Social enterprise. An international overview of its conceptual evolution and legal implementation

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Abstract

Purpose – The purpose of this paper is to analyze the evolution of the social enterprise concept at an international level. It provides a comprehensive overview of the existing literature in this subject area and focuses on the legal implementation of social enterprises.

Design/methodology/approach – The paper is an analytic review, building on previous work. Conclusions are on how the social enterprise concept has been legally implemented in a number of representative European countries.

Findings – The lack of a common understanding of social enterprise should not be regarded as a limitation as such debate encourages a rethinking of the theoretical definition of enterprise and its legal structure. The legal recognition of social enterprise contributes to conceptual clarification in the countries concerned.

Research limitations/implications – This is a conceptual discussion paper, which stimulates further research on the most interesting mechanisms and consistent models of social enterprise that are developing at an international level.

Originality/value – The paper synthesises existing conceptual studies on social enterprise. It contributes to enrich the current debate on social enterprise and aids in focusing future research.

Keywords Social enterprise, cooperatives, social enterprise law, collective entrepreneurship, social goals.

Paper type Conceptual paper

1. Introduction

Despite its rapidly rising field of practice and increasing interest within the policy-making arena (Roper and Cheney, 2005; Peattie and Morley, 2008), research on social entrepreneurship still falls far behind the practice (Johnson, 2000). The different concepts used by the literature are often ill-defined and can take on a variety of meanings with little consensus so far reached among scholars (Weerawardena and Sullivan Mort, 2006). The concept of social entrepreneurship continues to mean different things to different people and there is no clear understanding on where to locate it and on how to qualify social entrepreneurs. The same can be said for the term social enterprise, which is either used to refer to an activity carried out or to particular organizations and institutions. It can be said that definitions of social entrepreneurship and social enterprise vary to a great extent at the international level with a number of authors using the two interchangeably (Peredo and McLean, 2006).

The aim of this paper is to provide an overview of the evolution of the concept of social enterprise in the international literature. Following an analysis of the concepts of social entrepreneurship and social enterprise, attention is paid to the legal implementation of social enterprise. The legal recognition of social enterprises has indeed contributed to clarify this concept in a number of representative countries that will be briefly analyzed.
2. Revising the literature on social entrepreneurship and social enterprise

2.1. Social entrepreneurship as a blurring concept

As it is used in the academic literature, the term social entrepreneurship covers a broad range of activities and initiatives that fall along a *continuum*, including more generally speaking non-conventional entrepreneurial initiatives. These activities are neither necessarily finalized to production, nor doomed to remain stable throughout time, ranging from social initiatives occurring in profit-seeking businesses, institutionalized entities explicitly pursuing a social goal, relations, and practices that yield social benefits, entrepreneurial trends in non-profit organizations up to ventures developed within the public sector (Johnson, 2000; Roper and Cheney, 2005; Mair and Martí, 2006). Such initiatives can be undertaken by individuals, non-profit organizations, public agencies or non-profit organizations in partnership with for-profit enterprises in an attempt to balance corporate profit with a commitment to social responsibility (Reis, 1999). Interestingly, according to some authors, the entrepreneurial nature, especially as concerns the carrying out of economic activity in a continuous and stable manner, is not a necessary condition for the social entrepreneurship qualification. Hence, this concept is also used to refer to economic activities performed occasionally when aimed to pursue social goals. Furthermore, individual models of entrepreneurship in addition to collective ones are regarded as important (Spear, 2006).

