

# Social Enterprise

New organizations, driven by an entrepreneurial spirit but focused on social aims, are emerging throughout Europe. This important new text develops a comparative European analysis within a multidisciplinary framework to explore social enterprises. Breaking new ground, *Social Enterprise* combines theory with a rigorous analysis of 160 social enterprises across 11 EU countries to provide the reader with a thorough understanding of these complex organizations.

The text is structured around a number of key themes (multiple goals and multiple stakeholders, multiple resources, trajectories of workers, public policies) and developed through a pan-European analysis. Each theme is illustrated with short country experiences that reflect the diversity of welfare models across Europe. *Social Enterprise* is essential reading for all those who want to learn more about social enterprise.

**Marthe Nyssens** is a professor at the Department of Economics of the Catholic University of Louvain, Belgium, where she is the co-ordinator of a research team on third sector and social policies (CERISIS). All the contributors are members of the EMES European Research Network ([www.emes.net](http://www.emes.net)).

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# **Social Enterprise**

At the crossroads of market,  
public policies and civil society

**Edited by Marthe Nyssens**

with the assistance of

Sophie Adam and Toby Johnson

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Marthe Nyssens

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# Introduction

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# 1 Defining social enterprise

*Jacques Defourny and Marthe Nysens*

## Overview

The objectives of this chapter are to outline the concept of 'social enterprise' as used in this book and to compare it with other approaches. The core hypotheses and the empirical field of the research project upon which this book is based are also presented. After reading this chapter, the reader should:

- have an understanding of the different approaches to the concept of social enterprise;
- identify the core hypotheses around which the research project is articulated;
- identify the subset of social enterprises on which the research project is based, namely work integration social enterprises (WISEs).

## 1 The origin of the concept of 'social enterprise' and its evolution

The increasing acknowledgement of the third sector in Europe, together with the broader interest in non-conventional entrepreneurial dynamics addressing current challenges, led to the emergence of the new concept of 'social enterprise'. Whereas a dozen years ago this concept was rarely discussed, it is now making amazing breakthroughs on both sides of the Atlantic. In the US, it first met with a very positive response in the early 1990s<sup>1</sup>. In 1993, Harvard Business School launched the 'Social Enterprise Initiative', one of the milestones of the period. Since then, other major universities – including Columbia, Stanford and Yale – and various foundations have set up training and support programmes for social enterprises or social entrepreneurs.

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However, in the United States the social enterprise remains a very broad and often quite vague concept, referring primarily to market-oriented economic activities serving a social goal. The social enterprise is then viewed as an innovative response to the funding problems of non-profit organizations, which are finding it increasingly difficult to solicit private donations and government and foundation grants (Dees 1998). The concept is also used to highlight the innovative side of certain types of projects, as well as the financial risks they are taking (Young 2001). In this latter case, the concept of social enterprise includes a wide spectrum of organizations, from for-profit business engaged in socially beneficial activities (corporate philanthropy) to non-profit organizations engaged in mission-supporting commercial activity (Kerlin 2005).

In Europe, the concept made its first appearance in the early 1990s, at the very heart of the third sector, following an impetus that was first Italian, linked closely with the co-operative movement. More precisely, in 1991, the Italian parliament adopted a law creating a specific legal form for 'social co-operatives'; the latter went on to experience an extraordinary growth. These co-operatives arose primarily to respond to needs that had been inadequately met, or not met at all, by public services (Borzaga and Santuari 2001).

In a second phase, European researchers noticed the existence of similar initiatives, though of a substantially lesser magnitude, and taking a variety of labels and legal forms, in various other European countries. In 1996, some of these researchers decided to form a network to study the emergence of social enterprises in Europe. Covering all of the 15 countries that then made up the European Union, this group, named the EMES European Research Network, carried out its initial research work over a four-year period and gradually developed a common approach to the study of social enterprises (Borzaga and Defourny 2001).

In 2002, there was a sudden acceleration of the debate around social enterprise in the United Kingdom. The Blair government launched the 'Social Enterprise Coalition' and created a 'Social Enterprise Unit' to improve the knowledge of social enterprises and, above all, to promote social enterprises throughout the country. Within the same framework, the Department of Trade and Industry, which supervises the Unit, has put forward its own definition of social enterprise and a new legal form, the 'Community Interest Company', was voted by Parliament in 2004. Even though the concept of social enterprise is still imprecise in British usage, two characteristics appear to form part of the identity of this kind of enterprise: they are driven primarily by social objectives and they achieve sustainability through trading (DTI 2002).

In the European public debate, the concept may have various meanings. One school of thought stresses the social entrepreneurship dynamic exemplified by firms that seek to enhance the social impact of their productive activities. In this area, the literature quite often highlights the innovative

approach to tackling social needs that is taken by individuals in fostering business (Grenier 2003), mainly through non-profit organizations, but also in the for-profit sector (Nicholls 2005).<sup>2</sup> In this latter case, this idea has to do, at least partially, with the ‘corporate social responsibility’ debate. Another stream only uses the concept of social enterprise for organizations belonging to the third sector and therefore builds on the specificities of the latter. In such social enterprises, generally of the non-profit or co-operative type, the social impact on the community is not only a consequence or a side-effect of economic activity, but its motivation in itself. The previous EMES book, *The Emergence of Social Enterprise* (Borzaga and Defourny 2001), paved the way for such a framework and this book relies on the same ‘building blocks’.

Social enterprises have been defined by the EMES Network as organizations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. Social enterprises also place a high value on their autonomy and on economic risk-taking related to ongoing socio-economic activity.

### **The EMES definition of social enterprise**

The EMES definition distinguishes between, on the one hand, criteria that are more economic and, on the other, indicators that are predominantly social. These indicators, such as they can be found in the works published by the Network,<sup>3</sup> are presented below.

