only in relation to those of civil servants in the same sectors of activity. Both ordinary and disadvantaged workers in social cooperatives are found to be very satisfied with their jobs (Table 5), and are especially satisfied with their relationships with colleagues and superiors, their autonomy in decision making, their interest in their activities, their professional and personal growth and the flexibility of the working hours. Furthermore, they perceive high levels of distributive and procedural fairness that characterise the working environment, and they declare that they have high levels of intrinsic motivation. These factors explain both their high satisfaction with their jobs and why they generally want to stay in these organisations as long as possible.

Table 5. Satisfaction with some aspects of the job (average scores)

Satisfaction with ...	Average values (average scores from 1 to 7)
<i>Extrinsic aspects</i>	
Professional development	4.6
Wage	3.7
Working hours	5.3
Career opportunities	3.8
Job security	5.3
<i>Intrinsic aspects</i>	
Social usefulness of the work	5.9
Autonomy in decision making	5.1
Social recognition	4.9
Variety and creativity of the job	5.3
Relationships with superiors and colleagues	5.7
The job as a whole	5.5

A third positive consequence of the presence of social cooperatives is estimated by looking at their allocative and distributive mechanisms, which produce socially beneficial goods and contribute to reduced poverty (Tortia, 2010). Data from ICSI2007 demonstrate that social cooperatives per-

form an important distributive function, that is, they often supply free services to people in need (Borzaga, Depedri, and Tortia, 2009). Specifically, 40% of Italian social cooperatives have introduced a new main allocation mechanism wherein they distribute resources without asking users to pay prices that fully cover the costs; some extra services are frequently supplied free of charge to all clients (in 48% of social cooperatives) or to only the poorest classes of clients (36%), while in a few cases, social cooperatives provide some services at less than their price. This distributive function therefore consists in the delivery of goods and services to people unable to pay for them. Among social cooperatives performing a distributive function, the estimated monetary value of these distributive effects is very high: 58,000 Euros on average per enterprise. In order to cover this cost, social cooperatives can collect added resources from the local community: They attract volunteers, donations, and intrinsically motivated workers who exert higher effort levels and who donate overtime; price discrimination can be also exercised (i.e. social cooperatives recur to the clients' acceptance of price discrimination) when it is not possible to break even with homogeneous prices. These resources and methods can only be activated by enhancing the organisation's trust, reputation and altruism in the local community. Furthermore, the cooperatives frequently accumulate financial resources in their asset locks in order to enforce their redistributive function (as asserted by 34% of social cooperatives in the investigation). It is possible, therefore, to claim that social cooperatives do not simply produce social services and answer to social needs; rather, they also have a distributive role which before now was only attributed to the public sector.

As a fourth implication, social cooperatives produce positive externalities at the local level. They increase local wellbeing, enhance the production of social capital and enable the distribution of resources in favour of people in need. They promote inclusive governance models that empower the local community in strategic decision making. Social cooperatives take economic activities with a social goal out of the informal economy, and help to foster social cohesion and enhance the level of trust within society and the economy (Borzaga, Galera, & Nogales, 2008). All of these aspects are very important and confirm the role of these organisations as innovative agents of economic development. Regarding social capital, social enterprises increase voluntary work, enhance the diffusion of knowledge and social norms within the community, diffuse trust and cooperation and increase relationships and social cohesion (Borzaga, Depedri, Tortia, 2010). However, one of the required elements for increasing the impact on local society is the tendency to build networks and ties with public authorities, other firms and civil society organisations. Relationships with the local community strengthen fairness principles, collective actions and altruistic behaviour. At the same time, networking relationships and external ties can influence the internal equilibrium of the organisation, because internal norms develop in connection with the social values prevalent in the community of reference. Furthermore, deviant behaviour can be sanctioned materially and normatively, not only by the organisation but also by other stakeholders, and is also reduced by networking relationships among constituent firms and with external actors. Therefore, adherence to general community ideals influences the social norms within the network and the behaviour of all parties.

