

Social enterprises: the Italian experience

1. The growing social and economic importance of social enterprises in many countries has raised theoretical and policy issues relevant for their present role and for future prospects: origins and conditions of growth, driving forces, barriers to their diffusion, legal regulation and public support, relationship with the present conditions of public welfare and with social stakeholders.

I will present here some aspects of the Italian experience as a contribution to the discussion on these issues

Organised private activities aimed at social purposes have deep roots in Italian Italy. Go back to the Middle ages. Since their origins they have taken a variety of forms: from simple ad hoc committees to charities to stable organisations such as cooperatives and mutual aid societies. Their number, dimensions and the scope of their activities have been growing in the course of time even after the diffusion of the welfare state in the XX century; they have shown a great capacity of adaptation and sensitivity to the changing social needs while maintaining flexible and variable forms of organisation. These qualities, deep social and local roots, freedom of organisation and adaptability are at the basis of their historic and present vitality. And they have to be kept in mind when discussing the conditions of their future developments-

The Italian Constitution of 1948 has recognised (art 38) the social value of private organised initiatives in area such as social and personal assistance, pensions, health care. A specific endorsement and support is devoted to cooperative enterprises by art 45 which recognises their social function and promotes their diffusion by any adequate means while providing the controls necessary to guarantee their correct functioning.

These constitutional directives mark a cultural and institutional breakaway from the dominant ideology, of the XX century, whereby all major activities of collective interest should be exclusively performed by the State or at most delegated to private organisations for specific segments. The constitutional norms imply that private citizens are entitled as such to perform functions of common and general interest. For this reason citizens are not only entitled to organise and finalised their action, also in form of enterprise but that they must be recognised as contributors to the general interest under given conditions.

2. In the last 60 years private social activities have in fact developed freely in a variety of forms. Many of them remain organised in the loose form of associations and their activities are performed by volunteers more or less stably committed to the common goals, without any formal obligation. They do not apply business models nor marked based strategies to achieve their aims. Even so, or partly for this reason, the number of these voluntary associations and of the people involved- have increased dramatically.. In spite of the loose character of the organisations and of their members their contribution in many areas of social services and welfare is exceptional. The regulation of these voluntary activities is minimal (act 266/1991) and indeed rather uncertain. Some proposals to reform the legal regulation, mainly directed to better promote their activities, but without interfering in their freedom, are pending in the Italian Parliament.

The diffusion and respect of these voluntary social activities have contributed to mobilize collective efforts for the production of common goods and to create 'social capital'; Both are fundamental conditions for the development also of other types of social initiatives, more stably organised also in form of enterprise. This is in fact confirmed by the most recent Italian experience, which has seen a wider use by many private organisations of business models in order to pursue more efficiently their mission and or to reduce their dependence on donations and grants. Moreover it is

significant that the diffusion and success of these social initiatives ,including those performed in form of enterprise, are most evident in the areas of the country and in the sectors where the previous experience. of social practices is richest and it has contributed to increase the social capital.

Even now the forms adopted by socially relevant activities are quite different. This variety has proved to be a indicator of vitality even though their growing dimension have increased the pressure for some kind of legal intervention. On the whole the attitude of the citizens involved in these social activities, and indeed of the public opinion, towards legal interventions in this field are traditionally mixed ; on the one hand it expresses a diffidence, historically motivated, toward the possible restraints ad reduction of the autonomy following from State intervention. On the other hand the need to perform more demanding tasks in wider areas of social services requires some kind of recognition, support and consequently control.

A clear definition of the area of social activities and enterprises is useful for analytical purpose ,but superimposing a legal definition may force reality. For this reason it seems wise to keep legal definitions as loose as possible. Indeed the international literature confirms that the term social enterprise covers a broad range of activities falling along a continuum between purely voluntaristic practices to for-profit business willing to demonstrate their social responsibility by some contribution to altruistic goals. A definition proposed by the EMES network in line with the European experience conceives the social enterprise as a private autonomous institution which is engaged in the supply of services and goods finalised to promote the general interest in a stable way.