Given the vast array of meanings assigned to social entrepreneurship, no shared assumption on where to locate social entrepreneurship can be found in the literature (Peredo and McLean, 2006). As underlined by Austin, Stevenson, and Wei-Skillern (2006) definitions range from broad to narrow. The broad definition of social entrepreneurship refers to a mindset that can have a place in any business and setting (Roberts and Wood, 2000), in the for-profit, non-profit, public sector or across sectors, such as hybrid organizations, which mix for-profit and non-profit approaches (Austin, Stevenson, and Wei-Skillern, 2006). Accordingly, motivations embedded in a social entrepreneurship initiative can vary to a great extent, ranging from the goal of consolidating and expanding the pursuit of an explicit social goal, as it is the case of non-profit organizations, up to the request of meeting the public pressure to demonstrate a social commitment, as it is the case of for profit businesses. Thus, provided that social goals are present in the purpose of the enterprise’s undertakings, whether the social goals are ranked first or if they are taken on at least partly for instrumental reasons does not matter in terms of qualifying as social entrepreneurship. Peredo and McLean (2006) identify a range of possibilities: at one extreme they place entrepreneurs and groups who are driven entirely and exclusively by the aim of producing social benefits, also when not endowed by an entrepreneurial structure. On the opposite extreme they position those who pursue a social goal, but subordinate its pursuit to the prominent or prime profit-making goal. In between, they consider enterprises pursuing goals that are chiefly social, albeit not exclusively, and enterprises which consider social goals among other goals of the enterprise (Peredo and McLean, 2006).

According to a narrower definition, social entrepreneurship is located strictly in the non-profit sector and it refers to the adoption of entrepreneurial approaches in order to earn income. Accordingly, this approach presupposes that the social mission is explicit and essential (Dees, 1998) and it implies the adoption of business practices exclusively by non-profit organizations (Reis, 1999).
Furthermore, definitions can be classified according to the specific element emphasized (Peredo and McLean, 2005). Some are centered around the social dimension and especially the impact produced on society at large (Ashoka Foundation, 2007; Schwab Foundation, 2006); Nicholls emphasizes the capacity of addressing social issues in innovative and creative ways (Nicholls, 2006). Some other definitions are more focused on the entrepreneurial dimension and draw on previous studies on entrepreneurship (Dees, 1998). However, beside the valuable insights into entrepreneurial behaviors, conceptualizations that have originated in for-profit firms show a number of shortcomings, as they are unable to capture the unique operation characteristics of non-profit organizations, which represent the main domain that has so far contributed to the development of the majority of literature on social entrepreneurship (Weerawardena and Mort, 2006; Thomson, 2002).

Despite the various definitions, one commonality that emerges in most of the studies carried out is the “problem-solving” nature of social entrepreneurship (Johnson, 2000) and its aim to create and sustain social value (Dees, 1998). This latter characteristic marks the divide between social and other forms of entrepreneurship (Peredo and McLean, 2005). However, the distinction between social and commercial entrepreneurship rather than being strictly dichotomous, should be conceptualized along a continuum that ranges from purely social to purely economic, with elements of both still to be found at the extremes. Any entrepreneurial enterprise needs to fulfil two conditions. The first one is the social relevance of its activity; the second condition is the economic sustainability. These two conditions can be satisfied in varying degrees by different types of enterprises. Whereas economic and financial objectives predominate at the one pole, the other pole is characterized by the predominance of social objectives (Borzaga and Tortia, 2009).

What distinguishes social entrepreneurship is the opportunity dimension (Thomson, 2008). Whereas commercial entrepreneurship is attracted by large or growing market sizes that can provide for profitable opportunities, social entrepreneurship is attracted by an unmet need, demand, or market failure, which is to say by the opportunity for social change (Austin, Stevenson and Wei-Skillern, 2006).

Overall, most definitions and studies on social entrepreneurship appear to be strongly US focused, as they tend to overemphasize the institutional evolution undergone by specific non-profit institutions that have shaped the US context, namely charities and foundations. Furthermore, these analyses underestimate the role displayed by other organizations, like cooperatives, in furthering innovative solutions that are able to tackle crucial economic and social problems arising in society at large, which is a typically European evolutionary trend. All this explains the need to develop an adequate and complete theoretical framework, which inevitably presupposes the overcoming of the still over-fragmented and country-specific literature in the field of social entrepreneurship (Weerawardena and Sullivan Mort, 2006).