To reflect the economic and entrepreneurial dimensions of initiatives, four criteria have been put forward:

- a) *A continuous activity, producing and selling goods and/or services*  
Social enterprises, unlike some traditional non-profit organizations, do not normally have advocacy activities or the redistribution of financial flows (as do, for example, grant-giving foundations) as their major activity, but they are directly involved in the production of goods or the provision of services to people on a continuous basis. The productive activity thus represents the reason, or one of the main reasons, for the existence of social enterprises.
- b) *A high degree of autonomy*  
Social enterprises are created by a group of people on the basis of an autonomous project and they are governed by these people. They may depend on public subsidies but they are not managed, directly or indirectly, by public authorities or other organizations (federations, for-profit private firms, etc.). They have the right to take up their own position (‘voice’) as well as to terminate their activity (‘exit’).

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- c) *A significant level of economic risk*  
Those who establish a social enterprise assume – totally or partly – the risk of the initiative. Unlike most public institutions, their financial viability depends on the efforts of their members and workers to secure adequate resources.
- d) *A minimum amount of paid work*  
As in the case of most traditional non-profit organizations, social enterprises may combine monetary and non-monetary resources, volunteering and paid workers. However, the activity carried out in social enterprises requires a minimum level of paid work.

To encapsulate the social dimensions of the initiative, five criteria have been proposed:

- e) *An explicit aim to benefit the community*  
One of the principal aims of social enterprises is to serve the community or a specific group of people. In the same perspective, a feature of social enterprises is their desire to promote a sense of social responsibility at local level.
- f) *An initiative launched by a group of citizens*  
Social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a well-defined need or aim; this collective dimension must be maintained over time in one way or another, even though the importance of leadership – often embodied in an individual or a small group of leaders – must not be neglected.
- g) *Decision-making power not based on capital ownership*  
This generally refers to the principle of ‘one member, one vote’ or at least to a decision-making process in which the voting power in the governing body with the ultimate decision-making rights is not distributed according to capital shares. Moreover, although the owners of the capital are important, decision-making rights are generally shared with the other stakeholders.
- h) *A participatory nature, which involves the various parties affected by the activity*  
Representation and participation of users or customers, stakeholder influence on decision-making and participative management are often important characteristics of social enterprises. In many cases, one of the aims of social enterprises is to further democracy at local level through economic activity.
- i) *Limited profit distribution*  
Social enterprises not only include organizations that are characterized by a total non-distribution constraint, but also organizations which – like co-operatives in some countries – may distribute profits, but only to a limited extent, thus avoiding profit-maximizing behaviour.

Source: Defourny 2001: 16–18.

It has to be underlined that, rather than constituting prescriptive criteria, these indicators describe an 'ideal-type' that enables researchers to position themselves within the 'galaxy' of social enterprises. Without any normative perspective, they constitute a tool, somewhat analogous to a compass, which can help the researchers locate the position of certain entities relative to one another, and which may enable researchers to establish the boundaries of the set of organizations that they will consider as that of social enterprises.

## **2 The concept of social enterprise: a bridge between co-operatives and non-profit organizations**

Several concepts have been used to define a set of organizations and initiatives that are neither public nor private for-profit ones. It may be said that two theoretical approaches to the third sector have gradually spread internationally, accompanied by statistical work aiming to quantify its economic importance.<sup>4</sup> On the one hand, the 'non-profit school' approaches this sector via the statutory ban on the distribution of profits in these organizations. On the other hand, the concept of the 'social economy', which brings together co-operatives, mutual societies and associations (and, with increasing frequency, foundations), stresses the specificity of the mission of these organizations, namely, their aim to benefit either their members or a larger collectivity rather than generating profits for investors. This approach also highlights the presence of a democratic decision-making process within the organizations and the prevalence of people and labour over capital in the distribution of incomes. Our approach to the social enterprise does not seek to supplant existing concepts of the third sector – such as the concepts of the social economy, the non-profit sector or the voluntary sector. Rather, it is intended to enhance third sector concepts by shedding light on *particular dynamics within this sector*.

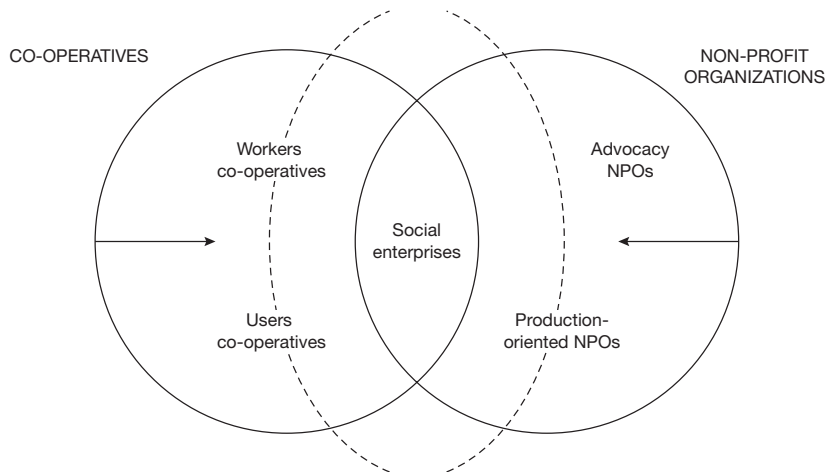
Theoretically, the social enterprise concept can also be seen as a tool for building bridges between distinct components of the third sector. As a matter of fact, when apprehending the third sector, two sources of tension appear to be recurrent and sometimes difficult to overcome. One source of tension originates in the gap between enterprises offering their entire output for sale on the market (as do most co-operatives), on the one hand, and associations whose activities are usually deemed to have a weak economic character (such as youth movement activities) and whose resources are totally 'non-market' (grants, subsidies, etc.), or even non-monetary (volunteering), on the other hand. A second tension arises between mutual interest organizations (co-operatives, mutual societies and a large number of associations) which, at least in principle, aim to serve their members, and general interest organizations, serving the broader community (such as organizations combating poverty and exclusion, or those involved in development co-operation, environmental protection and so on).

