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***Social enterprises in Italy.***  
***The experience of social co-operatives.***

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### *Structure of the paper*

The paper is mainly divided into three parts. The first part is devoted to understanding the Italian third sector, with particular reference to the principal organisational and legal forms that define it and to some quantitative relevant data. The second part is largely focussed on social co-operatives, which are herewith regarded as the best paradigm to comprehend the evolution of the Italian non profit sector towards a more productive role with respect to the traditionally advocacy one. Finally, the third part underlines the relations existing between social enterprises and employment policies so as to grasp the potentials for new developments in this field.

*Part I*

*The Italian third sector*

## *1. An historical overview*

Comparative analyses of the size and the development of the third or non-profit sector<sup>1</sup> demonstrate that most of its characteristics are shaped by nation specific legal, political and economic environments. Therefore, to understand the growth and the main characteristics of the third sector in Italy it is useful to start summarising the history and evolution of third sector organisations. Indeed, the conditions in which non profit organisations presently operate and are involved are closely connected to their historical development. Probably, there is no sector such the non profit one that can be fully comprehended without going back to the very origins of the phenomenon.

Until the end of the eighteenth century, charities and voluntary organisations, which represent the historical ancestors of modern not-for-profit organisations, had freely developed. Social work, health care, alms housing, education were all areas in which charities evolved. Human and material resources were invested in charities, which in their turn, would distribute them to the community or significant part of it. Charities then performed their activities in several areas, such as education, elderly care, poor relief, and so on. A significant contribution to such development was given by the intervention of the Catholic Church for the benefit of the weakest classes of population.

Starting from the end of the eighteenth century when the French Revolution broke out, in Italy as in the whole of Europe there began to grow a kind of suspect and aversion against charities. They were mainly regarded as belonging to extraneous powers, especially the Catholic Church, which were to be weakened because they represented a third party between the Government and individuals. Indeed, these were the only two subjects that the ideology of the Enlightenment recognised: the State was the highest and supreme interpreter of the people's will and no other established body could exist because citizens had to strengthen the authority of the State in order to widen and protect their individual rights. The liberal form of the State, which the French Revolution affirmed, implied the isolation of individuals in front of the State. Accordingly, the legitimacy of intermediate bodies was to be denied, thus the only

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<sup>1</sup> Although a third sector organisation can in some cases distribute a part of its profits or is not characterised by an explicit non-distribution constraint, the two concepts of "non-profit sector" and "third sector" are often used, and are used here, as synonyms.

freedom being that to be referred to single individuals and not to social groups, such as corporations, foundations and associations. In Italy, therefore, the action of charities and voluntary organisations was progressively replaced by the direct intervention of public authorities, as in the case of IPAB (Charitable and Philanthropy Public Institutions).<sup>2</sup> The Government did not hesitate to pass some acts that prevented religious and charitable organizations from owning property, from developing their resources and finally from carrying out activities without a specific State authorisation. Consequently, not only was society deprived of a precious resource for its needs but also the Government directly began to perform all the functions that had been up to then carried out by charities. The suspicion towards not-for-profit organizations has contributed to foster the isolation of these organizations which have been regarded as a residual aspect of economic relations. Where this was not the case, the authorities of the State carried out some statutory acts aimed at incorporating the functions of private charitable organizations into public bodies that were directly controlled and managed by the Government. In Italy, this process occurred with the passing of the aforementioned Act of 1890 - still today partly in force - by which the Government institutionalised benevolent and philanthropic organizations that traditionally were the expression of civil society.

This attitude towards non profit organisations was to be strengthened between the First and the Second World War by Fascism and, subsequently, by means of the building up of the public welfare system. Italy followed the very line of growth of the English welfare system, which has been mainly public, both with regard to the redistributive effect (social securities, social care, and so forth) and as to the production of services. The provisions of the Civil Code of 1942 for the first time admittedly recognised civil freedom to non-profit organisations, though *de facto* confining them to the pursuing of ideal aims.

The Constitution of 1948 not only did expressly recognise freedom of association, but it also entrusted non-profit organisations with the civil, democratic and social post-War reconstruction of Italy. Accordingly, non-profit organisations began to

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<sup>2</sup> The so-called "Crispi Act", approved in 1890, forced all the most important and well-established

develop advocative, redistributive and pioneering functions, especially in favour of their own members. It followed that the role of not-for-profit organizations was to be progressively identified with the carrying on of cultural, research and entertainment activities that had only a limited economic impact on social relationships. Paradoxically, a large number of associations, foundations, and so on were established but simultaneously they scarcely caused a considerable economic recognition of their role.

However, such manner of intervention was to change later on, in particular starting from the '70s, when there were:

- a. a restricted supply of social services (both public and private) compared with other European countries with similar levels of income. The only two exceptions were in education and the health service, which covered the whole population and were mainly public. The limited supply of social services was due to the lower level of economic development, the larger role of the family in providing social support and the low efficiency of the public administration which was theoretically responsible for the management of such services. The expenditure of the public sector was substantial and comparable with the other Western countries, but it was largely directed towards monetary transfers<sup>3</sup>.
- b. a generally under-developed third sector, whose functions were confined to advocacy and to 'mutualistic' ends (to the sole benefit of its members). The only well developed organisations were large associations and co-operatives. Particularly important among the associations were those lobbying for invalids and the two other associations, ARCI and ACLI, which had political ties; the former with the Communist party and the latter with the Christian Democrats. The co-operatives were regulated by a law passed in 1947 which, in spite of the "social aim" recognized by the Constitution, confined them to operate only in the interest of the members. There were few foundations: those that existed were small in size and were mainly operating foundations. The few non-profit organizations engaged

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charities providing social services to transform in public bodies called IPAB. See Santuari (1997).

<sup>3</sup> As Ferrera (1998) points out, from the '50s the Italian social policy had a "distributive nature", which means that it is heavily based on monetary transfers not in favour of the more disadvantaged people (in this case it would have a "redistributive nature") but of the "middle mass".

in the production of social services (mainly for the elderly) were tied to the Catholic Church and depended on public subsidies: all the others had been transformed into public agencies in the nineteenth century<sup>4</sup>.

The failures of this welfare model started becoming evident in the late '70s and '80s. The role of the family in providing social support declined, following the growth of women participation in the labour market. At the same time, there was a growth of the aged population and the emergence of new needs connected to the so called 'post-materialist poverties' (e.g. mental disability, homelessness, drug abuse, immigration, and long-term unemployment). These could not be tackled using traditional monetary transfer policies, and so there was a growing demand for both traditional and new social services. Moreover, the private and public firms which had participated in implementing the "welfare system" by financing unemployment insurance schemes and employing less productive workers had to face growing international competition after the oil crisis. This process resulted in the marginalisation of a number of hard-to place unemployed.

The public sector, mainly local authorities, should have met this demand by increasing the supply of services, but they were prevented from doing so by the poor management of public units. Above all, the public sector was manacled by the ongoing financial crisis of the welfare state. While transfers automatically grew, financial manoeuvres to curb public spending resulted in a freeze of recruitment in the public sector which prevented the ability of the social services to adapt to the demand<sup>5</sup>.

It was in this situation that some groups of people, often connected with the Catholic Church<sup>6</sup> and reliant on volunteers, started attempting to bridge the gap between

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<sup>4</sup> The situation of the third sector in the '70s helps explaining why the economic and occupational size of the sector was, also at the beginning of the '90s, smaller than those of the United States and other European Countries (Salamon and Anheier, 1995; Barbeta, 1996).

<sup>5</sup> While the government started introducing constraints to the public employment turn-over in 1974 and tightened them in the following years, it was only in 1992 that they reformed the pension system which was the most expensive programme of the Italian welfare system.

<sup>6</sup> During this period the Church played an important and conscious role, especially since the Second Vatican Council gave support to the charitable and altruistic action of Church members. This observation is consistent with the results of the international research on non profit organisation which states that

the demand for and the supply of some social services by inventing new provisions and new organizational forms, which subsequently were legally recognized and spread.

## 2. *The development of the third sector*

The development of the Italian third sector can be divided into the following three phases:

*a. The "start-up":* This occurred between the end of the 1970s and the end of the 1980s. While the large associations entered a state of crisis and the advocacy associations increasingly restricted their activities to the defence of the benefits obtained prior to the 1970s, a large number of small voluntary organizations were born. Tied to specific local contexts, these organizations concerned themselves mainly with the "new poor": the teen-agers with family problems, the elderly, the handicapped, the homeless, drug addicts, and immigrants.

These initiatives were initially organized mainly as associations and they relied heavily on voluntary work. Public support was limited at best to the provision of some financial aids. They were generally small and not correlated with the amount of services delivered. Neither did these organizations benefit from any specific form of tax relief.

The success of many of these organisations in meeting the services demand explains their growth in size and number and the transformation of several of them into better organised units, providing services in a stable way and employing staffs of paid social workers. This development, however, came up against a legal restraint: in Italy an association could not engage in production or, in economically important activities. This restriction mainly affected those organizations that had begun to employ workers, as well as relying on volunteers, and those which set out to integrate the disadvantaged (mainly the handicapped) into work. The idea thus arose of using the legal form of the co-operative for the organization of these activities, given that a co-operative:

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"ideology and altruism are central to understanding the non-profit charitable sector" (Rose-Ackerman, 1997, p.120).



- had the status of an enterprise;
- was the sole organisation not liable to tax on undistributed profits;
- was characterised by members participation and democratic management;
- needed a very small amount of capital to be set up.

Although by law the co-operative form could not secure benefits to be given to non-members, and although they could not have members who did not benefit from the co-operative's activities (as the volunteers did not), the co-operative form spread, especially after the mid-1980s, taking the name of "social solidarity co-operative". To make the Courts and the public offices, which were keeping the register of co-operatives accept these new co-operatives, their advocates emphasised the contradiction between the Civil Code including co-operative law, which confined the benefits of the activities to the members, and the Constitution, which recognised that the co-operatives had a social aim and could be used to provide services in the interest of the community (ie. public goods).

Throughout this period, those creating and managing these new organizations continued to believe they were acting as pioneers and they were compensating for the failures of public agencies. It was considered that their efforts would no longer be necessary when the public agencies recovered from the fiscal crisis, given that they would assume direct responsibility for both the financing and the delivery of the old and the new services.