2.2. Social entrepreneurship and social enterprise: main trends
As in the case of social entrepreneurship, there is no consistent usage of the term social enterprise in the international literature (Dart, 2004). Social enterprise is thought to be something new and something distinct from classical business and traditional non-profit activity, combining at different extents elements of the social purpose, the market orientation, and financial-performance standards of business (Young, 2008).
When analyzing more in-depth the trends that can be found in the literature, two main approaches can be identified at international level. These approaches are partially ascribable to the specific context in which concepts were constructed. According to the first approach, it was mainly the rediscovery of non-profit organizations (mainly associations) as social service providers and work-integration organizations coupled with the strengthening of cooperatives’ concern for the community that paved the way for an increasing convergence, which ultimately contributed to the conceptualization of the social enterprise. The term is often used to describe a “different way” of doing business when compared to conventional enterprises and also of providing social services when compared to public agencies, which encompasses the more entrepreneurial component of the non-profit sector and innovative component of the cooperative movement, consistently with the characteristics of the activities carried out. The concept of social enterprise, as something capable of encompassing national differences in Europe, was developed in particular by the EMES European Research Network, which succeeded in developing a common approach to the study of social enterprises in Europe (Borzaga and Defourny, 2001). By referring to entrepreneurial dynamics focused on social aims, the conceptual framework proposed by EMES attempts to bridge the two existing and wide-known concepts used to define organizations other than public agencies (state) and for-profit enterprises (the market): the non-profit sector and the social economy. The concept of social enterprise introduced by EMES does not seek to supplant existing concepts. Rather, it is intended to enhance third sector concepts by shedding light on entrepreneurial dynamics focused on social aims within the sector, while also capturing the evolutionary trends involving the sector of social services (Borzaga, Defourny, 2001).

A specific feature of the European social enterprise tradition is the setting up of an institutional structure specifically designed to pursue a social goal in a stable and continuous way through the production of goods or services of general-interest. Consistently with the strong European cooperative tradition, the collective and participatory dimensions continue to be a key feature of European social enterprises, which reduce the probability of opportunistic behaviors by single individuals. However, the collective dimension does not exclude the possibility that charismatic leaders play a key role in the setting up of the enterprise and its development. The existence of a group whose members are responsible for the general-interest goal set by the social enterprise (Nyssens, 2006) ensures the survival of the initiative beyond the involvement of the leaders. A social enterprise is created when a founding group sharing a specific and well defined social goal succeeds in translating it into an institutional arrangement showing specific characteristics. The activity performed by the social enterprise is of general-interest and it is managed in an entrepreneurial way. As such it turns into the commercial activity of the social enterprise with limitations concerning the sectors or the activities eligible for social enterprise engagement. The goal pursued by the enterprise is social and the activity carried out has to be managed in an entrepreneurial way, while a constant balance between the social and economic dimensions has to be maintained.

According to this perspective, social enterprises may be seen as more oriented to address the needs of the most fragile segments of society, as they put more emphasis on the dimension of general-interest when compared with traditional non-profit organizations and especially donative non-profit organizations. As highlighted by
Clotfelter (1992), there is empirical evidence that donative non-profit institutions tend to address opulent consumptions and relatively few of them serve the poor as a primary goal (Clotfelter, 1992). Few of the non-profit hospitals, universities, museums, orchestras, theatres, and other organizations can indeed claim that they are directed at the poor or needy (Ben-Ner, 1994). By contrast, given the merit or general-interest nature of the services supplied by social enterprises or the specific production and/or allocation system implemented, they can succeed in displaying general-interest functions and offering opportunities primarily to those groups in society who are normally excluded from social and economic activity.

Furthermore, an additional mechanism aimed to protect the beneficiaries is represented by the non-profit distribution constraint. In social enterprises, profits gained are mainly reinvested in the organization and used to support its growth. This constraint is furthermore aimed to ensure the strengthening of assets of the organization and, in case of its dissolution, of the general-interest goal pursued through the transfer of assets to another social enterprise, thus guaranteeing by law that welfare and development goals will continue to be addressed.

Moreover, social enterprises set up organizational structures which further the participation of several stakeholders, including those that are affected by the activity that is explicitly aimed at benefiting the community or disadvantaged groups of people. A specific feature that characterises some social enterprises is the combination of different types of stakeholders in their membership, whereas traditional cooperatives and associations have generally been set up as single-stakeholder organisations. Activities that are of general-interest are compatible with public funding, which are indeed very common.