While the described implications have been frequently tested in the literature, recent investigations at the local level have also tried to quantify the financial benefits for the society and specifically for the public administration. As regards social cooperatives producing social services, they are generally demonstrated to be more flexible and innovative organisations than public institutions. Little or no bureaucracy and the involvement of community representatives in the decision-making process increase social cooperatives' ability to produce services that better answer the real needs of the population and to adapt them to the emergence of new needs. Moreover, as a result of work integration social cooperatives, when one compares the costs (mainly public supports, like subsidies and fiscal advantages) and benefits (taxes paid by both the employed workers and the cooperative and the decrease in the demand for social and health services by the disadvantaged workers) public authorities save more than 5,000 Euros per year per person due to the employment of vulnerable persons by social cooperatives, (Borzaga and Depedri, forthcoming).

These are only a few examples of the benefits that social cooperatives can produce to ameliorate the socioeconomic systems of their communities and reducing marginalisation.

5.- The Italian law on social enterprises

In the years following the approval of Law 381, some other nonprofit firms (such as foundations and associations) already in existence started to become productive organisations, bringing about a progressive expansion in the entire nonprofit area of social services provision. However, despite the growth in the importance of diverse nonprofit organisations in the delivery of social services, social cooperatives are the only organisations fully equipped by law to provide this type of service. In 2005, almost half of the social spending of medium-sized and large Italian towns was managed by social cooperatives and other productive nonprofit organisations, and approximately 80% of contracts were awarded by local authorities to social cooperatives (Borzaga, Laratta, and Depedri, 2010). Moreover, there were legal difficulties which prevented other nonprofit organisations from conducting their entrepreneurial activities without restriction. These organisations were constrained in the range of activities in which they could engage, both by law and by the high level of capital investment required. At the same time, many of them were not willing or could not transform into cooperative organisations. The need for a new and wider definition of those all productive nonprofit organisations became progressively clearer.

At the beginning of the 21st century, a bargaining phase started for the regulation of the new legal form, namely the social enterprise. After a long discussion among social enterprise experts, the Forum of the Third Sector Organizations, and government, parliament passed a delegation to the government

(nr. 118 on 13th June 2005) which was then enacted on 24th March 2006 as Law 155. While Delegation to the Government 118/2005 provided explicitly for a register of social enterprises, Law 15/2006 did not immediately provide for the implementation of the register. In January 2008, four more decrees were approved which identified specific requirements that organisations had to conform to in order to qualify for recognition as social enterprises. Although the first three of these decrees were enacted almost immediately after their approval in 2008, the fourth did not actually become effective for a further two years. In fact, there was not even a register for social enterprises until 2010 (Borzaga, Laratta, and Depedri, 2010).

While the law provides for the institutionalisation of social enterprises, the new notion represents neither a new legal form, nor a new type of organisation, but rather a *legal category* in which all eligible organisations may be included, regardless of their proprietary and organisational structure. Therefore, eligible organisations can be traditional cooperatives (i.e. employee-, producer- or customer-owned firms), social cooperatives, investor-owned firms (i.e. business corporations) or traditional non-profit firms (i.e. associations and foundations). In this regard, the Italian law is a general law on social enterprises and not a particular law on a specific (or unique) form of social enterprise. The law, in fact, provides that '*any nonprofit private organization, which permanently and principally carries out an economic activity aimed at the production and distribution of goods and services of social interest, and pursues general-interest goals*' (Law 155/06) is eligible to apply for the status of social enterprise. However, according to the law, the legal status of a social enterprise can be assumed by neither a single individual nor a public entity, since it needs to be a collective initiative of a private nature. Furthermore, companies and for-profit entities cannot control or manage social enterprises.

The law identifies the economic sectors of public utility in which social enterprises can operate³: a) welfare services; b) health care; c) social-health care; d) education and professional training; e) environmental and ecosystem protection; f) development and cultural heritage; g) social tourism; h) academic and post-academic education; i) research activities and delivery of cultural services; l) extracurricular training; and m) support to social enterprises. Furthermore, organisations that undertake entrepreneurial activities aimed at work integration can obtain social enterprise status if at least 30% of their total staff comprises disadvantaged or disabled workers.

The other legal requirement for assuming the status of social enterprises is the nonprofit distribution constraint: Social enterprises cannot distribute either profits or parts of assets to their directors, shareholders, members, employees or collaborators; moreover, they are asked to invest their income in the core business or in increasing their assets.