*b. The "recognition":* This stage occurred between 1988 and 1991. Recognition of the legitimacy of private initiatives in the social services sector began with the decision of 24 March – 7 April 1988, No. 396 handed down by the Constitutional Court. This decision declared Section 1 of the Act of 1890 (according to which the State and local authorities were to give organisations providing social services a public status, thus recognising that only public bodies could carry on such activities) contrary to Section 38 of the Constitution of 1948, since the latter stated that "private care is free". The Court stressed that "the requirements which the Act of 1890 had provided for were no longer to be regarded as adequate to the changed time situation and to the evolution

of public agencies, given the direct responsibility taken upon by themselves of certain categories of interests the accomplishment of which was instead assured, under the force of the Act of 1890, almost exclusively by the initiative of private individuals, which was then subjected to public control, so as to form a system of "legal philanthropy" that would have otherwise been wholly lacking". Consequently, Section 1 of 1890 was declared unconstitutional since it did not state the possibility that those charities providing social and health services could continue their activities under the form of private non-profit organisations. It followed then that IPABs were recognised the right of going back to their original legal form (namely, charities), in case they could meet the legal requirements demanded by the decision itself (i.e., being established by private individuals, being mainly managed by private individuals and having assets which are not deriving from public funding). What is more important is that this decision gave full legitimacy to any citizens to establish and manage private organisations to provide social services. Furthermore, the decision of 1988 started to pave the way to a new form of participation of nonprofit organisations in the supply of social services. Therefore, non-profit organisations would no longer be only a replacement or marginal with respect to the action of public agencies, but they would begin to develop partnership relations with the latter.

There followed, in 1991, two important laws which recognized and regulated the two main private institutional forms that had developed in previous years. These laws were:

1. law 266/91 on "voluntary organizations", which acknowledged the role of organized voluntary work, regulated it, (allowed these organizations to use a small number of paid employees), provided for enrolment on special registers, and granted a number of tax benefits (although the main ones were not activated until 1997);
2. law 381/91 on "social co-operatives", which defined the form of the co-operatives

operating in the social services sector<sup>7</sup>. The law changed some of the restrictions on traditional co-operatives and stated that:

- social co-operatives must operate “in the general interest of the community and for the social integration of citizens”;
- social co-operatives may have voluntary members, but only up to a maximum of 50% of the membership. The members could also comprise volunteers, workers, consumers and legal persons (including the municipalities).

The law also granted tax benefits to social co-operatives, the most important of which was a reduction of valued added tax on sales of services to 4%<sup>8</sup>.

The latter law provided that social co-operatives could be of two types<sup>9</sup>:

- a. co-operatives delivering social, health and educational services;
- b. co-operatives producing goods and services different from social ones, for private customers or for public agencies, with the objective of achieving the integration into work of disadvantaged or hardly employable workers amounting to the legally fixed minimum of at least 30% of the workforce (members and non-members): for these workers the co-operative is exempt from payment of social contributions.

The two laws also allowed the central and the local public authorities and their agencies to contract for the production of services with voluntary organizations and social co-operatives. Nevertheless they do not indicate the form that such contracts should take, and therefore they did not modify the rules which already regulated the contractual relations between private providers and public financers in completely new

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<sup>7</sup> The choice made by organisations in the Italian third sector for the forms of co-operatives and associations, instead of other well known forms, underlines the differences between the European and the American model. From a theoretical perspective, the Italian experience seems to demonstrate that in creating relations based on trust (Hansmann, 1880; Ortmann and Schlesinger, 1997) the non-profit distribution constraint can be substituted by other organisational characteristics, such as the stakeholder participation and the democratic management. At the same time the Italian experience points out that in explaining the non-profit sector a major attention has to be devoted to the role of "non-profit entrepreneurs" (Young, 1983). and of the worker's behaviour (Borzaga and Mittone, 1997).

<sup>8</sup> In order to understand this provision, which anticipated the recent proposal by the European Commission, one should bear in mind that in 1991, social co-operatives were the only private organizations producing and selling social services, so that the tax relief concerned more their sectors of activity than their specific legal form.

fields like social services. The sole exception to this is the provision which authorises public authorities to reserve up to 20% of the public demand for goods and services for social co-operatives engaged in the integration into work of disadvantaged persons, without their being obliged to bid for tender<sup>10</sup>.

These two laws constitute an important political recognition of the third sector, and its more innovative components. At the same time these laws add to the three traditional organisations which have a social purpose envisaged by Italian Civil Code (the association, the foundation and the co-operative) two new forms. They recognize the right of private individuals to organize themselves to the benefit of third parties, and the possibility that organisations other than public ones may organize the stable production of social services. The difference between the two organizational forms is simple. Unlike the voluntary organizations, social co-operatives can provide employment for their members and are therefore mainly of interest to unemployed workers qualified to operate in the social services sector.

*c. The "consolidation":* after 1991. Approval of the above two laws by Parliament has been followed by the passing of several regional laws aimed at:

- providing support for the development of the two new types of organisations;
- regulating their contractual relationships with the public authorities, within the restrictions imposed by national legislation.

In addition to these specific laws many other references to these types of organizations were made in national and regional laws issued to implement and finance services for particular types of user (the handicapped, drug addicts, the elderly, etc.).

These policies have helped to promote and strengthen the two organizational forms – especially that of the social co-operative, which can easily be set up by workers

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<sup>9</sup> Subsequent government circulars sharpened this distinction stating that a single social co-operatives can not perform both the activities.

<sup>10</sup> This provision has been modified following the criticism by the European Commission that it was inconsistent with the rule of fair competition. The public authorities still can reserve the same amount of public demand to enterprises which employ a fixed number of disadvantaged persons, but any enterprise, and not only the social co-operatives, can participate in the bid.

or users, even in the absence of voluntary workers.

At the same time the local authorities have begun to finance these organisations as they perceive a way to cope with the growing demand for services is by helping independent organisations to meet the need. In this way they avoid creating public units which are difficult to manage and lack the flexibility to adjust to changing demand. The practice of contracting-out has therefore spread, but it is developing without adequate preparation on the part of either the local authorities or the third sector organizations themselves. One notes in particular the proliferation of contracting-out practices designed solely (or largely) to minimize the cost of the service (also consequent on narrow interpretation of EU regulations) and showing little concern for the quality of the services or the nature of the organizations involved.

There are several results of this process, but they can be summed up as follows:

- a. the supply of social services has increased, in part financed by local authorities;
- b. the number of organizations and the number of employees has grown: this growth has principally been in social co-operatives. Voluntary organizations have tended to consolidate their position;
- c. among social co-operatives, those composed of only worker-members have increased most in numbers, since they are the easiest to set up;
- d. the third sector as a whole has increasingly come to depend on public financing;
- e. the mix of services supplied has changed, with services designed to satisfy mainly the public demand and consequently the needs of the median voter (mainly the elderly)<sup>11</sup> at the expense of those groups, more likely to be affected by social exclusion,
- f. there has been an increase in the number of organizations behaving opportunistically, mainly to the detriment of their workers (some co-operatives have been set up mainly to avoid the legal regulations concerned with employment contracts so as to reduce labour costs, and to bid successfully for contracts).

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<sup>11</sup> The role of the median voter in influencing the public goods provision and on the development of the non-profit organisation is discussed in Weisbrod (1977, 1988). See also Kingma (1997).

The third sector has thus grown in size and visibility, and so too has debate on whether legislation is required to give sharper definition to its characteristics and to guarantee support, above all fiscal in character, for its further development. After two years of debate, an enabling act authorized the Government to legislate on these matters in 1996, and this has led to approval of decree law n. 460 in 1997.

Although assessment of this measure is still premature, at the present time it does not seem to give new impetus to growth of the sector. In fact:

- a. since it is a fiscal measure, it leaves intact – and perhaps aggravates – the problems created by gaps in the civil law;
- b. in contrast to the legislation approved in 1991 which established new legal forms, the decree has created a new organisational form (the ONLUS: socially oriented non profit organizations) which cuts across the legal forms in existence, pointlessly increasing the fragmentation of the sector;
- c. by overlapping legal forms and activities, it attributes equal merit not only to different organizations, but also to different activities (for example, it grants the same tax relief to care-givers for the terminally ill as to sports clubs).

The social, economic and occupational growth of the third sector, has given rise to several second-level bodies, which act as networks at local and national level, and also to a national representation organization (The Third Sector Forum). They have also opened new prospects for components of the third sector that stagnated prior to the 1990s. Among these, special mention should be made of associations involved in cultural, sporting and recreational activities, which in recent years have displayed considerable dynamism, increasingly behaving as enterprises, and helping to expand the third sector's range of action.

As regards the future prospects of the sector, they depend on the following three ongoing trends:

- a. the changes in public contracting-out practices, with less emphasis on prices and

greater attention paid to the quality of services and to the nature of the organizations involved;

- b. the tendency to transfer the choice of service supplier to consumers by means of voucher systems;
- c. a strengthening of the third sector's autonomy from the public authorities, made possible by a further enabling tax system for donations and by a coherent development and engagement of bank foundations, which represent the Italian way of the American grant-giving foundations, in favour of third sector organisations.

### 3. *The quantitative dimension*

The statistical information on the third sector in Italy is meagre, fragmentary and unofficial. There follows a summary of the main information available.

A first way to assess the size of the non-profit sector is to estimate the voluntary participation of citizens in third sector organizations by means of population surveys. This work has been mainly carried out by Iref, which compiled six reports between 1984 and 1998 (for a summary, see IREF, 1995 and 1998). Table 1 is based on these reports and shows that the participation of the Italian population in third sector organization is high and growing. However, this growing commitment does not concern all sectors: there has been substantial growth, especially in recent years, of participation in associations for recreational, cultural, educational, social-welfare and environmental purposes, and those engaged in the defence of civil rights. However it has stagnated or declined as regards sporting, religious and social-health organizations. There has been a sharp decline in participation in political parties and trade unions. Although data do not permit quantification of the economic dimensions of the third sector, they confirm the extent to which it has spread and some of the trends outlined above.

**Table 1** – *Italians aged between 18 and 74 declaring that they belong to social associations or social coops: absolute values and % of population*

Year	Number of members	% of population
1983(*)	5,332,000	17.5
1985	7,345,000	18.9
1989	7,768,000	19.5
1991	8,463,000	21.0
1994	9,373,000	23.2

(\*) The reference population for the 1983 survey was aged between 18 and 55.