The second approach has more substantial roots in the US where as defined concepts social entrepreneurship, social entrepreneur and social enterprise started to be employed, often interchangeably (Seanor and Meaton, 2007), when non-profits experienced cutbacks in government funding. That is to say when non-profit service providing organizations started to dramatically expand commercial activity in order to fill the gap left by governmental retrenchment (Kerlin, 2006) and the dissatisfaction with the pace and management of standard non-profit organizations called for innovative alternatives (Barendsen and Gardner, 2004). The use of these terms reflects also the need to conceptualize the increasing carrying out of a variety of productive initiatives driven by social goals by single entrepreneurs and entities that are not legally bound to the non-distribution constraint (Peredo and McLean, 2005).

It should be noticed that much of the practice termed as social entrepreneurship and social enterprise in the US focuses on revenue generation (Kerlin, 2006), being thus more generally used as a synonymous of non-profit organizations that are not simply managing productive activities, but are also becoming more market driven (Dart, 2004). In fact, a social enterprise definition which is gaining ground especially in the US tends to qualify social enterprises as organizations running commercial activities, not necessarily linked to the social mission, with the goal of collecting incomes to fund a social activity. The latter is not supposed to have an entrepreneurial connotation, ranging from the funding of single projects up to donations (Thomson, 2008). Given the instrumental nature of the commercial activity, which is specifically aimed to support the social mission, possible tensions can arise between the two goals pursued.

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1 As concerns the legislation on social enterprises in Europe, Finland is the only country that does not restrict the use of the surplus (Pattiniemi, 2006).
Noteworthy is that in the United States the existence of an institutional arrangement specifically designed to pursue a social goal is not considered as a necessary condition for being qualified as social enterprise. This explains the emphasis on the individual dimension of the social entrepreneur as an agent of change that is capable of implementing innovative solutions apt to tackle social problems that are overlooked by other actors in a wide variety of fields of general-interest, including among others welfare, health, education, employment, and housing. Some authors put special emphasis on “extraordinary individuals” that are conceived of as transformative forces, since they are expected to be value-driven entrepreneurs totally possessed by their vision for change (Roberts and Woods, 2000).

Various definitions of social entrepreneurs have been highlighted by the literature devoted to investigate social entrepreneurship, replicating thus the empirical and theoretical evolution of entrepreneurship (Mair and Martí, 2006). The confusion characterizing social entrepreneurship extends to the definition of individual social entrepreneurs. For instance, according to the Canadian Centre for Social Entrepreneurship, social entrepreneurs are leaders in the field of social change and can be found in the private, public, and non-profit sectors (Johnson, 2000), whereas other authors consider social entrepreneurs exclusively as non-profit executives, who pay increasing attention to market forces. Shuyler (1998) quotes four different definitions that refer to individuals endowed with both a vision for social change and the financial resources needed to support their ideas, including: 1) path-breakers with a powerful new idea; 2) people who attempt to take innovative approaches to social and other issues; 3) pioneers who are discovering that entrepreneurship can help them simultaneously meet community needs and become more financially self-sufficient; 4) non-profit executives (Shuyler, 1998).

However, most scholars on social entrepreneurs agree that exceptional personal characteristics, normally held by a single person though sometimes manifested by a group, are essential for social entrepreneurship to succeed (Roper and Cheney, 2005). Thus, several attempts to define the profile of a social entrepreneur have portrayed him or her as a social hero (Seelos and Mair, 2005) or as an individual who plays a critical role in favoring “catalytic change” (Waddock and Post, 1991). Dees considers social entrepreneurs as one species in the genus of entrepreneurs, since they are entrepreneurs with a social mission. Accordingly, mission-related impact rather than wealth creation becomes the central criterion characterizing social entrepreneurs (Dees, 1998).

3. The concept of social enterprise proposed
Following the European tradition, social enterprises are conceived of as private, autonomous institutions that are engaged in the supply of services and goods with a merit or general-interest nature in a stable and continuous way. The notion of social enterprise adopted draws on the approach developed by the EMES European Research Network.