By defining social enterprises, Law 155/2006 clearly implies that social enterprise status cannot be assumed by any and all nonprofit organisations, but only by those involved in entrepreneurial activity. They must achieve a minimum capital (20,000 Euros), have a system of upward accountability (such

3. Although organizations can also engage in other activities, the principle activity has to account for more than 70% of the total income. Conversely, the maximum income deriving from activities not recognized by the Law must not exceed 30%.

as annual reports and the submission of a yearly balance budget) and include employees other than volunteers. Notwithstanding these restrictions, the law has been significantly strengthened over the provisions by Law 381/1991 on social cooperatives, in terms of identifying both the sectors of activity in which social enterprises can operate and the legal form that social enterprises can adopt. Regarding the former, the law gives attention to new sectors of activities and new types of vulnerable people that can enjoy of the services of social enterprises. Nonetheless, the new law does not give the new social enterprise the same fiscal benefits that are recognised in social cooperatives and existing non-profit organisations, and at the same time, it increases the operational costs.

It is difficult to evaluate this new model of productive nonprofit organisation, since the law is recent and few data are available. Moreover, data can be conflicting depending on the source on which the phenomenon of social enterprises is estimated. In fact, the first investigation trying to estimate the consistency of the theoretical population of social enterprises (Borzaga and Zandonai, 2009) revealed that the number of existing nonprofits that were potentially structured as social enterprises (as defined by law) amounted to more than 15,000 organisations in 2008 – of which 8,000 were social cooperatives – with a total of 350,000 employees, 10 million clients and a revenue of nearly 10 billion Euros. Furthermore, by including other types of nonprofits which were partially engaged in service provision⁴, the estimated number of potential social enterprises soared to 41,742. Going to the extreme by including for-profit organisations which appeared to be particularly active in the non-profit seeking sectors identified under Law 155, the estimate rose to 496,000 organisations, employing some 1.5 million people.

When moving from the estimation of the theoretical number of existing social enterprises to the data on the official register of social enterprises, the view changes drastically. As provided by law, organisations that acquire the qualification of social enterprises must be recorded in the public register. However, as already mentioned, the register was only activated in 2008, and in these three years the number of organisations registered has been just over 500 units.⁵ Among the registered organisations, only few are social cooperatives and most of the registered social enterprises were not active before their inscription in the register. The sectors in which the registered social enterprises perform significantly overlap with those in which social cooperatives are diffused, apart from a higher presence of the new social enterprises in the provision of educational services. The diversification of the sectors of activity is therefore a characterisation of new social enterprises. Due to only not the limited number of registered social enterprises but also their small size, the numbers of employees and clients are very small when compared to both the potential and the numbers in social cooperatives.

4.- Some estimates have been carried out by actualizing the main data collected by ISTAT and Unioncamere on social cooperatives and other nonprofit organizations engaged in production activity.

5.- The data on Italian social enterprises are not totally surprising. A similar situation has been found in the UK, where the number of social enterprises actually registered with the Chamber of Commerce amounts to fewer than 3,000, while it is estimated that there are 62,000 such enterprise in total.

6.- What explains the different success of social cooperatives and social enterprises?

Two main questions emerge when looking at the different levels of success of social cooperatives and social enterprises. First, why, notwithstanding the high number of potential social enterprises, have only few of them actually been registered? Second, what are the reasons for the diverse success of social cooperatives and social enterprises in Italy? The answers to these two questions are the same.

First, when Law 381/1991 was passed to regulate social cooperatives, these organisations were already an existing phenomenon. Furthermore, they were organised in a representative movement, where second-tier or umbrella organisations (like local and national federations and consortia) were supporting the movement and giving voice to their needs and roles. This was not the case for social enterprises, which were not diffused or organised in a representative movement.

Second, while some newly founded organisations can find diverse motivations for assuming the categorisation of social enterprises (reputation, visibility on the final market, social goals, etc.), the already existing organisations that could transform themselves into social enterprises are mainly in search of financial benefits, which the new law does not provide. Therefore, since the law does not give them with clear financial motivations such as tax incentives, potential social enterprises are a little confused about the convenience of adopting the new qualification, and most of them would experience more costs than benefits in becoming social enterprises.

Linked to this, the lack of enthusiasm by existing organisations can be explained in part by the charges and extra responsibilities imposed by the law on social cooperatives and other nonprofit organisations undertaking the transformation. For example, for associations and foundations, the costs for adapting their model and management to the parameters required by law are sometimes very high. This is especially the case when nonprofit organisations do not autonomously adopt a social accountability system or when they must amass the minimum capital of 20,000 Euros.