Source: Iref (1995)

The first attempt to estimate the economic and occupational size of the third sector was made by cross-referencing national accounting and census data with information on the number of the most important third sector organizations (Borzaga, 1991). It was concluded that, at the end of the 1980s, the sector employed around 310,000 people – 1.3% of the total labour force and 7.2% of the labour force involved in services not for sale. There was a 38.9% increase between 1980 and 1998, compared to only a 7.4% growth in the national employment total.

The first complete survey (Barbetta, 1996) was conducted as part of the project coordinated by Johns Hopkins University (Salamon and Anheier, 1995), and made it possible not only to measure the size of the sector in Italy and its articulation, but also to compare it with those of the other more developed countries. The survey estimated that in the early 1990s, employment in the third sector amounted to 418,128 standard units of labour (1.8% of total employment), in addition to which were 302,950 full-time voluntary workers (Table 2).



**Table 2 – Employees and volunteers in the non-profit sector**

	Employees (1)	Voluntary workers (2)	(1) + (2)
<i>Absolute value</i>			
(standard unit of labour)	418,128	302,950(a)	721,078
<i>Percentage of employment</i>			
(standard unit of labour)			
in the economy	1.8%	1.3%(b)	3.0%(b)
in the service sector	2.9%	2.1%(b)	4.9%(b)

(a) Of whom 14,529 were conscientious objectors and 15,560 seconded workers.

(b) The denominator consisted of the sum of the total employment in the sector of reference and the volunteers working in the non-profit sector.

Source: Barbetta (1996)

The ratio between current expenditure in the third sector and GDP was 1.9%. Distribution by sector shows that more than half of employees (61.9%) worked in social services, education, and research. Moreover, 35.3% of all voluntary workers operated in social services.

International comparison (Table 3) shows that the Italian third sector was relatively under-sized in terms of both employment and value added: in both cases it occupied last place in comparison with the USA, Japan and the other Western European countries.

**Table 3 – Employment and expenditure in the non-profit sector**

Country	Employment (% of total employment)	Current expenditure (% GDP)
U.S.A.	6.8	6.3
France	4.2	4.8
Great Britain	4.0	3.6
Germany	3.7	3.3
Japan	2.5	3.2
Italy	1.8	1.9
Hungary	0.8	1.2

Source: Salamon and Anheier (1994) and Barbetta (1996).

However, when evaluating these differences, as well as the deficiencies of legal regulation, the role of the family, and the fact that Italian social spending gives priority to transfers (Barbetta, 1996), account should be taken of three other aspects as well:

- a. because of the legislative shortcomings, some activities, which in other countries are performed by non-profit organizations, are undertaken in Italy by co-operatives or, less frequently, by partnerships or joint-stock companies, and these organizations were not surveyed as part of the non-profit sector<sup>12</sup>;
- b. in Italy the state still plays a predominant role in those sectors – education and health – where there is a greater presence of non-profit organizations in other countries (Gui, 1996);
- c. in the years following the survey, the Italian third sector has probably been growing at a faster rate than in other countries, in particular in relation to the United States.

It therefore seems that the absolute dimensions of the sector are less important than its recent dynamics – in particular of organizations producing social services. The dynamism of the latter has been confirmed by a number of studies of specific groups of organizations, and in particular on voluntary organizations and social co-operatives. The experience of the social co-operatives gives a clear picture of this dynamism<sup>13</sup>.

The first social co-operatives (Consorzio Gino Mattarelli, 1994 and 1997) arose in the end of the 1970s. Thereafter their numbers steadily increased until, in 1996, there were 2,834 units, and in 1998 almost 4,000 units, registered with the Ministry of Employment. Of these, at least 3,000 were operational, and 1,321 were subjected to review<sup>14</sup>. Of this total 803 were engaged in the production of social-welfare services, and 400 in work integration, while 118 combined the two activities or were consortia of social co-operatives. The membership of the 1,321 co-operatives were subjected to review, and reliable information is available. They consisted of a total of 66,363

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<sup>12</sup> The definition adopted in the international survey suffers from an "American bias". It is in fact tailored on the United States configuration of the sector, with its stress on the non-distribution constraint, and does not take into account the historical and legal specificities of the European Countries.

<sup>13</sup> There has been much research on voluntary organisations, both registered, according to the 1991's law, and unregistered. The more comprehensive are the two made by Fivol (Fondazione Italiana per il Volontariato) in 1993 (Cursi and Graziani, 1995; Ranci and Ascoli, 1997) and in 1997 (forthcoming). They analysed about 10.000 organisations.

<sup>14</sup> The Italian co-operative law states that all the co-operatives which benefit from the incentives the law provides for must be reviewed every two years, either by the Ministry of Labour or by the national co-operatives associations recognized by the same Ministry. The review considers the adherence of the management and the accounts to the law and the co-operative's statutes. The social co-operatives must be reviewed every year.

members, and they employed 33,400 paid workers (mainly members). More specifically, the work-integration social co-operatives – which have now become fully-fledged instruments of employment policy – employed 5,600 disabled workers, according to the INPS (the National Insurance Institute) figures; and to these should be added some thousands of disadvantaged who enter employment through apprenticeships and work grants<sup>15</sup>.

As far as economic figures are concerned, information is available on 528 co-operatives. In 1994, average turnover per co-operative was around 400 thousand ECU. The majority of the earnings were derived from the sale of goods and services (86.7%), while public and private grants were relatively modest (13.3%). Goods and services were sold mainly to the public authorities (57.7%), although a substantial amount were purchased by private users (29.0%).

#### 4. *Conclusions*

What general conclusions can be drawn concerning the Italian experience? In brief, the following:

- a. The development of the third sector in Italy, as well as in other European countries, is a complex phenomenon. It does not rely solely on the non-profit/for-profit dichotomy, nor can it be fully interpreted in the light of the American literature alone. Rather, it constitutes a more complex case of institutional and organisational innovation in keeping with the European social tradition. The existing intermediate institutions between the state and the market in many European countries, and certainly in Italy, have been modified by the citizens themselves mainly in order to handle demand which both the market and the welfare system fails to address. The new organisations have grown more autonomous of the public authorities than in the past, and less oriented to the protection of rights and more to the production of services. Nevertheless, they have preserved their associative nature, the stakeholder character of the European third sector organizations, and the democratic structure of their governing bodies: factors which give to these new institutions specific comparative advantages and open up broader possibilities for action than the mere non-distribution constraint.

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<sup>15</sup> For more detailed information on work-integration co-operatives, see Borzaga (1996). For an international review of non-profit organisations engaged in work-integration, see Defourny, Favreau and Laville (1998).

- b. Enterprises have thus been created which, beginning with social services provided to the very marginalised population, are extending their range of action to include a large array of personal and community services.
- c. Support for these new initiatives consists less in tax relief than in the recognition and coherent definition of legal forms, especially those suited to the management of social activities on business principles.
- d. There are true opportunities to create primary employment in the sector of personal and community care services – despite the limited availability of public resources – provided that third sector organizations are equipped with the means to attract private resources, in the form of both donations, in money and in work, and payments by service users. It follows that tax benefits should be granted, not so much to the organizations as to donors and consumers (by making the purchase of particular social services tax deductible). This would prevent unfair competition while boosting competition among different kinds of organisation in the personal and community care services provision.
- e. Third sector organizations foster the growth of markets in sectors where at present they do not exist. They do so by educating the public in the consumption of services and by developing new products, new productive processes, and new relationships with consumers.
- f. Third sector organizations – especially the productive ones – are vulnerable to manipulation. The contracting-out system can drastically modify the characteristics of these organisations. Necessary, therefore, is a precise legal definition of how these organizations must be structured and managed, and a non-distortive contracting-out system needs to be devised and implemented.
- g. One of the chief advantages of third sector organizations is their ability to attract people (not only volunteers but also workers) who are ethically motivated and not exclusively interested in monetary rewards. As the sector develops, in order that employment relationships do not shift towards traditional employment relations, and also to forestall opportunistic behaviour by managers, it is necessary to define a specific statute for this category of workers.
- h. Since third sector organizations are generally small in size, and operate on a local scale, there is a risk that the innovations that they produce will take a long time to circulate and be imitated. It is therefore necessary to encourage the exchange of experiences at the national and European levels.

Several European Countries and the European Union have already taken different actions to promote and regulate the third sector. The European Union policies were in many respects more innovative than the policies of the individual member states and helped the development of new third sector organisation in the countries with the more conservative policies. However, there is still considerable scope for further and more incisive actions.

***Part II***

***Social co-operatives: the Italian way to social enterprises***

## 1. *An introductory note on the concept of social enterprise*

In Italy, there is neither a specific legal concept nor a legal definition of “social enterprise”, but the term is more and more used in both political and scientific debate to define those third sector organisations that supply, in a stable and entrepreneurial manner, social services – that is, services aimed at combatting social exclusion – and, more in general, personal and community services.

The term came in use from the beginning of the ‘90s after the approval of the law that recognised and defined the social co-operatives. Its use has been growing with the impressive development of these new co-operatives providing both social services and work integration.

To understand the development of social enterprises in Italy it is necessary to take into account the main feature of both the Italian welfare system and the Italian non profit sector as they developed after the second war. The Italian welfare system, measured by public expenditure grew especially after the ‘70s, reaching the EU average in the ‘90s, but was mainly oriented to money transfers, with a poor supply of social services. The Italian nonprofit sector, on the other hand, was mainly playing an advocacy function, having the State as its counterpart.

Given this context, the development of social enterprises (especially of social co-operatives) can be explained as a way of meeting the growing and unsatisfied demand for social services.

## 2. *Social enterprises in Italy*

Because of the lack of a legal definition of social enterprise, the production of services against social exclusion is nowadays carried out by various legal forms envisaged by the Italian legal system. These can be identified as follows:

1. social co-ops, as defined by law 381 of 1991, which in 1998 comprised around 4,500 organisations supplying social services (70% roughly) or engaged in work integration activities (30% roughly);

2. around 20% of the 10,000 “voluntary organisations” defined by law 266 of 1991. According to this Act, voluntary organisations, although they are engaged in combatting social exclusion, should not deliver social services on a regular basis, and they should be staffed mainly by volunteers. In fact, the constraints imposed by the Act are rather generic, and this explains why there are at least 2,000 voluntary organisations which can be effectively included in the category of social enterprises, both because of the kind of services that they supply, and because these services are supplied on a steady and ongoing basis<sup>16</sup>;
3. some hundreds of associations other than voluntary ones, which fall within the provisions of the Civil Code of 1942. These associations perform activities mainly or exclusively for the benefit of their members. Stating their precise number is more difficult since few data are available. In this case too, given that the provisions of the Civil Code state that associations must pursue an ‘ideal’ (i.e. non commercial) aim, stable commitment to the production of services would overstretch the legal provisions (even though such an interpretation has been endorsed by court decisions)
4. some traditional co-ops provided for by the Act of 1947 which actually operate in sectors of collective interest, and which are similar to social co-ops, although they do not call themselves such. Also in this case, the available data are scant; however, the number of these organisations can be estimated at between 1,000 and 1,500;
5. some IPAB (charitable and social care public institutions),<sup>17</sup> particularly those which have transformed themselves from public institutions into private foundations according to the law. Their number, given the legal and bureaucratic difficulties in retrieving precise data at the national level, is estimated at roughly 800, of which only one in four has become private.
6. very few joint stock companies.