2 According to this approach:

“social enterprises are not-for-profit private organizations providing goods or services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks linked to their activity” (Defourny and Nyssens, 2008: 5).
The reason for relying on EMES conceptualization is that this network succeeded in adopting a common approach to the study of social enterprises in Europe as something capable of encompassing national differences (Borzaga and Defourny, 2001). Differently from the definition of social entrepreneurship, the definition of social enterprise proposed excludes third sector organizations that do not carry out entrepreneurial activities and mainly perform advocacy or re-distributive functions, public institutions, and for profit enterprises engaged in social projects.

In order to display this role social enterprises need to have specific features. The approach herein embraced is institutional and emphasizes collective entrepreneurship (Spear, 2006). Thus it disassociates itself from the emphasis on the individual that characterizes part of the literature on social entrepreneurship (Peattie, K. and Morley, A., 2008). Accordingly, social enterprises are conceived of as specific institutions and more generally as a facet of social entrepreneurship, which is used as an umbrella term encompassing a set of initiatives and societal trends (Johnson, 2000). Differently from social entrepreneurship, which can be traced back to a variety of organizational forms, partnerships, and networking across organizational (Austin, Stevenson, and Wei-Skillern, 2006), social enterprises are shaped by existing or new specific legal forms.

The social enterprise concept here presented and discussed partially overlaps the existing definitions, including the non-profit sector, social economy, third sector, and social entrepreneurship. On the one hand, it excludes one of the most relevant component of the non-profit sector, namely that represented by organizations that are not entrepreneurial, including those displaying either an advocacy or redistributive role (i.e. advocacy associations, charities and grant-making foundations). On the other hand, it does not take into account the component of social entrepreneurship that is represented by profit-seeking businesses engaged in social initiatives and especially those initiatives that produce goods and services, which are not socially relevant, but use their profit for pursuing social objectives.

It can be said that the social enterprise as a concept aims to shed light on particular dynamics of both traditional non-profit organizations and cooperatives: namely, collective entrepreneurial dynamics focused on social aims (Borzaga and Defourny, 2001). As such it encompasses both newly-created organisations and older ones, like association and cooperatives, which have undergone an evolution.

A precise definition of the social enterprise, shared at a EU level, does not exist yet. In Europe the concept made its first appearance in the early 1990s, following an impetus which was first Italian, in close link with the cooperative movement (Defourny, 2004).

This study mainly draws on an approach, which has derived since 1996 from extensive dialogue among several disciplines (economics, sociology, political science and management) (Defourny, 2004). This approach was developed by the EMES European Research Network and it relies on the identification of indicators rather than on a synthetic definition, which allow for the conceptualization of the institutional features of organizations apt to be called social enterprises.

Indeed, to explain and maintain their advantage over alternative ways of organizing the production of general-interest services, social enterprises need to show a number of

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3 A social enterprise definition was developed by the British government in July 2002. According to this definition: “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners” (DTI, 2002: 13).
salient institutional features. The latter explain their capacity of providing innovative responses that are more efficient and effective than those provided by public agencies and for-profit enterprises.

The salient features of social enterprises are:

i) the social goal pursued;

ii) the non-profit distribution constraint;

iii) the assignment of ownership rights and control power to stakeholders other than investors coupled with an open and participatory governance model.

i) The goal pursued by social enterprises is explicitly other than profit, presupposing that the activity carried out is characterized by a merit or general-interest dimension. This characteristic results from the type of goods and services supplied or from the production/allocation process adopted. The latter can be driven by different specific motivations, including the decision not to exploit a monopoly power or information asymmetry to the advantage of the producer; the choice not to internalize all the value produced; or the will to allocate the wealth gained in favour of those people who are unable to pay. The merit or general-interest nature incorporated represents in all cases an inescapable signal of the organization’s character for all stakeholders involved, including workers, donors, users, volunteers, and the community as a whole. The activity carried out can either entail the promotion of the interests of specific categories of stakeholders (e.g. consumers that are unable to pay; disadvantaged workers) or of the community at large (e.g. regeneration of a depressed area).

ii) The total or partial non-distribution constraint is a user protection mechanism that is capable of providing a negative protection (Hansmann, 1996), discouraging to a certain extent undesirable behaviours – including the non exploitation of market power, namely the application of high prices and the adoption of low quality standards – to the disadvantage of the beneficiaries of the activities carried out (Ben-Ner and Gui, 2003). The exclusion of profit-maximization is a key criteria for identifying social enterprises. In addition to its trustworthiness-enhancing capacity, the non-profit distribution constraint should be regarded as an utility-enhancing device attracting stakeholders (users, workers and managers) whose individual goals are consistent with the social aims pursued by the social enterprise (Valentinov, 2008).