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These two sources of tension are partly illustrated in Figure 1.1. The first source of tension is represented by the coexistence of two quite distinct spheres: the left sphere represents the co-operative tradition (which has generated a specific literature and schools of thought); the right sphere represents the tradition of associative initiatives and movements (which has also inspired numerous sociologists and political scientists and found particular impetus in North American research works on non-profit organizations). The second source of tension may also be discerned in this figure, although only partly: it is found within each of the two spheres, where general interest organizations tend to be located towards the centre, whereas mutual interest organizations tend to be located either on the left or on the right of the diagram (although some advocacy non-profit organizations may, of course, be of general interest).

The unifying role of the social enterprise concept resides primarily in the fact that it generates a mutual attraction between the two spheres. It accomplishes this by attaching itself to certain organizations within each sphere; these organizations are then drawn to and included in a single group of organizations, because they are, in the last analysis, very close to each other, and whether they choose a co-operative legal form or an associative legal form depends primarily on the legal mechanisms provided by national legislations.

On the one hand, compared to traditional associations, social enterprises place a higher value on economic risk-taking related to an ongoing productive activity (in the world of non-profit organizations, production-oriented associations are certainly closer to social enterprises than are



*Figure 1.1* Social enterprises, at the crossroads of the co-operative and the non-profit sectors

Source: adapted from Defourny (2001: 22)



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advocacy organizations and grant-making foundations). On the other hand, in contrast to many traditional co-operatives, social enterprises may be seen as more oriented to the whole community and putting more emphasis on the dimension of general interest. Moreover, social enterprises are said to combine different types of stakeholders in their membership, whereas traditional co-operatives have generally been set up as single-stakeholder organizations. These contrasting elements, however, should not be over-estimated: while social enterprises as we have defined them are in some cases new organizations, which may be regarded as constituting a new subdivision of the third sector, in other cases, they result from a process at work in older experiences within the third sector. In other words, it can be said that the generic term 'social enterprise' does not represent a conceptual break with institutions of the third sector but, rather, a new dynamic within it – encompassing both newly created organizations and older ones that have undergone an evolution. Such a dynamic perspective explains why the landscape of social enterprises can only be suggested by dotted lines.

Finally, although most social enterprises take the form of co-operatives or associations, there is nothing to prevent them from adopting other legal forms. This is even truer in countries that have designed completely separate legal forms for at least some social enterprises, such as the new 'community interest company' legal form in the United Kingdom. This explains why the set of social enterprises in our diagram goes beyond the frontiers of both spheres. As to the intersection between the latter, it can be illustrated by new legal frameworks combining a limitation on the distribution of profit and the major features of the co-operative legal form. The 'co-operative society of collective interest' (*société coopérative d'intérêt collectif*) in France, the 'social purpose company' (*société à finalité sociale* or *vennootschap met sociaal oogmerk*) in Belgium and the pioneering Italian legal form for 'social co-operatives' (*cooperative sociali*) may be analysed along such lines.

### **3 Three key research questions**

The above-mentioned previous book by the EMES Network traced the most significant developments in social enterprises emerging in Europe (Borzaga and Defourny 2001). The final chapters of that book also presented an initial attempt to outline a theory of social enterprise: according to these contributions, an 'ideal-typical' social enterprise could be seen as a 'multiple-goal, multi-stakeholder and multiple-resource enterprise'. However, these theorized features remained untested and paved the way for further research. The main objective of the PERSE<sup>5</sup> research project, upon which this book is based, was to explore more deeply such hypotheses and to further develop a theory of social enterprise through a comparative analysis of social enterprises in Europe.

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More precisely, the research project was articulated around three main theoretical axes:

1 Social enterprises usually have a complex mixture of goals (Evers 2001). The first hypothesis put forward in this research project regarding social enterprises' mission is that the latter would include at least three different categories of goals: social goals, connected to the particular mission of social enterprises to benefit the community; economic goals, related to the entrepreneurial nature of social enterprises; and socio-political goals, referring to the fact that social enterprises are often rooted in a 'sector' traditionally involved in socio-political action. This last goal can be analysed in the wider perspective of 'producing social capital', where social capital is understood as referring to 'features of social organizations such as networks, norms and trust that facilitate co-ordination and co-operation with mutual benefit' (Putnam 1993). Concretely, the pursuit of a 'social capital goal' by social enterprises may translate not only into a will to co-operate with economic, social and political actors through the development of various networks but also into the implementation of democratic decision-making processes, in specific working conditions (flat hierarchy, workers' participation, trusting atmosphere, etc.), or in the promotion of volunteering (Davister 2004). As a matter of fact, within these organizations, the production and mobilization of social capital can be goals in themselves and not only tools/instruments for achieving other objectives (Evers 2001).

Moreover, regarding these multiple goals, another hypothesis had been put forward: multi-stakeholder ownership (Bachiega and Borzaga 2001) might be an efficient way for social enterprises to achieve their overall mission, and the representation of different types of stakeholder on the board might be a way to combine the various goals of the enterprise, thanks to the various sensibilities of the stakeholders.

2 The second hypothesis put forward in this project was that social enterprises mobilize different kinds of market and non-market resources to sustain their public benefit mission: they trade goods and services in the market; public financing generally supports their public benefit mission; and, finally, social enterprises can also rely upon volunteer resources. These latter resources could be seen as a result of the mobilization of social capital. According to Laville and Nyssens (2001), social capital is a fully fledged production factor within social enterprises since it is part of the production process and it improves it, mainly by reducing the transaction costs (trust among the agents makes co-ordination easier and increases their motivation) and by reducing the production costs (by the use of donations, volunteers and a better involvement of users). By following Polanyi (1944) and his 'substantive approach' to the economy, we argue that social enterprises combine the economic principles of market, redistribution and

reciprocity and hybridize these three types of economic exchange so that they work together rather than in isolation from each other.

3 Social enterprises are embedded in the political context. Public policies in the field of social enterprises are the result of interactions between the promoters of the latter and representatives of public bodies. We put forward the hypothesis that this dynamic of institutionalization can lead to the development of innovative public schemes and at the same time to a movement of 'isomorphism' on the part of social enterprises, towards public organizations or for-profit enterprises.