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<sup>16</sup> According to a recent survey carried out by the Italian Foundation for Volunteering in 1998 (FIVOL, 1998) out of 10,516 voluntary organisations, 1,031 (9,8%) of them stated that they supply social services on a steady and ongoing basis. They employed 2,083 paid workers, while the conscientious objectors working for them numbered 1,279 and the volunteers 53,529. More than 65% of these organisations funded their activities solely or mainly by means of private incomes (supply of services).

<sup>17</sup> These are organisations that date back to the Middle Ages, when they were established mainly in the form of private foundations. Later, in the nineteenth century with the passing of the Act of 1890, these entities were “absorbed” into the public administration, thus becoming public bodies subject to the body of laws on the checks, the powers and responsibilities of public authorities. Recently, since 1988, IPAB



Of all the aforementioned organisational forms, the one that has all the characteristics of social enterprise, and which displays them on a stable basis, is the social co-operative. In fact, voluntary associations are prevented by law from undertaking the stable provision of services. Both associations and voluntary organisations, which are mainly unregistered entities, do not envisage limited liability for their members. Associations and ordinary co-operatives do not necessarily pursue a social aim rather a “mutual” one. Finally, IPAB still largely belong to the public sector, since their boards of directors and most of their decisions must be directly endorsed by public authorities.

### 3. *The historical evolution*

The first social co-ops were established towards the end of the ‘70s, and together with voluntary organisations they are one of the innovative legal and organisational forms of (and in) the modern Italian third sector. First of all, co-ops are granted a separate legal personality from their members and these are granted limited liability, which make their involvement less risky than their counterparts in associations. Co-ops are also required to manage their initiatives democratically, according to the “one head, one vote” principle, which should theoretically make co-ops more democratic than associations.

Given the aforementioned characteristics, little by little, amidst many difficulties<sup>18</sup> and despite the sceptical position of the co-operative movement, the co-operative form began to be used to supply social services as well<sup>19</sup>. Several voluntary organisations or advocacy organisations transformed themselves into co-ops, or they established co-ops. From the first research on this kind of co-op carried out in 1986 (Borzaga, 1988; Borzaga, Failoni, 1990), one deduces that of the 496 co-ops surveyed, 22,6% of them had been formed by voluntary organisations and 15,9% by associations of a different kind. Only 50% of co-ops had been established as co-ops from the outset.

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have been allowed to “transform” themselves back into private non-profit organisations and thus re-acquire their original legal and organisational form.

<sup>18</sup> Many Italian courts would not grant incorporation to these new co-ops, because they did not respect the mutual principle, traditionally regarded as entailing benefit for the co-op’s members only.

As to members, only 27% were workers, whereas the rest were volunteers directly engaged in the activity and, more generally, supporting members. Only 21% of the co-ops surveyed did not have volunteers in their membership (in the northern regions, this percentage was slightly more than 10%).

The phenomenon therefore unveiled with distinct features, and it defined itself as the "social solidarity co-operative". It started to develop its own organisational strategy, especially by forming consortia at the local level and one consortium at the national level. It also started to exert pressure within the co-operative movement and within Parliament to obtain legal recognition of its own specific aspects.

#### 4. *The legal recognition: the Act of 1991*

Legal recognition of social co-ops was attained in 1991 with the passing of a specific act. The Italian social co-operative society, as provided for by the Act of 1991, represents an important innovation at both the domestic and international level. The most significant aspects of social co-operatives are the following:

- a) the beneficiary is above all the community, or groups of disadvantaged people within it, even if they are not members. Indeed, the Act of 1991 provides that social co-ops have to carry out their activities "for the general benefit of the community and for the social integration of citizens";
- b) membership may consist of various kinds of stakeholder such as:
  - i) members who perform an activity in the co-op and yield a monetary compensation from it (workers, managers);
  - ii) members who benefit directly from the services provided by the co-op (elderly people, the handicapped);
  - iii) members who work voluntarily for the co-op in "a personal, spontaneous and free manner without any profitable aim"; they cannot constitute more than 50% of the total workforce according to the Act of 1991;<sup>20</sup>

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<sup>19</sup> Besides volunteers, also paid workers increased in numbers.

<sup>20</sup> This constraint, which did not apply to co-operatives established prior to the Act of 1991, was introduced for fear that an excessive number of volunteers members would deprive social co-ops of their "entrepreneurial nature".

iv) financing members and public institutions.

The Act divided social co-operative societies into two categories, which correspond to two types of activity:

- a) the co-ops that carry out activities in the area of health, social or educational services (a-type co-ops);
- b) the co-ops that act as firms for integrating disadvantaged people in the labour market (b-type co-op).

A further distinctive character of Italian social co-operative societies is their particular and privileged relationships with local and national authorities, relationships which are often governed by special agreements.

Finally, contrary to the rule that applies to non-profit organisations as a whole, the Act of 1991 does not prevent co-ops from distributing profits, but it imposes restrictions on this distribution. Indeed, the Act states that the amount of profits to be divided must not exceed 80% of the total, the rate of profits for each share cannot be higher than 2% of the rate applicable to the bonds issued by the Italian Post Service, and that no assets benefits can be distributed should the co-op be wound up. Therefore, social co-operative societies are free to choose in their deed of settlement not to divide any profits among their members.

The Act of 1991 was passed after ten years of parliamentary debate<sup>21</sup> which involved both political parties and the co-operative movement. In favour of the act were mainly the co-ops belonging to the Catholic tradition and the Christian Democrats, whereas the Socialist and Communist Parties and those co-ops that identified with these two parties were against the act. The latter were particularly opposed to the inclusion of volunteers among the members of co-ops. In this respect, the final text of the act is a compromise: volunteer members are allowed, but their presence is not compulsory. The company's name also changed: instead of "social solidarity co-ops", these new organisations were called "social co-ops".

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<sup>21</sup> Indeed, the first bill was tabled in Parliament in 1981.

## 5. *The strengthening*

After their legal recognition, social co-ops began to spread through the country. The Act of 1991 gave greater visibility to the social co-op model and enjoined its acceptance by all courts. The social co-operation movement, which was already structured and organised, managed to start a wide-ranging debate on the Act and its implementation, which in turn helped to give social co-ops greater visibility. A further boost was provided by regional enactments subsequent to the national act, which fostered the growth of social co-ops.

The development of social co-operatives was also influenced by a closer attention to social services by the public authorities, especially local ones, which gave rise to contracting-out policies. Under pressure from the demand for social services, local authorities increasingly began to contract out these services, particularly the most recent ones, to social enterprises. This trend made it possible for public authorities to increase the supply of services without boosting the number of civil servants, and it was at odds with the previous welfare model which allocated even the production of services to the public administration. Finally, the progressive acceptance of social co-operation by the co-operative movement, part of which realised that it was a good opportunity to revive co-operation as a whole, gave further support to the diffusion of social co-ops.

## 6. *The economic and employment dimensions: some quantitative data*<sup>22</sup>

In 1991, when the Act was passed, social co-ops numbered just under 2,000. By the end of 1997, social co-ops in Italy were estimated at around 4,500, at least 3,500 of which were certainly in operation. Social co-ops at present represent about 4% of the whole co-operative movement and 10% of total co-operative employment. 70% of social co-ops are of a-type and 30% are social co-ops whose purpose is to integrate

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<sup>22</sup> At the moment, there is no research based on a census count of social co-ops, as regards either social co-ops as a whole or a-type ones. Nevertheless, several studies, albeit based on narrow samples, are available. The one that includes the largest number of social co-ops was carried out by examining the auditing minutes. Other studies on smaller samples have been carried out directly on the field. This report uses data from the studies available, specifying each time the number of co-ops involved in the survey.

disadvantaged people into the labour market.<sup>23</sup> This means that the co-ops carrying out personal services number at least 2,000-2,200.

### *6.1. Members, workers and size*

By drawing on different statistical sources, it is possible to estimate a total of 100,000 members of social co-ops, of which about 9,000 are volunteers and 75,000 are paid workers. Social co-ops providing social services have about 75,000 members, 6,000 of whom are volunteers and 60,000 are paid workers. The other members are not workers and cannot be defined as volunteers because they do not work in services provision. Thus, they can be defined as supporting members who participate very little in the co-operative's activities. The number of users served by social co-ops can be estimated at 400,000 (CGM, 1994 and 1997).

The average size of social co-ops is 40-50 members and 25 paid workers (mainly members). About 90% of social co-ops have fewer than 100 members, and 70% of them fewer than 50. These are only few large social co-ops, with some hundreds of worker-members.

In 1995, the average turnover was about 900 million lire per year. The predominantly small size of social co-ops seems to be consistent with the trend of these organisations to restrict their activities to limited territorial areas. In 1986, 35% of the social co-ops surveyed operated only in the municipality in which their premises were located, whereas 49% operated at the provincial or regional level (CGM, 1997). Although there are no data available for the following years, it is likely that the situation did not significantly change.

Only in some particular cases does one find size growth: from 1992 to 1994, in social co-ops, the annual average increase was 1.8-2 employees. This tendency to curb average size is the result of a planned strategy, and especially of an endeavour to keep a high fiduciary level among members and with the community.

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<sup>23</sup> According to the data supplied by the National Institute for Social Security, which is responsible for insuring disadvantaged people, by the end of 1996, there were 754 b-type social co-ops employing 11,165 workers, of whom 5,414 were disadvantaged people. This figure constitutes 48.5% of the total, compared with the minimum legal requirement of 30%.