Different difficulties of adaptation can be also encountered by holdings and limited liability companies. In order to become social enterprises, these organisations are asked to adopt a participative and democratic governance that usually does not characterise the private for-profit firm. Therefore, while the other parameters and the restriction on the profit distribution do not represent a real obstacle, the change in management strategies and decision-making processes can be very difficult and impracticable, at least in the short run.

The impact of the crisis on the decision to innovate among social cooperatives and nonprofit organisations must not be underestimated. The law and the register came in force on the heels of the economic crisis, and certainly the reaction of many social cooperatives and nonprofit firms has been

cautious, favouring familiar dynamics and partnerships rather than choosing a new road as social enterprises without being certain of the benefits of such a step. Moreover, as the data demonstrate, the crisis has also halted the continuous growth of social cooperatives, and this has exacerbated the need for financial support, which the law on social enterprises does not provide.

The opportunity to open new sectors of activity represents another explanation for the difficulties involved in the development of social enterprises. From their institutionalisation on, social cooperatives have been supported by a public demand for their services (the public authorities still represent one of the main financiers of the services of social cooperatives); however, in the new sectors which social enterprises can enter, the public administration is neither the main nor an important clients – rather, it is eventually a weak counterpart. Consequently, social enterprises should operate more on the private market for goods and services, searching for private demand and private revenues from citizens. This activity is more risky and diversification is difficult, since the production of other traditional welfare services (social services, healthcare, education) is already covered by the supply by social cooperatives; however, the rewards are also potentially greater. Finally, it seems that the new law is not completely understood by practitioners, who lack information about it.

These factors explain why, in spite of the huge number of potential social enterprises and their appearance as sturdy and productive firms, the transformation of productive third-sector organisations in social enterprises has not taken place, as well as reactions to the new law have generally not been enthusiastic. However, the development of social enterprises is still in its inception, and there are signs that in the next few years, the new law will make an important contribution to social and economic development in Italy.

7.- Final remarks and conclusions: what are the prospects for social enterprises?

The analysis of the trend of social cooperatives and social enterprises and of the evolution of both the welfare system and the organisations themselves allow the conclusion that the dynamics of the movement have changed over time and are still changing. The first part of the cycle, involving the expansion and growth of the social cooperatives movement, seems to be complete. In fact, on the one hand, the development of these organisations has ensured the achievement of good coverage of needs: The demand for social, healthcare and educational services seems to have been satisfied in many regions (with the exception of the south), and therefore a significant increase in the supply of these services does not seem required and expected. On the other hand, the cutting back (or at least stagnation) of public resources devoted to supporting the production of social services by private social enterprises has also reduced the opportunity of expansion in the sector. Existing social enterprises are restricted

when it comes to investment and growth. The emergence of new social enterprises in the same sectors of activity could increase competition among social enterprises in terms of having to share limited public financing.

A new cycle, however, is beginning, and this must be supported in order to ensure the future of social enterprises. The financial crisis has shown that, while the demand for traditional services is has been satisfied, a new demand for social, personal and community services is emerging, and these new needs risk remaining unsatisfied by both private and public organisations. Social cooperatives and social enterprises may be able to respond to these needs, but the revision of some procedures and the planning of new strategies is required if they want to produce the new services. First, social cooperatives and social enterprises must search for private demand. They must overcome the idea that public authorities can buy their services or can indefinitely support their activities through subsidies or contractual agreements, and they must plan strategies for price discrimination and private contributions. Second, social cooperatives and social enterprises must be innovative. Services must be supplied in a different manner from both public bodies and private for-profit firms. The governance structures must be changed, enlarging the membership and the board of directors to stakeholders not yet included, and these should mainly be clients. The assets must be increased by considering that the organisational stability is ensured not only by the human resources, but also by capital. Innovative practices must therefore be planned to collect capital and monetary resources in general.

The law on social enterprises can support this new cycle. It opens the activity of social enterprises to new sectors of activity and allows them to collect capital through new practices and in simple ways. Nonetheless, while the future of social enterprises appears to be an open path, it is also true that beaten path that has not yet been trodden is riskier and more difficult to travel and explore.

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