These core ideas can be examined within the landscape of theories seeking to explain the behaviour and the 'raisons d'être' of third sector organizations as well as of the (quite limited) existing literature dealing specifically with social enterprises. Coupled with the EMES criteria discussed above, our hypotheses propose a theoretical corpus that is really specific to social enterprises, although it still needs empirical support. More precisely, compared to the dominant approach of the rationale of social enterprises in the US and UK contexts, such hypotheses may be seen as innovative on four central points.

First, our framework emphasizes the multidimensional mode of governance of social enterprises. As Young and Salamon state: 'In Europe, the notion of social enterprise focuses more heavily on the way an organization is governed and what its purpose is rather than on whether it strictly adheres to the non-distribution constraint of a formal non-profit organization' (2002: 433). This point of view is, indeed, richer than that based solely on the non-distribution constraint or the limitation on profit distribution, which constitutes the central feature on which the greatest part of the non-profit literature has been built (Hansmann 1980). As a matter of fact, although our definition of social enterprise also includes this feature by its 'limited profit distribution' criterion, it goes further than that, by incorporating other aspects that are central to characterising social enterprise's governance structure. These include, among other aspects, the existence of a collective dynamic of entrepreneurship involving people belonging to a community or to a group that shares a well-defined need or aim. This view also contrasts with the emphasis put on social entrepreneurship (Dees 2001), 'which reflects a shift towards focusing on individuals and away from traditional emphasis on the community and collective found in community development and the co-op movement' (Grenier 2003: 4). Our approach does not exclude the possibility for some leader or charismatic entrepreneur to play a key role in the enterprise, but generally these persons are supported by a group whose members are responsible for the public benefit mission of the social enterprise. The EMES definition also stresses the involvement of different stakeholders in the governance of the organization through formal channels (membership of the board) or less formal ones. To that

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extent, we can argue that our approach to social enterprise remains more in line with and rooted in the third sector literature, especially that part of it focusing on community development and the social economy.

A second important point of divergence between our framework of analysis and most literature on social enterprise is the fact that, in our approach, the economic dimension does not necessarily mean that the social enterprise must achieve economic sustainability through a trading activity. Indeed, even if 'definitions of social enterprise differ in terms of the amount of the income that must be generated through trading' (Haugh 2005: 3), a clear emphasis is generally put on the importance of resources coming from commercial activities, as the DTI stresses: 'A social enterprise is, first and foremost, a business. That means it is engaged in some form of trading, but it trades primarily to support a social purpose' (DTI 2002: 13). On the contrary, our central idea is rather that the financial viability of the social enterprise depends on the efforts of its members to secure adequate resources to support the enterprise's social mission, but these resources can have a hybrid character and come from trading activities, from public subsidies and from voluntary resources obtained thanks to the mobilization of social capital.

The third point is related to the nature of the production activity of the social enterprise. Although this is not explicitly mentioned in the EMES list of criteria, the production of goods and/or services should, in itself, constitute (not only indirectly, through the income it generates) a support for the social mission. In other words, the nature of the economic activity must be connected to the social mission: if the mission of the social enterprise is to create jobs for low-qualified people, the economic activity itself supports the work integration goal; if the mission of the social enterprise is to develop social services, the economic activity is the delivery of these social services, and so on. By contrast, in the US or UK conception of the social enterprise, the trading activity is often considered simply as a source of income, and the nature of the trade does not matter (Dees 1998).

Finally, an innovative aspect of our framework stems from the analysis of the interactions between the organizations and public policies. This question has traditionally been approached through the analysis of organizations (DiMaggio and Powell 1983). From this perspective, the objectives and practices of organizations are partially shaped by their external environment, which includes the legal and regulatory framework within which they operate. Such a perspective fails to take into account a fundamental fact that the PERSE research project sought to explain in its analysis: the relationship between social enterprises and public policies is not one-sided, and social enterprises are not mere 'residual' actors, filling the gaps left by the market or the state and under the control of public regulation. Social enterprises actually also influence their institutional environment, and they have contributed to the development and shaping of institutions and public policies.

Social enterprises can be said to be located in an intermediate space (Evers and Laville 2004), at the crossroads of market, public policies and civil society. Even though the concept of civil society is rather polysemic, most analysts would probably agree that it refers, today, to actors who belong to

the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated.

(LSE 2004)

This way of considering social enterprises contrasts with the usual representation, emerging from third sector literature, of a 'residual sector' facing market and government failures (Steinberg 2004) and tending to 'put the state, the market and the third sector in separate boxes' (Lewis 2004: 172). Social enterprises mix different logics: they trade in the market, but not with an aim of maximizing the financial return on investment for their shareholders; they receive public support through public policies which they contribute to shaping; they are embedded in civil society through the development of voluntary collective action around common goals characterized by a public benefit dimension.

#### **4 Work integration social enterprises (WISEs) in Europe: a wide spectrum of organizations in different countries**

Social enterprises are active in a wide variety of fields, including the fight against the structural unemployment of groups excluded from the labour market, personal social services, urban regeneration, environmental services, and the provision of other public goods or services. However, in order to develop our analysis on a reliable empirical base, we have had to focus on a rather limited field of activity that has allowed meaningful international comparisons and statistical analysis. In this perspective, we have chosen the field of 'work integration', which is emblematic of the dynamics of social enterprises and constitutes a major sphere of their activity in Europe. The major objective of 'work integration social enterprises' (WISEs) is to help disadvantaged unemployed people, who are at risk of permanent exclusion from the labour market. They integrate them back into work and society, in general through productive activity.

The persistence of structural unemployment among some groups, the difficulties traditional active labour market policies face in integrating them and the need for more active integration policies have naturally

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raised questions as to the role that social enterprises can play in combating unemployment and fostering employment growth. Indeed, although the rate of employment<sup>6</sup> varies greatly among European countries (with high rates of participation in the UK and Nordic countries and the lowest ones in Spain, Italy and Belgium), all EU countries are characterized by low rates of employment for some groups, for instance women, non-European workers, older people and/or low-skilled workers (see Table 1.1). For example, in all countries except the Nordic countries and Portugal, among people with at most a lower secondary education, less than one person out of two is working. Women's employment rates are very low in Italy and Spain. Rates of employment of non-European people are low everywhere, even in the Nordic countries.