Contrary to the surveys carried out in the '80s, the membership of social co-ops today consists mainly of members who are workers. In 1996, more than half of the co-ops examined did not have volunteer members (CGM, 1997). Where these were present, they rarely numbered more than 10. In co-ops for which data are available for both 1993 and 1996, the number of volunteer-members halved in the three-year period, and the increase in their number of members (from 52 to 54) was entirely due to the entry of new worker-members. This change in the composition of membership has been favoured by the Act of 1991, and it is the consequence of the remarkable growth of social co-operation in the '90s.<sup>24</sup> This shows that the entrepreneurial dimension of social co-ops has been strengthening, while their social function and relations with local communities may have diminished.

The presence of consumers benefiting from the co-op's services is still limited: indeed, fewer than one hundred co-ops state that their membership also comprises this type of member.

## 6.2. *Geographical distribution*

Social co-ops initially developed mainly in the northern regions of Italy, where social capital was high and the enterprise culture was widespread.<sup>25</sup> In the South of Italy, many co-ops were formed as a way to combat unemployment, and few of them included volunteers as members. Later, the phenomenon expanded, though to a more limited extent, also in the South.

In 1996, 60/63% of social co-ops had their offices in the northern regions, whereas 37/40% had theirs in the central and southern regions: here the majority of co-ops supply social and health care services. The lesser development of social co-ops in the South is due to both smaller demand for social services (which are still largely supplied by families) and to the lesser attention paid to problems by the public authorities. In recent years, moreover, social co-ops in the southern regions have been in some cases misused, in the sense that they have been used to support the purely social

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<sup>24</sup> It should be stressed that there is a remarkable number of co-ops with volunteers who are not members.

care activity of local authorities. However, over the last years, the national organisations of social co-operatives (especially Federsolidarietà and CGM) have made notable efforts to create new social co-ops in the South consistently with the co-operative tradition and with the legal provisions of Law 381/91. The success of this action bodes well for the achievement of a more balanced spread of social co-ops across the national territory.

### 6.3. *The characteristics of social co-ops*<sup>26</sup>

#### 6.3.1. *Services supplied*

The data (which refer to 726 co-ops) show that, in 1994, almost half of social co-ops provided services to more than one type of customer, and that the same percentage provided several kinds of services (for example, home care and residential care). These data give an idea of the complexity of the production process of social co-ops.

In 1996, the users of these co-ops were mainly elderly (47,1%), juniors (44,1%) and handicapped (39,8%), drug addicts (9,95), mentally ill (9,6%), disadvantaged adults (14,7%). The principal form of service supply was residential care – that is, the service was delivered on the co-op's premises. This form of delivery was followed by home care, where the service is supplied in the user's residence. Comparison between the two surveys carried out in 1986 and 1996 reveals a change in the types of clients served by social co-ops. In 1986, the majority of the co-ops provided services to handicapped people (32%); only 18,8% had the elderly as their users; 15,9% served juniors and 11,5% drug addicts. These changes may be viewed as the consequence of a change in both needs and the funding policy of public authorities, which tend to give priority to policies in support of the elderly.

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<sup>25</sup> This concentration in the northern regions is a common feature of the Italian co-operative movement.

#### 6.4. *Human resources and their composition*

Social co-ops may have, as already stated, mixed memberships, but this is not legally compulsory. Consequently, there are social co-ops formed by consumers (or users) only, by workers-members only, by workers and volunteers or by consumers and volunteers. Also legal entities and particularly city councils (although this possibility has seldom been taken up) and financing members (individuals or legal persons) may join the membership of social co-ops. Many co-op memberships also comprise members who actually do not take part in their activities, either as workers or as volunteers, and rarely take part in the decision-making process (so-called “inactive members”).

Given this situation, the data on the characteristics of the individuals involved in social co-ops may vary according to the definition of “volunteer-member” adopted by the statistical data base (whether volunteers are required actively and continuously to take part in the co-op’s activities).

According to the data on the largest sample of co-ops, in 1994 the 1,134 of them surveyed had 66,363 members (about fifty in each co-op on average), of whom 45.2% were “inactive members”. 90.9% of active members were worker-members, 8.4% volunteer-members, 0.4% financing members and 0.3% legal entities (of which some were city councils). However, this source of data uses a very restricted definition of volunteer-member. According to figures issued by the “Gino Mattarelli” Consortium, which refer to a smaller but more homogenous sample of social co-ops, in 1996 inactive members accounted for 24% of the membership, and volunteers-members for 26%.

Inspection of all the sources, however, suggests that there is a generalised tendency towards a reduction in the number of volunteers. This results in particular from the fact that the growth in the total number of members has been almost completely due to the entry of worker-members. This decline in the proportion of volunteers has not been counterbalanced by an increase in the number of user-members, who are present in only very few co-ops.

Finally, a relevant percentage of co-ops (42,8%) hires workers and volunteers who are not members. Conscientious objectors are to be added to the foregoing categories.

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<sup>26</sup> All the data referred to hereafter are taken from CGM, 1997.



A clear picture of this evolution is provided by Table 1, which gives data collected in 1995 on a sample of social co-ops (CGM, 1997).

*Table 1 - Composition of the memberships of social co-ops (average values)*

	When set up	1990	1992	1995
Worker members	2,7%	15,6%	18,2%	24,8%
Volunteer members	9,4%	14,1%	14,3%	12,3%
Members who are neither workers nor volunteers	6,8%	30,9%	34,4%	35,8%

#### 6.5. *Financial resources and their composition*

The overall turnover of Italian social co-ops is estimated at 2,500 billion lire, with an average value by co-op of about 900 million, of which 880 derive from the supply of services to public authorities or private individuals and 20 million from public funds. The principal client of a-type social co-ops is the public administration (77%), followed by private individuals (4,7%), other non profit organisations (5,9%) and private for-profit companies (3,1%).

The composition of users also depends on the type of service supplied, but the majority of co-ops (75%) has the public administration as their principal client. Most of the funding by public authorities is obtained by participating in competitive tenders, or it is assigned according to the quantity of services provided: 61.2% of the 75.6% of turnover deriving from public authorities is attained in this way, as opposed to the 14.4% granted to social co-ops in the form of public subsidies. Local authorities intending to contract-out a service to a social co-operative compare the tenders submitted by several co-operatives (or by different non-profit or for-profit organisations). They then choose either on the basis of straightforward cost parameters or according a more complex set of parameters where particular attention is paid to the quality of the project and of the services to be supplied, and to the co-op's capacity to mobilise volunteers. Accordingly, the local authorities undertake a contract with the co-

operative or organisation that has been selected. This contract sets out the rules on how the service is to be organised and paid. In some regions, local provisions state that the co-ops themselves can propose the service to be supplied. In these cases, the total or partial funding of the activity does not require any public bids for tender. The voucher system is little used in Italy.

The capital required to establish and manage social co-ops is almost entirely provided by private sources and it is constantly growing, representing more than 40% of self-financing. This capital consists mainly of members' subscriptions, and to a significant extent of funds set to reserve, that is, income which members forgo in order to make the enterprise more stable.

#### *6.6. The organisation*

Since their very first years of development, the main but not sole strategy of social co-ops has been, not to increase the size of the single co-op to match the growing demand for services, but instead to spin-off new initiatives, thereby also pursuing a specialisation strategy, and to reap the advantages of large size by grouping into local consortia. These are formed mainly at the provincial level and then again at the national level.

From what has been pointed out, it follows that an integrated entrepreneurial system has been developing over the last years. This system is characterised by three levels:

1. the first level consists of the single co-ops;
2. the second level is represented by the consortium structures. These function as strategic support of the co-ops that are grouped by developing marketing, administrative counselling, training and the development of human resources, organisational and managerial counselling of the partners and of the newly established organisations which are about to start up;
3. the third level, which is represented by the abovementioned CGM, performs long-run strategic functions, such as research activity, training of the managers and trainers of the local consortia, counselling and developing activities. Moreover, when possible and necessary, CGM assumes also the role of general contractor with respect to actions at the national level. The superstructure of CGM is very light with only 15 steady workers and collaborators. Much larger is the number of trainers, consultants,

research fellows and social entrepreneurs whom, though coming from the territorial consortia members of CGM, act within some specific projects of CGM.

As a whole, then, the consortia system tends to appear as an enterprise-network that develops itself in a conscious way, according to a given project and which is defined simultaneously by the independence of the different organisations and by their considerable integration, this being strengthened and assured by specific company obligations.

#### *6.6.1. A brief history of consortia*

The first provincial consortium of social co-ops was established in 1983 in Brescia. It was defined by three main characteristics, which later defined almost all consortia, namely:

- a) deep roots in the local territory in which the single co-ops operate;
- b) the grouping together of many sectors of activity;
- c) innovative capacity.

The Brescia consortium was followed by many other similar initiatives. As of 30 June 1997, there were around at least 70 local and territorial consortia throughout the country, with a particular concentration in the northern part of Italy, especially in Lombardy (17 consortia).<sup>27</sup>

Some territorial consortia then gave rise to the most important national consortium, the *Consorzio Gino Mattarelli* (CGM), which has been pursuing its aims with more clearness and more perception. It was established in 1986, and as of 1 October 1997 it grouped together 42 territorial consortia which in turn comprised around 700 co-ops, at least 300 of which supplied social services.

Table 2 gives information on the consortia grouped into CGM.

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<sup>27</sup> Besides territorial consortia, others have been established characterised either by the greater specialisation of particular activities (training, project management funded by the EU, management of

*Table 2 – Consortia members of CGM: some data*

<p><i>Data available on 542 social enterprises, of which</i></p> <p>339 a-type social co-ops (62,1%)</p> <p>201 b-type social co-ops (36,8%)</p> <p>5 non-social co-ops (1,1%)</p> <p>19,833 members, of which:</p> <p>10,064 workers-members</p> <p>2,997 volunteers-members</p> <p>2,607 users-members</p> <p>1,343 disadvantaged workers</p>
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7. *Evaluation of the functions of social co-ops*

7.1. *Contribution to combatting social exclusion*

The main contribution of social co-ops to the fight against social exclusion is that they have proved that the private production of services aimed at social cohesion is possible, and that otherwise unavailable human and financial resources can be directly involved. By demonstrating that some specific needs can be better satisfied by the production of services, rather than by monetary transfers, social co-ops have helped to transform the Italian welfare system, in that they are better able to create social cohesion. Moreover, many of the services supplied are for the benefit of particularly needy groups (drug addicts, former inmates, and so forth). These services, as well as volunteerism, have also enhanced political awareness of the problems connected with social exclusion.

Furthermore, very important has been the contribution of social co-ops to innovation in the field of social services. Many new ways of fighting social exclusion through service provision have been created for the first time by social co-ops and voluntary organisations.