3.The Italian legal experience has been on the whole respectful of the autonomy of social organizations including social enterprise. A somewhat comprehensive legal intervention has been firstly introduced for a specific type of social enterprise, namely the cooperative (art 2511 -2548 of the civil code, act 381/1991 on social cooperatives, act 142/2001 on workers cooperatives, Act 59 / 1992) The general concept of cooperative in Italy does not coincide with that of social enterprise, because the distinctive character of cooperatives is to promote the interest of their members (mutuality principle) while social enterprises according to Italian law pursue goals of general interest. However cooperatives share with social enterprises important features such as the prohibition to distribute profits, the importance of personal activity and participation in the life or the organization.. The forms of cooperative enterprises vary considerably according to the purpose and the stakeholders involved: consumers, home purchasers, farmers, workers, savers . Individual cooperatives are grouped in territorial and sectoral complex organizations topped by national confederations .The two major confederations represent 347160 cooperative enterprises(2009), most of small dimensions but many of considerable size The number of associate members amounts to 10.864850 and the workers employed to 909946. Their contribution to the GDP is estimated at about 6%.

The cooperative model of enterprise has proved successful not only in many areas of social services but also in economically competitive sectors, due to its specific characters , in particular to the primacy accorded to the collaborative association of people to further mutual aid and to promote common welfare and due to the consequent involvement and motivation of members. This old form of collaborative personal venture has confirmed its vitality also in our post fordist society. The European commission has acknowledged this modernity by stating that ‘there is a place in a modern mixed economy for a model of business that is driven by the needs of people who use its services rather than by those that invest their capital. Indeed such forms assist the efficient and sustainable functioning of the market‘ The vitality and competitiveness of the enterprise sector is being confirmed also during the present economic crisis; its performance, concerning both employment and production is proving better than that of the average Italian economy.

Social cooperatives are a special type of cooperatives and in Italy the most important example of

social enterprise According to the Act 381/1991 their peculiar character is to pursue the general interest of promoting the human development and social integration of citizens by performing services in the area of social and medical assistance, and education(cooperative type A) or by exercising entrepreneurial activities finalised to the employment of disadvantaged people (cooperative type B) .Large part of the activity of social cooperatives particularly of type B is performed on demand of public institutions , mainly local governments, and regulated by long term bilateral agreements. The cooperatives complying with the requisites of act 381 are considered as ONLUS and are entitled to the fiscal benefits granted to these bodies.

According to the last estimates the number of social cooperatives in 2005 amounted to 7363 employing more than 230000 salaried people and 32000 volunteers providing services for over 3 million citizens.

More recently the law has regulated other forms of social organizations , producing a rather complex and overlapping set of norms. Act 383/2000 regulates the ‘associations of social promotion ’, defined as those associations nursing common aims of non commercial nature in favour of members but also for promotion social solidarity and active participation of citizens; Act 460/1997 is concerned with the so called non lucrative organisations of social interest(ONLUS) a category relevant mainly for fiscal purposes to which may belong various kinds of organizations(associations, foundations ,cooperatives, NGO, organizations of volunteers) provided that they pursue goals of social relevance in certain sectors (social medical assistance education culture etc) and that do not distribute profit.

4.The latest interventions, by act 118/2005 and decree 155/2006, regulates specifically social enterprises. This regulation is not comprehensive and does not substitute the pre-existing norms mentioned above which remain valid for specific purposes ,mainly tax advantages. This choice confirm the attitude to refrain from too detailed interventions, so as to favour the autonomy of social enterprises. It remains to be seen however to what extent Act 118 will succeed in favouring the simplification of the present legal scenario and in promoting the further expansion of social enterprises.

A general innovation of act 118 is that it legally endorses the distinction between the concept of enterprise and the purpose to generate profit ; i.e. it recognizes in general the existence of enterprises with aims different from profit or better that use the result of their activity non to distribute profit but to promote social goals. The definition given of social enterprise is similar to that of EMES mentioned above and centred on the goals pursued by the activity not on the legal forms adopted . The Act confirms therefore the traditional approach whereby social enterprise may be organised in a variety of legal types, associations, foundations ,committees, cooperatives, companies, consortia . An important requisite is that these enterprises must perform stably and predominantly activities directed to produce or exchange goods or services ‘socially useful’ and to pursue aims of social interest .Predominantly means that the revenue of the social activity must be over 70% of the total .