If we now look at WISEs, they are clearly unevenly distributed throughout Europe. In some countries (such as Italy), there are thousands of organizations active in the field of work integration of long-term unemployed and disadvantaged people. In other countries the number of work integration social enterprises is relatively low. There is also a significant heterogeneity – both among countries and within each country – in the ways WISEs function. There are great variations, finally, as to WISEs' activities, origins, legal forms and level of visibility, and as to the public schemes supporting them. But WISEs are basically present in all European countries and are thought of as important tools of active labour market policies.

*Table 1.1* Rates of employment in EU countries (population from 15 to 65 years old) (%)

<i>Country</i>	<i>Rate of employment</i>	<i>Rate of employment of women</i>	<i>Rate of employment of non-European people</i>	<i>Rate of employment of people between 50 and 64 years old</i>	<i>Rate of employment of people with at most a lower secondary education (population under 60)</i>
Belgium	59.7	51.3	30.4	41.2	42.4
Denmark	76.4	72.6	49.7	67.2	61.9
Finland	69.1	67.0	54.6	60.8	51.1
France	62.9	56.6	43.4	51.6	47.8
Germany	65.4	58.9	51.0	50.4	43.8
Ireland	65.0	55.3	58.5	55.3	48.1
Italy	55.4	42.1	n/a	40.4	46.5
Portugal	68.6	61.1	76.1	59.7	67.9
Spain	58.4	43.8	67.2	47.3	53.7
Sweden	74.0	72.5	49.6	74.0	59.2
UK	71.5	65.1	57.2	62.2	48.6
EU	64.2	55.2	52.6	52.0	50.1

Source: European Social Statistics – Labour force survey results 2002.

In one of its previous research projects, the EMES Network identified 44 different types of WISE<sup>7</sup> (see Appendices 1 and 2 to this chapter). All these address, through various modes of integration, the problems of long-term unemployment and occupational inactivity of disadvantaged people in the labour market. Davister *et al.* (2004) have identified four main groups, which they describe as follows.

The first group includes enterprises offering occupational integration supported by permanent 'subsidies'. This group includes mostly the oldest forms of WISE, i.e. those for the handicapped. These organizations exist in most European countries and aim to remedy the discrepancy between the productivity required by the 'classical' labour market and the capacities of the handicapped. Nowadays, these organizations, most of which are recognized and subsidized by public authorities, offer open-ended work contracts. Owing to their increasing professionalization, these WISEs generally mobilize few volunteers, and the share of their resources that comes from the market is ever-increasing. Among these WISEs, we can mention sheltered employment (Ireland and Portugal), sheltered workshops (Belgium and Denmark) and the Samhall network of sheltered workshops (Sweden). Work care centres and social workshops (Belgium) also belong to this group; it should be mentioned that these two types of WISE are practically the only organizations in Europe offering sheltered employment to people considered as socially handicapped, although with no mental or physical disabilities.

A second group is constituted by the types of WISE that provide permanent, self-subsidized employment, i.e. stable jobs, economically sustainable in the medium term, to people who are disadvantaged in the labour market. In the initial stage, public subsidies are granted to make up for the lack of productivity of the target group. These subsidies are often temporary, and they taper off until the workers become competitive in the mainstream labour market. After this subsidized stage, these WISEs must pay the workers in integration from their own resources. These initiatives, which include community businesses and social firms in the UK and social firms and some types of co-operatives in Germany, are generally of more recent origin than sheltered workshops. Most often, they offer open-ended work contracts. The pressure to be profitable is, here, generally higher than in any other type of WISE.

A third, large group comprises the types of WISE that mostly aim to (re)socialise people through productive activities. We can, for example, mention centres for adaptation to working life in France, sheltered employment centres in Spain and social co-operatives in Sweden. These WISEs target able-bodied workers with serious psycho-social problems or handicapped people. They generally do not provide real work but, rather, sheltered employment, and not a work contract as such (food and, most



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often, shelter in exchange for work, for example). Volunteering is significant and resources from the market are rather limited.

The fourth group – the largest among the WISEs studied – comprises initiatives offering transitional employment or traineeships. These enterprises, even though they all share a common goal – namely, to help workers in integration find work in the mainstream labour market – are sometimes very different in the way they implement this goal. For example, Belgian on-the-job training enterprises offer qualifying training, while French work integration enterprises provide a real job, of one year's duration. These differences generate a different mobilization of resources. Some of these WISEs survive nearly exclusively on subsidies. Conversely, others are practically independent of any public subsidy. The importance of volunteering also varies greatly. The handicapped or people with serious social problems are generally not targeted by these organizations. The main reason for this is that the goal in these WISEs is a relatively quick reintegration of the workers into the mainstream labour market. Consequently, most work or traineeship contracts are fixed-term contracts. We can include in this fourth group labour co-operatives (Finland), temporary work integration enterprises (France), intermediate labour market organizations (UK) and local community enterprises offering traineeship and temporary work integration (Denmark).

Finally, it should be mentioned that several types of WISE are difficult to classify in any of these four main groups because they implement simultaneously several modes of integration. For example, B-type social co-operatives in Italy and neighbourhood enterprises in France pursue several integration goals for very varied target groups.

## 5 The sample of the PERSE project

Empirical evidence on WISEs in the EU countries exists, but almost all available information is limited to basic quantitative data (number of enterprises, of workers employed, of consumers). Unfortunately, very limited information is available on the way in which social enterprises operate, on how they mobilize and mix productive resources, on their mode of governance and on the quality of the jobs provided. To develop our research questions, 162 WISEs, located in 11 European countries,<sup>8</sup> were selected.