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services for elderly people, and so on) or by a close link with associative experiences, such as the Solaris-Acli Consortium, Compagnia delle Opere, Apicolf).

Social co-ops have also increased the efficiency with respect to the supply of services rendered to public authorities. The greater flexibility and a more rational use of resources made possible by the trust relations that characterise social co-ops yield greater efficiency. With same amount of public money, a larger number of people are served.

## 7.2. *Strengths*

Firstly, social co-ops are enterprises – that is, they are legal persons with limited liability on the part of their members – that can appeal to the financial market as the other entrepreneurial forms.

Secondly, since they are usually of small size, they are rooted in the local territory in which they operate and are therefore close to the needs of local people. This implies that they have a remarkable ability to take advantage of and create social capital. Moreover, grouping into local and national consortia gives social co-ops the advantages of both small- and large-sized firms.

Thirdly, they have been able to aggregate highly qualified human resources, also thanks to the involvement of volunteers and to the capacity of employing people defined by an altruistic behaviour.

Fourthly, they envisage an innovative capacity (also with respect to the services supplied), which derives from a good level of independence of public authorities in the decisions regarding the entrepreneurial strategies. In this respect, it is noteworthy that a significant proportion of new social services in Italy have been pioneered by social co-ops.

## 7.3. *Weaknesses*

The negative aspects of social co-ops may be summarised as follows:

- a) they have developed too fast: the highly public demand for services requires an organisational form to which not all social co-ops are able to adapt;

- b) they are increasingly dependent on public authorities: this means that they serve more the needs of the public administration than the needs of individuals;
- c) many of them have no volunteers, and accordingly have fewer human resources, entrepreneurial skills, and relations with the local community; the trend towards co-operatives consisting only of workers-members is not *per sé* deleterious. Social co-operatives may select motivated workers, who therefore ensure that attention is paid to users' needs, to quality and efficiency. Nonetheless, the lack of volunteers makes the enterprise model more fragile, increases the dependence of co-operatives on external funding, especially public, and eliminates an important role of monitoring the quality of the services supplied.
- d) many of them are no longer multi-stakeholder organisations – that is, organisations in which more than one interest is at stake and which guarantee production more able to shape the service to needs.

All these factors account for the fragility of the model and for the drift towards more consolidated entrepreneurial forms, such as workers' co-ops. Consequently, several different models of social co-ops are developing, with different degrees of user and/or volunteers control on the decisional process.

## 8. *Prospects for development*

Numerous factors allow one to state that social co-operation will continue to grow remarkably in the next few years:

- a) the tendency of local authorities to entrust social co-ops with the production of social services is still strong, and it is shifting towards new services (i.e., kindergartens);
- b) new tax exemption policies concerning private demand for services and the granting of vouchers are being promoted. These policies should lead to a further increase in the demand for services;
- c) a recently enacted law has introduced tax exemptions for private donations to non profit organisations (among which there are also social co-ops) and the granting of tax benefits for those who buy “solidarity bonds”, part of the interest on which is earmarked for financing third sector organisations;

- d) political interest in social co-ops is very high and increasing;
- e) there are very few private for-profit organisations that intend to compete with social co-ops. On the contrary, competition can be made by workers' co-ops and among different models of social co-ops.

These prospects for development may accelerate the identification of social co-ops with other co-operative forms. In order to avert this danger, there is a need for:

- a) more precise definition (either statutory or by ethical codes) of the organisational form. This should prevent, over the years, the loss by social co-ops of their capacity to produce externalities. In reality, it is necessary to hamper the development of social co-ops consisting of workers members only;
- b) a different manner of assigning public orders to social co-ops. Competitive tenders, especially those in which price is given the greatest if not exclusive importance, tend to favour those co-ops (or private firms) formed by worker-members only and which are able to reduce (irregularly or even illegally) labour costs. From this point of view, the competition policy set out by the European Union, which is based on the idea that all markets should be subject to competition rules, is playing a negative role;
- c) the development of a culture of social enterprise which increases awareness among social co-operatives of their specificity, and of the link between this specificity and the efficiency and effectiveness of their work. In this respect, one notes that Federsolidarietà has recently introduced an ethical code which binds co-operatives to specialisation, to small size, to an emphasis on volunteerism, and to equity towards workers.
- d) the development of a policy to encourage the more innovative social co-ops to operate in new fields of activities, not only in those of interest to the public authorities.

## 9. *Conclusions*

The experience of Italian social co-operatives demonstrates that it is possible to create enterprises pursuing a social instead of a pure economic aim and voluntarily producing positive externalities. The approval of laws that clearly recognise and identify these enterprises can give a strong support to their development. At the same time, the Italian experience shows that the entrepreneurial model of social enterprises is fragile and it can easily transform itself in a more traditional form of enterprise.

Specific policies aimed at improving the entrepreneurial model are needed. Among them the most important are: the provision of consistent legal forms, a better organisation of the quasi-market for social services and the development of a specific entrepreneurial and managerial culture.



*Part III*

*Social enterprises and employment*

## 1. *The work integration social enterprises*

Work integration social enterprises perform a specific function as institutions able to tackle labour market failures. More than other markets, in fact, the labour market suffers from major problems of imperfect and asymmetric information, given the peculiar nature of the “good” exchanged. The quality of “work” is normally difficult for the purchaser (the firm) to evaluate, and even more so when the worker concerned is a disadvantaged person. Work integration social enterprises intervene with diversified solutions precisely to solve the work integration problems of these kinds of workers.

Analysis of the role of social enterprises in this area therefore requires definition of the concept of labour market disadvantage, and of the reasons why disadvantaged workers are discriminated against, and penalised, by for-profit firms. This topic is addressed in the next section of this part of the paper. The second section analyses labour policies to encourage the full professional and social valuation of disadvantaged persons, and the reasons why these policies have often proved ineffective and/or inefficient.<sup>28</sup> The third section discusses the reasons why work integration social enterprises seem able to deal more effectively with the work integration difficulties of disadvantaged persons.

### 1.1. *The “disadvantaged worker” and his/her difficulties in the labour market*

A worker may be defined as “disadvantaged” (or “less favoured”, or “hard-to-place”<sup>29</sup>) in the labour market by virtue of any characteristic which, given the normal requirements of employers, places him/her at a disadvantage with respect to the majority of workers. The most common cause of disadvantage is some sort of disability: that is, “any restriction on or lack of ability to perform an activity in the manner or within the range considered normal, which is due to physical or psychological infirmity or impairment”<sup>30</sup>. However, incapacity (or reduced capacity) to perform a given activity may also depend on a number of environmental and socio-cultural factors (poor

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<sup>28</sup> These two sections summarise the contents of Borzaga, Gui, Povinelli (1998).

<sup>29</sup> See Erhel *et al.* (1996).

education, lack of socialisation, etc.).<sup>31</sup> The wider concept of “disadvantage” can thus be used to cover not only “disabled (or handicapped) people”, but also all other people who encounter systematic limitations/difficulties in achieving acceptable standards: e.g. former drug addicts, ex-prisoners and individuals with poor or no work experience or with obsolete or no qualifications, such as most of the long-term unemployed.

Worth noting is the fact that the presence of limitations, whatever they may be, do indeed create a worker’s productivity gap, but in the majority of cases this is neither absolute (gaps in all possible work tasks) nor definitive (irremediable gaps). On this basis, two groups of disadvantaged people in the labour market may be distinguished:

- a. on the one hand, there are those individuals whose productivity falls systematically below normal levels in any job, regardless of any training;
- b. on the other hand, there is the majority consisting of those people whose productivity is lower than that of other workers on average, but not in all jobs and/or not definitively.

Except for the individuals in group a), who would normally be excluded by the open labour market even when perfect information exists (except in the case of perfect wage flexibility), the employment of the majority of other disadvantaged workers (group b) is principally hindered by imperfect and asymmetric information concerning their effective productivity and the conditions required for the full realisation of that productivity. In fact, the main obstacle to overcome for satisfactory integration into work of these workers is identification of a suitable job, one which enables them to use their skills to the best advantage and/or provides the training needed to develop the abilities that they lack, thereby narrowing or even eliminating their productivity gap.<sup>32</sup>

The solution is thus a personalised selection and training process that in most cases requires a considerable amount of resources.

As for the selection process, the costs incurred in identifying the “right” job for a disadvantaged worker are higher than the costs of identifying a position for a not-disadvantaged employee. To reduce selection costs, firms generally rely on signals, i.e.

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<sup>30</sup> See World Health Organization (1980).

<sup>31</sup> See Berkowitz, Berkowitz (1990); OECD (1994).

<sup>32</sup> See Erhel *et al.* (1996).

on visible worker characteristics, since these are much cheaper to observe.<sup>33</sup> The phenomenon of statistical discrimination against the disadvantaged workers is therefore very common.

Also the training process of a disadvantaged worker is usually more expensive for the firm.<sup>34</sup> First s/he needs additional general training, particularly in order to improve his/her relational skills; furthermore, in the majority of cases, this kind of worker will also need specific training for a longer period of time, or more intensively, in order to reach satisfactory productivity levels. In any event, once again a firm will try to reduce training costs by employing those workers already with good levels of general human capital, since their training period is generally shorter and cheaper.<sup>35</sup>

Such behaviour, which is rational from the firm's point of view, creates a fragmented labour market, with on the one hand educated and specialised workers able to profit from further training, and on the other an underclass of less-productive and ill-educated workers who find it very difficult to exit from the "disadvantaged" pool.<sup>36</sup>

Moreover, institutional rigidities and social constraints often operate in a manner such that the benefits of the integration of disadvantaged people into work are largely reaped by disadvantaged people themselves and by society as a whole, while the related costs and risks are essentially borne by the employer, thus further increasing the work integration difficulties of these people in traditional for-profit firms.

One may therefore sum up the analysis conducted so far in the statement that the employment difficulties of disadvantaged workers are caused principally by two interacting phenomena operating on the labour market, i.e. the lack of information and the presence of institutional rigidities, both of which stem from the wider range of market failures. It is here that various labour policies intervene.

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<sup>33</sup> See Spence (1974).

<sup>34</sup> See Stern, Ritzen (1991); Booth, Snower (1996).

<sup>35</sup> See Arulampalam *et al.* (1996).

<sup>36</sup> See OECD (1994).