The altruistic character of the social enterprises is required and reinforced by the provision that their profit must be devoted to the social goals or to the increase of the patrimony and may not be distributed neither directly nor indirectly to members (indirect distribution is .e.g. paying remunerations to workers and administrators higher than those paid by for profit enterprises for comparable posts in comparable sectors. The distribution of profit is prohibited also in case of merger and transformation of the enterprise. The Italian legislator has adopted such a strict limit to profit distribution, differently from other European laws, because it has considered that is the best instrument to guarantee the altruistic character of the enterprise. This limit has not prevented the economic growth of these enterprise. In the case of cooperatives, which share the same

restraints, their revenues have been invested so as to acquire considerable dimensions and financial

stability ; indeed they have been invested also in for-profit companies linked and controlled by the cooperative (which has given rise to some discussion about the actual boundaries of cooperative initiatives and their consistency with their mutualistic character)

The social value of these enterprises is determined indirectly by Act 118, which indicates a list of sectors where such a value is estimated to be particularly evident, almost presupposed: The list is so ample as to cover large part of social services and welfare activities ::social assistance, health services, education ,professional training , graduate and postgraduate education, environmental protection ,social tourism cultural activities , promotion of cultural goods and cultural assets. The act also includes services instrumental to social enterprises provided by entities or companies composed by over 70% of organizations running a social enterprise. The concept of socially valuable activities is even wider because social enterprises are recognised also outside these sectors provided that the enterprises promote the employment of disabled and disadvantaged persons (according to EEC regulation 2204/ 2002)

Some basic regulations are fixed by the law in order to guarantee that the functioning of the enterprise is consistent with its social mission ; many of these guarantees are common to other European experiences(see the findings of the European research network). These rules provide for the obligation to prepare periodically a social account according to the guidelines of the Ministry of Labour and welfare , following the opinion of the National Agency for the ONLUS, and to be publicised in a special register; to publicise financial reports according to the norms of the civil code (2216-2217). The autonomy of the enterprise is guaranteed by the fact that the majority of the governing body must be composed of members and by the provision whereby lucrative enterprises and public administrations are prohibited to direct and control social enterprises.

No specific regulation is provided concerning the type of governance: the structure of the social enterprise follows the rules applicable to the legal form adopted . The principle one man one vote which might be more in line with the ' non capitalistic' nature of the social enterprise, may be and is in fact adopted but is not imposed by law (as it is in the case of cooperative enterprises. The participation of the users and of the workers is promoted ,but in rather general terms (art 12 of decree 155), because it may consist in simple information and consultation procedures , not necessarily in co decision: moreover it is related only to enterprise decisions directly impinging on the quality of the goods and services produced and on the conditions of work.

The monitoring and control on social enterprise pertains to the Ministry of labour and welfare which must involve in this activity the social parties and specialised agencies.

Special regulations are provided in favour of the employees of the social enterprise . They are entitled to economic and normative conditions not inferior to those fixed by collective agreements and to participate to enterprise decisions in the form defined by the enterprise regulations or negotiated with workers representatives (this indication is not more precise than that adopted for the participation of users and of members. The work of volunteers in social enterprises is allowed within the limit of 50% of regular employees (the norm is a deterrent to avoid excessive use of volunteers often for people which should be regularly hired).

No fiscal advantages are attributed to the social enterprise per se : instead they may granted according to the norms applicable to the specific legal form adopted (particularly to the ONLUS).

5.The present regulations of social enterprises may need some simplification but certainly not any tightening.. The future development of these organisation, and of the third sector in general, depends. not by legal recognition but by some basic conditions, internal and external to their functioning, suggested by the international experience

-One external factor ,which has been already mentioned, is linked to the characters of the territories

where social enterprises live: their social capital , the social cohesion of the local communities and the quality of their administrations.

A second stimulating factor derives from the evolution of the demand and supply of social welfare.. On the one hand the growth and diversification of welfare needs, on the other hand financial and bureaucratic constraints which reduce the public provision of social services. The Italian case is no exception to a trend which is present in most developed countries. With an important specification. The rapid aging of the Italian population will increase the pressure on the welfare state and force a redistribution of resources from mainly monetary transfer (pensions) to the provision of personal services ,health and social assistance(both area of special interest for social enterprises)

Social enterprises are potentially capable of matching demand with supply of these services that neither public agencies nor for profit companies can address.. Social enterprises can provide personalised services of good quality at costs lower than those prevailing in the public and private markets because they can attract workers motivated by reasons other than simply monetary incentives.