It was decided to leave aside social enterprises for the disabled, which pioneered the field in the 1960s, in a majority of European countries. As a matter of fact, in most cases, these initiatives have been heavily regulated by public bodies and now constitute a field of their own. However, some WISEs integrate disabled persons besides other persons who are at risk of permanent exclusion from the labour market; this kind of organization is represented in our sample.



### **The sampling of work integration social enterprises for the PERSE project**

For the empirical research of the PERSE project, we selected a subset of 15 work integration social enterprises (WISEs) to be studied in depth in each country.

Former studies (such as Borzaga and Defourny 2001) have clearly shown that the field of WISEs is more complex than the ideal-type of social enterprise depicted by the EMES criteria might suggest. Given this heterogeneity, the choice of the 15 cases was guided by the following rationale.

The first criterion was the representativeness of the WISE (even though it did not fully reflect the EMES criteria) in the whole landscape of WISEs of the country. Far from being rooted in statistical theory, such a representativeness could be linked to the fact that WISEs of this type:

- were numerous or were growing in number or social importance;
- represented a major path of organizational development;
- were typical with respect to national or regional labour market policies or social actors' strategies.

A second criterion was the closeness of the WISE to the ideal-type of social enterprise described by the EMES criteria, although it appeared necessary not to be too rigid in applying these criteria: for example, an organization could (still) be close to the EMES criteria, but it could also happen that *some* distinctive elements, which had been present in the beginning of the organization, had subsequently faded away.

The sample constituted in this way is not statistically representative. It includes, in addition to WISEs typical of each country, some WISEs that are not necessarily typical but which appear to be good examples of the ideal-type of social enterprise.

The WISEs in the sample are active in a wide spectrum of activities (see Table 1.2). Some WISEs produce public goods, i.e. goods that are non-rival in consumption (the use of the good by one person does not prevent its use by others) and non-excludable (there is a technical difficulty in charging individuals for the consumption of the good or the service). This is a well-known case of market failure, which implies intervention by the state. Therefore, it is not surprising that these WISEs rely, for their financing, on contracts with public bodies. Eighteen per cent of

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Table 1.2 Type of production of WISEs\*

<i>Type of production</i>	<i>No. of WISEs</i>	<i>Percentage of WISEs</i>
Social services	29	19
Recycling	28	18
Services for enterprises	19	12
Personal services	14	9
Gardening and urban regeneration	12	8
Processing industry	10	6
Building industry	9	6
Restaurants and hotels	8	5
Traffic and telecommunication	7	5
Culture and leisure	7	5
Education	5	3
Commerce	3	2
Placement services	3	2
Agriculture	1	1
Total	155	100
n/a	7	

\*The data in the tables in this book come from PERSE database if not specified.

the WISEs in the sample are active in recycling and 8 per cent in gardening and urban regeneration (not all the activities in this latter sector are public goods; for example, gardening in a private house is not).

Other WISEs produce individual goods or services, i.e. goods whose consumption is clearly divisible, such as restaurant or childcare services. However, we can make a further distinction, among individual goods and services, between pure private goods and quasi-public goods. The latter, despite their divisible nature, give rise to collective benefits beside the private benefits; they produce collective externalities, i.e. the activity of the WISE has indirect effects that affect the whole community.<sup>9</sup> For example, childcare services produce private benefits for the child's parents and, at the same time, they produce positive impacts on the community by facilitating the access of women to the labour market, by fostering social cohesion in distressed areas, and so on. For these reasons, childcare can be considered as a quasi-public good. Some goods or services are also quasi-public goods as a result of the type of consumers addressed. For example, a restaurant for needy people which sells its products at low prices produces a quasi-public good. As a consequence of these externalities, market mechanisms cannot produce an optimal level of this kind of good. This is the rationale behind the public regulation of social services. Nineteen per cent of WISEs in the sample are active in social services (childcare, elderly care, second-hand shops for needy people, delivery of meals, shopping, transport for people with reduced mobility, etc.). Three per cent of WISEs are active in the education sector and 5 per cent in the culture and leisure sector (community centres, theatres, recreation

centres, tourism projects, etc.). Some of these latter services can be considered as quasi-public goods. Therefore, it can be considered that more or less one-quarter of WISEs produce quasi-public goods.

The remaining WISEs produce pure private goods. Twelve per cent of them deliver services to enterprises (subcontracting, industrial cleaning, developing infrastructure for enterprises, consultancy, etc.). Nine per cent provide personal services (house cleaning, shopping, etc.) to households. Unlike social services, these personal services do not produce, at least not to the same degree, collective benefits. The 'traffic and telecommunication' sector includes services such as transport (taxis, bus, etc.) and information technology services, messaging and radio – 5 per cent of WISEs in the sample are active in this field. Other sectors are the building industry and the processing industry (wood, clothing, painting, carpentry, metal, etc.), restaurants and hotels, commerce, placement services, agriculture. All these activities can be considered as private goods.

## **6 Plan of the book**

The book is divided into four parts. The first two parts focus on the rationale underpinning social enterprises such as it emerged from the analysis of the information collected on 162 European social enterprises. The third part analyses the profiles and trajectories on the labour market of a sample of almost 1,000 WISE participants. Finally, the role of public policies is at the core of Part IV. In each part, one or two chapters are devoted to transversal European analysis. These transversal chapters are illustrated by shorter chapters focusing on specific countries that reflect the diversity of social enterprise patterns and welfare models across Europe.<sup>10</sup>

Part I is devoted to the analysis of the governance of social enterprise. According to our 'multiple goals – multiple stakeholders' hypothesis, the analysis of Campi, Defourny and Grégoire (Chapter 2) aims to elucidate the specific objectives WISEs pursue and the role the involvement of stakeholders plays within them. More specific insights into this twofold dimension of WISEs are proposed by Hulgård for Danish social enterprises (Chapter 3), by Bucolo for French social enterprises (Chapter 4) and by Borzaga and Løss for Italy (Chapter 5). As social capital may be seen not only as a resource, but also as a goal of the social enterprise, Hulgård and Spear (Chapter 6) analyse its key role for social entrepreneurship. They adopt an institutional perspective, based upon the premise that social capital must be examined in the context of changing institutional configurations.