## 2. *The limitations of traditional labour policies to integrate disadvantaged people into work*

Several kinds of labour policies have been designed by governments in order to favour the integration of disadvantaged workers.<sup>37</sup> However, in many countries these policies have proved at least partly ineffective, and their failure can mainly be explained once again by asymmetry in the information available. Indeed, since only enterprises are able to assess the real productivity of disadvantaged workers (and only after they have hired them), on one hand the authorities responsible for labour policy are reluctant to award them significant public incentives, and on the other the unions are unwilling to accept wide wage reductions.

Traditional labour policies in favour of disadvantaged people can be grouped into the following categories: regulatory policies, substitution policies, compensatory policies.<sup>38</sup>

Among regulatory policies, the imposition of quotas was the measure most widely adopted until the 1980s.<sup>39</sup> However, it achieved unsatisfactory results, because of the difficulty of its management, and because of the high costs that it imposed on firms, which in many cases tried to by-pass this obligation to recruit.

With substitution policies, the state directly promotes the work integration of targeted groups of disadvantaged workers in the public sector, in sheltered employment, or in *ad hoc* businesses; in other words, it creates a demand for labour “outside the market”, or a “substitute labour market”. The main limitation of these policies is that often, instead of encouraging the real occupational (and social) integration of disadvantaged people, they may end up by trapping individuals capable of playing an active part in the normal labour market within closed production structures with low wages.

Compensatory policies, designed to compensate for the (real or presumed) productivity gap of disadvantaged workers, include both vocational training and/or vocational guidance, and wage subsidies paid to firms hiring these workers.

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<sup>37</sup> See Haveman *et al.* (1984); Schmid, Semlinger (1984); OECD (1990), (1992), (1994).

<sup>38</sup> See Schmid, Semlinger (1984).

<sup>39</sup> See Emerson (1988).

Vocational training has several shortcomings: firstly, it is often structured solely around the characteristics of the people receiving the training, without taking sufficient account of labour demand; secondly, the most disadvantaged unemployed people are generally less inclined to take part in training programmes,<sup>40</sup> and, even if they do take part, their employment prospects remain poor;<sup>41</sup> in some cases, training and guidance programmes outside the education system may even be counter-productive because employers interpret attendance on such a programme as a signal of low productivity potential;<sup>42</sup> thirdly, in some countries, businesses often regard the public vocational training system as unreliable.

Wage subsidies encourage employers to hire disadvantaged workers by compensating the former for low productivity and higher training costs of the latter. In this case, several effects (substitution, relocation, deadweight, “creaming off”) combine to raise the cost per new job created. The problem is thus one of assessing the unjustified payment of subsidies to unscrupulous employers (the moral hazard problem).<sup>43</sup>

Recent years have seen the growth of new policies which differ from the traditional approaches: most notably, more personalised employment services and various forms of “supported employment”.<sup>44</sup> Here, one of the most widely used measures is the employment of an assistant/tutor who gives specific support to the disadvantaged worker during his/her integration period, tailoring the help to his/her personal requirements, so that a normal level of productivity is assured to the firm. Often there is also intensive one-to-one training (on the job) with a qualified instructor. These new measures have proved more effective than traditional policies, but their principal shortcoming is their exceptionally high cost per person, which impedes their large-scale utilisation.

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<sup>40</sup> See Raam *et al.* (1993).

<sup>41</sup> See Pedersen *et al.* (1993).

<sup>42</sup> See Dolton (1993); Bernardi, Layte, Schizzerotto (1998).

<sup>43</sup> See Gui (1990); Gautié *et al.* (1993).

<sup>44</sup> See Thornton and Maynard (1986).

### 3. *Work integration social enterprises as a tool of active employment policies*

Social enterprises aimed at the work integration of disadvantaged persons can be regarded as an alternative to the failure of traditional employment policies. Sometimes social enterprises adopt the same solutions of supported employment, but they are distinct, especially as regards the institutional and/or organisational forms. Work integration social enterprises are set up to by-pass, to a certain extent, the obstacles against investment in the selection and training of disadvantaged workers, thereby meriting the confidence of public authorities, trade unions and the society as a whole. Furthermore, if good reputation is achieved, social enterprises may be in a position to supply other employers with credible information regarding the true abilities of trainees, thereby reducing both the costs and the risks that these employers would face when hiring them. Consequently, the presence of this particular type of enterprise improves the functioning of the labour market.

Work integration social enterprises can count on two specific advantages. The first advantage is that they can select and train employees at a lower cost than other businesses, thanks to skills which have been developed through constant work with disadvantaged workers. Moreover, social enterprises can provide some sort of certification which vouches for the worker's skills acquired on the training programme, backing it with their reputation as reliable intermediate institutions. This comparative advantage thus enables them to act as "gateways" from welfare to (productive) work.

As a result of the profit-constraint feature, and of their participatory nature, social enterprises are able to demonstrate their reliability and credibility both to the public authorities, which are constantly preoccupied that incentives will prove no more than monetary gifts to employers, and to the trade unions, which for similar reasons are reluctant to accept exceptions to minimum pay levels in the form of entry or training wages. And a further guarantee that the organisation's stated objectives will be pursued is the presence of beneficiaries and volunteers in the membership and/or in the management.

Thanks to this double advantage, social enterprises can devote themselves more efficiently to the training and, more generally, to the work integration of disadvantaged people. The increase in productivity thus achieved by disadvantaged workers may then be utilised within the social enterprise itself or outside it in the open labour market.

If this is the case, work integration social enterprises warrant special consideration by policy-makers. These organisations, in fact, have special features which others cannot reproduce, and which increase their likelihood of success in the selection, training and occupational integration of disadvantaged workers.

#### *4. The diffusion of work integration social enterprises*

There are no systematic analyses of the diffusion of work integration social enterprises,<sup>45</sup> except for a few local and national studies.

Comparisons among the members of EMES has enabled construction of a very preliminary and approximate estimation of the diffusion of this kind of social enterprise in some European countries (see table 1).



*Table 1 - Work integration social enterprises: organisational forms and countries (1997 or 1998)*

ORGANISATIONAL FORMS	COUNTRY	NUMBER
Social co-ops type b)	ITALY	1463
Co-ops of special purposes	GREECE	20
Social solidarity co-ops	PORTUGAL	50
Labour co-ops (transitional initiatives)	FINLAND	65
Social firms	FINLAND	20
Social enterprises for the long-term unemployed	SPAIN	200
Special work centres for the disabled	SPAIN	unknown
Workshops/new social enterprises (disabilities)	IRELAND	26
Social firms for the long-term Unemployed (transitional)	IRELAND	10
On the job training enterprises (unemployed)	BELGIUM	40
Social workshops (Flemish)	BELGIUM	100
Sheltered workshops	BELGIUM	400
Rehabilitation institutions	DENMARK	50
Activation projects / work projects	DENMARK	unknown
Mentally-ill co-ops	SWEDEN	50
Community business	UK	400
Enterprises d'insertion	FRANCE	750

More reliable figures are available for specific countries.

In Italy, work integration social enterprises coincide with b-type social cooperatives, created in 1991 by law 381.<sup>45</sup>

According to information provided by the Social Insurance National Institute INPS, at the end of 1998 (see table 2) the number of work integration cooperatives amounted to 1,463 and employed 11,319 disadvantaged workers out of a total labour force of 23,104 employees. Table 2 summarises the evolution of the number and employment levels of work integration cooperatives since 1993, i.e. two years after approval of law 381. However, one should not be misled by the particularly sustained growth between 1993 and 1994, given that the figures refer both to new cooperatives and to those which regularised their position in that period by notifying INPS of

<sup>45</sup> Two recently published books, Borzaga, Santuari (Eds.) (1998) and Defourny, Favreau, Laville (Eds.) (1998), describe the evolution of social enterprises in different countries.

<sup>46</sup> For more information on the experience of work integration social cooperatives in Italy, see Borzaga (1996), (1998).

disadvantaged workers hired. More realistic is the growth registered between 1994 and 1998.

*Table 2 – Italy: work integration social cooperatives 1993 – 1998*

<b>(October)</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1998</b>
Number of cooperatives	287	518	705	754	1463
Annual rate of growth (%)		80.5	36.1	6.9	39.3
Total employment	4501	7,115	9,837	11,165	23,104
Annual rate of growth (%)		58.1	38.3	13.5	43.8
Disadvantaged workers employed	1,675	3,204	4,686	5,414	11,319
Annual rate of growth (%)		91.3	46.2	15.5	44.6
Employees by cooperative	15.7	13.7	13.9	14.8	15.8
Disadvantaged workers by cooperative	5.8	6.2	6.6	7.2	7.7
Disadvantaged workers on total workers (%)	37.2	45.0	47.6	48.5	49.0

Source: INPS

The figures on the number of disadvantaged employees set out in table 2, however, do not account for all the integration activity performed by the cooperatives. Two surveys conducted by the Consorzio Gino Mattarelli (1994 and 1997) have shown, in fact, that many co-operatives train also people who are not formally employed. Data regarding these people are not included in the set of INPS data on which table 2 has been constructed.

The average size of work integration cooperatives is rather small (13-15 employees). The average number of disadvantaged workers amounts to 6-7 units and their percentage in the total workforce is lower than 50%.

In France, these organisations have developed under the “association” legal form. Since 1985 they have been recognised as “enterprises intermediaries”, and since 1988 as “enterprises d’insertion”.<sup>47</sup> In 1995 there were at least 750 such organisations, with an average of 12 jobs each reserved for disadvantaged workers (6,500 in total). In 1994

<sup>47</sup> See Demoustier (1998).

they stipulated about 20,000 employment contracts, 15,000 of which were for disadvantaged workers.<sup>48</sup>

In Belgium,<sup>49</sup> there are 150 “ateliers protégés” (sheltered employment centres) providing stable and paid work for about 20,000 handicapped people. The work integration social enterprises aimed at integrating disadvantaged workers into the open labour market are still in the experimental stage, but they already provide 2,000 jobs for disadvantaged workers. Some of them have already started highly innovative projects.

Other more qualitative information is available for Spain,<sup>50</sup> where some associations for the work integration of the disabled have developed organisational systems which enable them to provide their associates with the full range of work entry services, from formal education to on-the-job training and placement in the open labour market.

##### 5. *First attempts at evaluation*

Since work integration social enterprises represent a new and almost unknown phenomenon, there are still very few studies which seek to evaluate their economic and social outcomes and to compare their costs and benefits with those of alternative policies.

The general opinion among researchers, supported by the results of numerous case-studies, is that when a work integration social enterprise has the characteristics described in this paper, the benefits are greater than the costs. The net benefits are therefore higher than those resulting from other employment policies.