This potential to become effective requires some decisive conditions which have to do with the internal quality of the enterprise.. The prohibition of profit distribution is only one possible requisite. The attractive power of social enterprise depends also and essentially by the quality of its management, and of its organization , in particular by the participative pattern of decisions, by the distribution of control and consequently by the possibility for workers and members to share common objectives, to exercise greater autonomy and to improve their personal relations.

Some research has confirmed the relevance of these factors for the enterprise performance and for the satisfaction of users and of workers. Given these conditions people involved in the enterprise show a greater stability and intensity of commitment to the common cause than those active in for-profit companies . Workers may accept relatively lower wages provided that an equitable distribution of resources is guaranteed.

6.The actual presence of these favourable conditions requires a caveat . It depends on the quantitative and qualitative dimension of the tasks assigned to social enterprises and in general to the third sector. In the last years their activity has expanded far beyond the traditional roles of helping relatively small and well defined groups of people, the marginal and most disadvantaged . Indeed the dimension of endangered groups has been growing ; new and old needs of assistance(personal and financial) have spread to large sectors of what was once the middle class. Nevertheless the prevailing assumption ,not only in Italy, remains that the role of the third sector is to complement not to substitute public welfare (national and local) in specific areas. This limitation of the field of action is itself being questioned by the retrenchment of the welfare state from the provision of many social services which were until recently the core of public welfare: universal social assistance, medic care, long term care for the eldest ,income protection in case of unemployment , not to speak of basic education and professional training. The prospects of this reduction of public interventions are uncertain ; even more so now that the severe economic crisis is widening the gap between social needs and public resources and is altering the very basis on which the social pact of the XX century was formed in most European countries. One of the critical issues for our future societies is precisely how to reframe this pact and the balance between public and private interventions in the various areas of social welfare.

. It is quite conceivable ,even likely, that this changing balance will exert an unprecedented pressure on social enterprises and on the third sector in general ,Their present structures are hardly equipped to face a similar pressure; most of them cannot mobilise the resource and the skills necessary to meet such a new dimension of social activities. Moreover the change of scale may challenge the capacity of social enterprises to reconcile the requirements of quality ,efficiency and costs as they have managed so far counting on the democratic participation and on the altruistic motivations of

their members.

Signs of these difficulties are already visible in many local practices . The relations with local governments on which many social enterprises depend are under stress. These local administrations, pressed by financial shortages, tend to externalize an increasing quantity of their social functions to the third sector; they often pretend from it reductions of costs to such an extent that they become more and more unbearable, and incompatible with an acceptable quality of service. The negotiating power of the third sector is being reduced to the point that it cannot adequately influence the final outcome of these services , even less it can contribute to innovate the direction and programming of the same services using the experience and the creativity of many of its actors. Long term programmes and strategies which are important in most social activities meet increasing difficulties due to the short term contracts imposed to social enterprises by local institutions which are themselves under financial and political constraints.

For these reasons many social entrepreneurs and voluntary organizations are experiencing a serious deterioration in the conditions of their work ,particularly in the most impoverished areas of Italy. They are also denouncing the unfair competition coming from other organisations formally pertaining to the third sector which offer services at prices drastically reduced obtained by lowering the quality and the wages and working conditions of their employees.

On the other hand the provision of some social services ,personal and long term care, medical treatment in particular, has attracted the interest of for profit organisations which address their offer mainly to people and communities which can afford to bear full fledged economic costs. Such a competition coming from the traditional business sector may alter the economic conditions in which social enterprise work and confine them to operate in the less rewarding sectors and most disadvantaged areas of the population.

These are open questions; they should stimulate a rethinking of the playing ground where social activities have so far been performed, of their role and of their relations with public institutions .Public schemes and funds have traditionally supported the formation and activities of the third sector in various forms (mainly tax exemptions or privileges and subsidies.). The type and direction of these public interventions need to be re-examined in the light of the new challenges. Not only national but international support is necessary. The European union has recognised the need to provide for more stable and predictable funding and support instruments ,for adequate protection of social institutions and also for promotion systems organised preferably at the local level (including consultancy agencies for business development and management training). The forms may vary but the reasons for such a support are still valid ,or even more so given the economic and social turbulence of present times. The value of individual and group participation to social activities is a precious asset in present society ,necessary to meet not only material needs of the population but to reinforce social cohesion and solidarity which is being threatened by centrifugal and individualistic pressures.