Contributions to Part II analyse how social enterprises mix different kinds of resources to sustain their multiple goals. Gardin (Chapter 7) invites the reader to go beyond the approach according to which these enterprises mobilize only two types of resources: market resources, like any enterprise,

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and non-market resources from the public sector, aimed at making up for the lack of productivity and the guidance and training needs of their workers in integration. According to the hypothesis put forward, European social enterprises use a complex mix of resources based on four types of economic relations: the market, redistribution, but also the socio-politically embedded market and reciprocity. More specific analysis of the resource mix of WISEs is proposed for Irish WISEs by O'Shaughnessy in Chapter 8, for Spanish WISEs by Vidal and Claver in Chapter 9 and, finally, for Finnish social enterprises by Pättiniemi in Chapter 10.

The major objective of WISEs is to integrate people who are at risk of permanent exclusion from the labour market back into work, and society in general, through productive activity. Therefore, Part III is devoted to the analysis of the data that have been collected regarding the profiles and trajectories of 949 disadvantaged workers who entered European WISEs in 2001. Borzaga and Loss (Chapter 11) examine the profiles of these workers with a particular focus on their employment experience and on the channels of entry to the social enterprises. Afterwards, they identify their different integration paths. This flow analysis grasps the evolution in the personal condition of the disadvantaged workers, particularly in terms of income and human capital. Country analyses regarding the trajectories of beneficiaries of WISEs are developed for Portugal by Perista and Nogueira in Chapter 12, for Sweden by Stryjan in Chapter 13 and for Belgium by Nyssens and Platteau in Chapter 14.

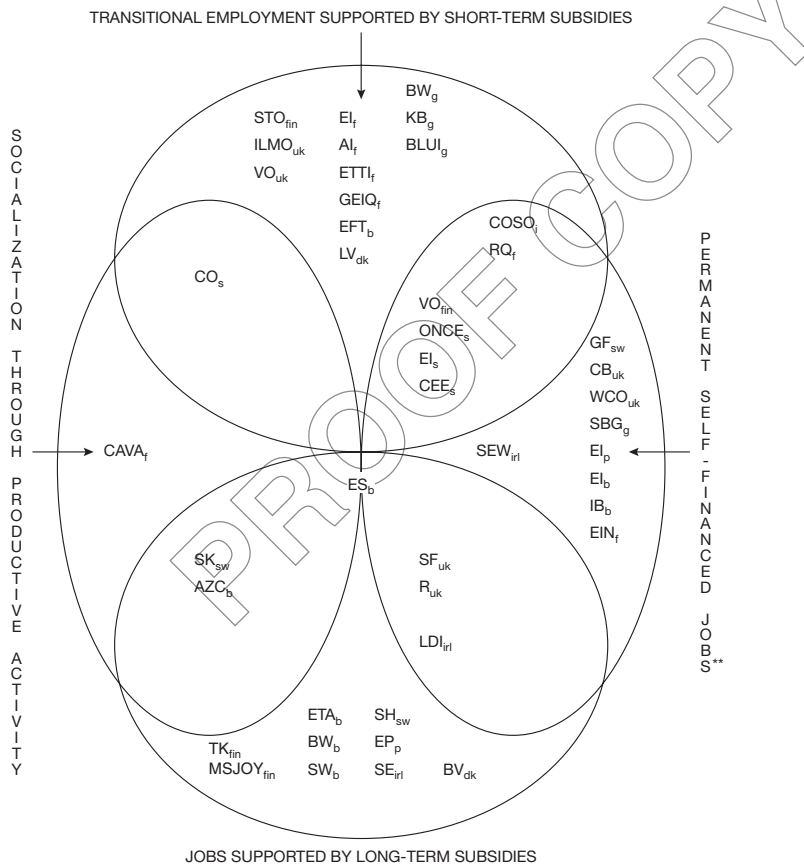
The field of social enterprises has been characterized by a movement of institutionalization in the framework of public policies across Europe, even though it varies from one country to the other. Part IV is shaped around the hypothesis that this dynamic of institutionalization can lead to the development of innovative public schemes and, at the same time, to a movement of 'isomorphism' on the part of social enterprises. Bode, Evers and Schultz (Chapter 15) develop an analytical framework in order to grasp the historical dynamics and the possible trends toward isomorphism of this organizational field. Aiken develops this theme in the field of UK social enterprises in Chapter 16. Laville, Lemaître and Nyssens (Chapter 17) show how public policies in the field of social enterprises are the results of interactions between the promoters of the latter and representatives of public bodies. They also depict the different models of public policies to support the mission of social enterprises that exist across Europe. In Chapter 18, Bode, Evers and Schultz analyse the historic dynamic between social enterprises and public policies in Germany.

In the concluding chapter (Chapter 19), Nyssens draws lessons regarding the core hypotheses of the research and tries to develop some guidelines that might be useful to policy makers beyond the wide variety of contexts which always have an important influence on the way social enterprises can emerge and grow across Europe.

**Review questions**

- Why could one say that social enterprise, as defined by the EMES network, could be seen as a bridge between co-operatives and non-profit organizations?
- How does the ideal-type of a 'multiple goals–multiple resources' social enterprise differ from the image of social enterprise viewed as a business with a social aim?
- Identify some work integration social enterprises in your country and classify them according to the typology suggested in Section 4 of Chapter 1.

**Appendix 1 Modes of integration in WISEs\***



Source: adapted from Davister *et al.* (2004).

\* See Appendix 2 for legend. \*\* Sometimes supported by short-term subsidies.

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## **Appendix 2 The 44 categories of WISEs and their abbreviations**

The categories of WISEs are first mentioned in the language of the concerned country and then in English.