Specific studies are required to confirm this opinion, especially in view of the above mentioned “fragility” of the model, if work integration social enterprises, and especially “open” ones, are to be used systematically as a tool of active labour policies.

In some countries, a number of first attempts have been made to assess the efficacy of the services supplied by work integration social enterprises.

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<sup>48</sup> The number of employment contracts is higher than the number of jobs because some contracts have a duration shorter than one year.

<sup>49</sup> See Defourny, Nyssens, Simon (1998).

<sup>50</sup> See Vidal (1998).

The first study is a survey conducted in 1994 on a sample of 33 social cooperatives operating in four regions of northern Italy.<sup>51</sup> Predominant (64%) in the sample were cooperatives engaged in a single activity, mainly in the following areas: maintenance of public and private green spaces, cleaning services, assembly activities, carpentry, farming, construction, and refuse collection.

Earnings by the cooperatives examined were therefore differentiated. Averaged over the three years examined, the volume of sales can be broken down as follows: 53.6% from contracts with local authorities, 39.0% from private demand, and 8.4% from public subsidies to support work integration costs. None of the cooperatives examined depended solely on income from the public authorities.

On 31 December 1993, the number of people working in the cooperatives surveyed amounted to 751, of whom 375 were ordinary workers, 255 were disadvantaged workers, and 121 were volunteers. Analysis of the data relative to the characteristics of the disadvantaged persons who entered the cooperatives between 1993 and 1996 (466) shows that there was a markedly larger percentage of men (76%) than women (24%). Just over half (54%) were younger than 30, and more than 80% had compulsory school-leaving certificates. They came mainly from the non-labour-force (67% of cases). The unemployed accounted respectively for 12% and 20% of the entire sample. In terms of disadvantage, the largest group consisted of the handicapped (119) - mainly (60%) the mentally handicapped - followed by drug addicts (106).

Of the 466 disadvantaged workers employed by the surveyed cooperatives between 1993 and 1996, 32% were still undergoing work integration while the remainder, having completed the process, had either joined the cooperative on a stable basis (26%) or had left (42%).

The predominant cause of exit - the majority of cases left the cooperatives after a period of slightly more than twelve months - was abandonment of the integration schedule (50%); slightly more than 44% left the cooperative because they had completed the schedule. Of those who left the cooperative on completion of the integration schedule, 66% were at the time of the survey (1996) in the labour market: in

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<sup>51</sup> See Borzaga (1996).

79% of cases they were in employment and in 21% of cases in search of work. Few persons (15%) had returned to the non-labour force.

This analysis provides a first measure of the success of the work integration process. If, in fact, as well as the number of subjects stably integrated into the cooperative (120) one also takes account of those entering employment externally to it (46), and if one excludes from the calculation those still undergoing integration, one may conclude that the work integration process has had a positive outcome in 52% of cases. The figures relative to abandonment of the integration schedule and to the number of persons unemployed or rejoining the non-labour force (122 subjects in total) show a 39% probability of failure.

Only 24 workers (20%) remained in the cooperative even though external work integration had been envisaged for them. The failure to achieve the objective was in this case due to either lack of opportunity (50% of cases) or to refusal by potential employers (12% of cases). The average amount of time taken by the disadvantaged workers to complete the integration process was 18 months.

The second study, flanked by cost-benefit analysis, was carried out in the province of Trento (northern Italy) by the local Employment Agency (*Agenzia del Lavoro*).<sup>52</sup> It examined 115 disadvantaged persons involved in ten work integration cooperatives between 1992 and 1995. This survey assessed an experiment where the *Agenzia del Lavoro* met the expenses accruing to cooperatives in training disadvantaged workers and, specifically, part of the labour cost of both disadvantaged and ordinary workers who received on-the-job training, and the costs of hiring training consultants.

Of the 115 disadvantaged workers examined, 87 had completed the work integration programme. Of these, 43 (53%) found steady work, 32 in enterprises other than the cooperative, and the rest in the cooperative itself. Two-thirds of those who found permanent employment had been in work for at least two years. The work integration programme lasted between 1.6 years for those who found work in ordinary firms and 2.4 years for those who were hired on a permanent basis by the cooperative.

The cost-benefit analysis yielded distinctly positive results, even with very restrictive hypotheses. Even taking account of only monetizable benefits and using

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<sup>52</sup> See Agenzia del Lavoro della Provincia Autonoma di Trento (1997).

diverse discount rates and hypotheses on the duration of the working lives of the work-integrated subjects, the cost-benefit analysis confirmed that the costs sustained by the *Agenzia del Lavoro* were entirely repaid in the form of higher taxes and social contributions, and that the disadvantaged workers and their families obtained greater benefits. Much more limited, indeed almost nil, were the benefits retained by the cooperatives. This, though, is in line with their nature as not-for-profit organisations whose principal goal is not accumulation of capital but maximisation of the number of people integrated into work.

#### 7. *Social enterprises, job creation and employment policies*

Both the supporters and critics of social enterprises pay close attention to their ability to create jobs. The analysis conducted in this paper permits discussion of this aspect, taking account of the various types of social enterprise.

It is evident that social enterprises providing social and community care services are able to create new jobs in a sector where demand is expanding. They certainly create new jobs when they activate new private demand (directly from consumers or indirectly from donors), but also when they activate a mix of private and public demand.

One may therefore conclude that social enterprises create new employment even when they depend wholly or partly on public funding: it is not certain, in fact, that in the absence of enterprises willing to engage in these activities, perhaps even with limited financing, the same public resources would in any case be committed to the production of services. It should be pointed out, in fact, that part of the social services today provided by social enterprises have been invented by the latter, and that they exist thanks to their ability to innovate productive processes and/or products. Only subsequently have these services been activated and sustained by means of public funds.

Social enterprises providing social and community care services, however, do not necessarily employ only or mainly disadvantaged workers. Indeed, these types of social enterprises tend to employ medium-to-high skilled workers, according to the type of service produced. The experience of several countries shows that attempts to employ certain categories of disadvantaged workers (the adult long-term unemployed, in

particular) in the production of social services may fail because the skills of these workers are often incompatible with those required to produce services of an adequate quality. Nevertheless, it is possible to think of policies which would foster employment in social enterprises providing social and community care services by providing temporary employment subsidies, as long as the enterprises are allowed to choose workers on the basis of their skills and their ability to modify these skills.<sup>53</sup>

As for the quality of the jobs created by social enterprises, and in particular as regards the fear that they would help to expand the secondary labour market, one notes that the few surveys conducted to date confirm for the European countries the findings forthcoming in the United States on workers in the non-profit sector: although wage levels are generally lower than those paid by for-profit firms and the public sector, the level of satisfaction of these workers is not lower.<sup>54</sup>

Employment of disadvantaged workers is the prime objective of the specific group of work integration social enterprises. Yet these do not necessarily create new and stable jobs: in several cases they are designed to increase the employability of these workers and to overcome failures of the labour market. Only the subgroup of organisations which this paper has called “closed” work integration social enterprises properly create “new” jobs.

From the economic point of view, the correct way to interpret the role of work integration social enterprises is to consider them as active labour policy instruments. They, in fact, assist in the selection and on-the-job training of subjects who require investments in selection and training that are higher, and riskier, than those which for-profit firms regard as economically convenient, given that they exceed the benefits expected even when the subsidies available are taken into account.

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<sup>53</sup> An interesting scheme in this regard has recently been undertaken in Italy. In 1997, an agreement was signed between “Italia Lavoro” and the “Consorzio Nazionale delle Cooperative Sociali” whereby the cooperatives belonging to the consortium would hire 700 workers taking part in the “socially useful work” programme. These workers were taken on for one year, with a work schedule of 20 hours per week, while they continued to receive unemployment benefit. The Consortium undertook to guarantee permanent employment for 50% of these workers. At the end of the project (September 1998) the percentage of workers who had found stable employment (within or without the cooperative) was 65%. It should be pointed out that Consorzio delle Cooperative Sociali has been the only organisation to reach an agreement of this kind with Italia Lavoro.

<sup>54</sup> From a survey conducted in 13 Italian provinces, which compared worker satisfaction in public units and in social enterprises, the first results (yet unpublished) confirm that the level of satisfaction is higher in social enterprises.

Given these considerations, it is possible to argue that policies regarding work integration social enterprises require profound revision. To date, the countries that have supported the development of these enterprises have relied on two main instruments:

- a) the assignation to social enterprises of publicly-financed “works of public usefulness”;
- b) the granting of subsidies, usually fixed-term, calculated on the basis of the unemployment benefits to which the workers hired were entitled.

These policies were based on the conviction that work integration social enterprises were mainly instruments of social policy and could be used to combat the social exclusion of disadvantaged people.

A policy more coherent with the characteristics of work integration social enterprises, able to exploit their potential, requires that:

- a) work integration social enterprises should be recognised as instruments of labour policy and therefore included in the network of institutional relations centred on these policies;
- b) the contribution by work integration social enterprises to the employability of disadvantaged people should be contractually defined: the subsidy should be commensurate with the expenditure undertaken to recover disadvantaged workers for work and to train them, and therefore with the degree of employability of these workers and the expected duration of the recovery process. However, no particular constraints should be imposed on enterprises as regards extension of these workers’ employment (though without subsidies);
- c) work integration social enterprises should be required to use instruments which increase the employability of disadvantaged workers, for example personalised work-entry projects, periodic assessment of results, etc.;
- d) linkages should be encouraged between social enterprises and traditional firms, which should hire disadvantaged workers once they have completed the selection and training process in the social enterprises.



## 8. *Conclusions*

Social enterprises represent a new and complex phenomenon which requires greater analytical and research effort if they are to be thoroughly understood. This paper is only a very preliminary step toward this goal. However, it shows the diffusion of social enterprises among European countries and helps clarify the differences between the two main types of social enterprise: those that provide social and community care services and those engaged in the work integration of excluded or disadvantaged workers.

Social enterprises cannot solve the problem of unemployment on their own. However, both types of social enterprises can make a positive contribution to the job creation process, in different ways.

The contribution of social enterprises providing social and community care services is similar to that made by any enterprise which offers innovative services, thus stimulating the demand (private and/or public) and creating new jobs. The work integration social enterprises rather can be used as a specific employment policy instrument, making a major contribution to the efficacy of policies designed to increase the employability of the hardest-to-place groups of workers, as long as they are clearly defined and systematically included among, and coordinated with, active labour policy instruments.

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