### **Belgium**

EI <sub>b</sub>	entreprises d'insertion (integration enterprises)
ETA <sub>b</sub>	entreprises de travail adapté (adapted ( <i>or</i> sheltered) work enterprises)
EFT <sub>b</sub>	entreprises de formation par le travail (on-the-job training enterprises)
ES <sub>b</sub>	entreprises sociales d'insertion non reconnues (work integration social enterprises not accredited by public authorities)
SW <sub>b</sub>	sociale werkplaatsen (social workshops)
IB <sub>b</sub>	invoegbedrijven (integration enterprises)
BW <sub>b</sub>	beschutte werkplaatsen (sheltered workshops)
AZC <sub>b</sub>	arbeidszorgcentra (work care centres)

### **Denmark**

LV <sub>dk</sub>	lokalt orienterede sociale virksomheder som tilbyder uddannelse og midlertidig beskæftigelse (local community enterprises offering traineeship and temporary work integration)
BV <sub>dk</sub>	beskyttede værksteder (sheltered workshops)

### **Finland**

STO <sub>fin</sub>	sosiaalinen työosuuskunta (labour co-operatives)
VO <sub>fin</sub>	vajaakuntoisten osuuskunta (co-operative social firms for disabled people)
TK <sub>fin</sub>	työkeskus (work centres)
MSJOY <sub>fin</sub>	muut sosiaalialan järjestöjen omistamat yritykset (other enterprises owned by associations for the disabled)

### **France**

CAVA <sub>f</sub>	centres d'adaptation à la vie active (centres for adaptation to working life)
EI <sub>f</sub>	entreprises d'insertion (work integration enterprises)
AI <sub>f</sub>	associations intermédiaires (intermediate voluntary organizations)
RQ <sub>f</sub>	régies de quartier (neighbourhood enterprises)
ETTI <sub>f</sub>	entreprises de travail temporaire d'insertion (temporary work integration enterprises)

*Defining social enterprise 23*

- GEIQ<sub>f</sub> groupements d'employeurs pour l'insertion et la qualification (employers' organizations for work integration and training)  
 EIN<sub>f</sub> entreprises insérantes (long-term work integration enterprises)

**Germany**

- SBG<sub>g</sub> soziale Betriebe und Genossenschaften (social firms and co-operatives)  
 KB<sub>g</sub> kommunale Beschäftigungsgesellschaften (municipally owned social enterprises)  
 BW<sub>g</sub> Beschäftigungsgesellschaften von Wohlfahrtsverbänden (social enterprises organized by welfare organizations)  
 BLUI<sub>g</sub> Beschäftigungsgesellschaften von lokalen, unabhängigen Initiativen (social enterprises organized by independent local initiatives)

**Ireland**

- SE<sub>irl</sub> sheltered employment  
 LD<sub>irl</sub> local development work integration social enterprises  
 SEW<sub>irl</sub> Social Economy (National Programme) work integration social enterprises

**Italy**

- COSO<sub>i</sub> co-operative sociali di tipo b (B-type social co-operatives)

**Portugal**

- EI<sub>p</sub> empresas de inserção (integration companies)  
 EP<sub>p</sub> emprego protegido (sheltered employment)

**Spain**

- CEE<sub>s</sub> centros especiales de empleo (special employment centres)  
 CO<sub>s</sub> centros ocupacionales (sheltered employment centres)  
 ONCE<sub>s</sub> empresas de la Organización Nacional de Ciegos de España (ONCE) (enterprises of the Spanish National Organisation for the Blind)  
 EI<sub>s</sub> empresas de inserción (social integration enterprises (for people at risk of social exclusion))

**Sweden**

- SK<sub>sw</sub> sociala arbetskooperativ *or* socialkooperativ (social co-operatives)  
 SH<sub>sw</sub> Samhall (Samhall network of sheltered workshops)  
 GF<sub>sw</sub> grannskapsföretag (community enterprises)

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### **United Kingdom**

WCO <sub>uk</sub>	worker co-operatives
CB <sub>uk</sub>	community businesses
SF <sub>uk</sub>	social firms
ILMO <sub>uk</sub>	intermediate labour market organizations
R <sub>uk</sub>	Remploy (large quasi-state enterprise)
VO <sub>uk</sub>	voluntary organization with a work integration objective

Source: adapted from Davister *et al.* (2004)

### **Notes**

- 1 Since the early 1980s, however, Ashoka, an organization founded by B. Drayton, had supported individual entrepreneurs with a social mission who were called 'social entrepreneurs'.
- 2 See also the definition of social enterprise by the Harvard Business School, <http://www.hbs.edu/socialenterprise/whatis.html>.
- 3 The first works by EMES were published in 1999 but this set of criteria had already been identified in the interim reports (EMES Network 1997 and 1998) which were used by the OECD (1999).
- 4 For an extensive review of these concepts, see Defourny (2001).
- 5 PERSE is the acronym for the name of the project in French; a translation of the project's full name would be: 'The Socio-Economic Performance of Social Enterprises in the Field of Integration by Work.' This research project was carried out from September 2001 to March 2004; the project was undertaken within the framework of the 'Key Action Improving the Socio-economic Knowledge Base' programme of the European Commission (Research DG, Fifth Framework Programme).
- 6 We chose the rate of employment as an indicator of the degree of underemployment in European countries, as the rate of unemployment is very sensitive to institutional factors that may vary a lot among countries (for instance, some groups in identical situations may be considered on or out of the labour market, depending on national administrative rules).
- 7 This project, entitled ELEXIES and carried out in collaboration with the European federations CEGOP and ENSIE, had a mainly descriptive objective: it aimed to list and describe the main features – legal frameworks, support and financing organizations, target groups, types of professional training, etc. – of WISEs in 12 member states of the European Union. The results of this work were published in the EMES *Working Papers Series* ([www.emes.net](http://www.emes.net)).
- 8 Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Portugal, Spain, Sweden and the UK.
- 9 Externalities arise when the actions of certain agents have an impact – be it positive or negative – on the well-being of other agents not regulated by the price system. Externalities are collective in nature when they concern the community as a whole, for example when they involve social cohesion, public health or local development.
- 10 Extensive country reports are available in the EMES *Working Papers Series*, EMES European Research Network: see [www.emes.net](http://www.emes.net).



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