The non-profit distribution constraint can be either total or partial (e.g. with the possibility of distributing profits up to a certain percentage over the risk capital provided by members), as it is the case of some cooperative enterprises that display social functions. The partial distribution constraint is more consistent with the entrepreneurial nature of social enterprises and it does not undermine the capacity of this mechanism of protecting users and motivating workers’ engagement. The adoption of profit caps allows to attract also investors interested in sustaining the economic growth of the enterprise. This possibility is envisaged by the Italian and UK law on social enterprise;

iii) Another important complementary mechanism that strengthens the correcting power of the non-profit distribution constraint is the assignment of ownership rights and control power to specific stakeholders other than investors. Depending upon the type of social enterprise under consideration, ownership rights and control power can be assigned to a single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset.
The main features of social enterprise have a role in shaping governance models that enhance at various extents the participation of stakeholders and democratic management, thus contributing to the adoption of strategic decisions for the community through participatory mechanisms. Both aspects can contribute to render the goals pursued by the organization as such and those of the agents involved consistent to one another, allowing for the improvement of the performance of the social enterprise in terms of effectiveness and efficiency. Depending upon the degree and number of stakeholders involved, goal pursued, and type of services and goods supplied, social enterprises can succeed in mobilizing a plurality of resources (monetary and non-monetary, as well as economic and non-economic) additional to those generated by mainstream economy (commercial incomes and/or public funding). The relevance of additional resources with respect to mainstream incomes, depends on both the degree of “disadvantage” taken on by the social enterprise and the level of financial covering ensured by traditional funding sources. Similarly, the degree of participation of stakeholders required for an efficient and effective management of the social enterprise depends upon the type of goods and services supplied, ranging from being strongly relevant for goods and services that are perceived as highly meritorial by the community up to being only marginally important for those goods and services that are supplied also by other actors. Participation stimulates stakeholders to express their intentions and preferences, thus facilitating communication and coordination among various interest groups (Ben-Ner and Gui, 2003). It can be said that the involvement of local stakeholders allows to approach the interest of the community as a whole, as it contributes to enhance trust relations and it favours the recognition of new needs and a more effective exploitation of the resources of a given locality – human, economic, cultural and environmental (Borzaga and Tortia, 2005). Against this background, social enterprises have proved to be able to promote innovative forms of democratic participation and empowerment, thus contributing to a participatory democracy, wherein citizens are best positioned to commit themselves to the social and economic development of their communities (Pestoff, 1998).

4. Legal frameworks for social enterprises
In the United States social enterprises can take various legal forms, including sole proprietorship, corporation, partnerships, limited liability company, non-profit and for-profit organization. Noteworthy is that no new legal frameworks have been introduced in the last 50 years to regulate the growing business activities of service-producing non-profit organizations (Kerlin, 2006). Not for-profit organizations are acknowledged and defined by the tax law; to this end a list of charitable organizations is periodically updated by the Internal Revenue Service (Barbetta, 1990). By contrast, in Europe the policy and legal context appears to be much more conducive to the development of social enterprises as welfare actors, given also the more institutionalized nature of the phenomenon dealt with. Legal frameworks reflect the specific legal tradition, welfare regime model, and main social and economic issues dealt with at national level; hence, come into view the diversity in approaches and solutions envisaged.

4 A sole proprietorship is a company with only one owner that is not publicly registered (Schwab Foundation, 2006).
5 *Ibidem*
Two phases can be identified in Europe as far as the legal evolution of social enterprises is concerned. Initially, most social enterprises have been set up through the use of the legal forms of cooperative and association and in a number of several cases this continues to be the case. Social enterprises were initially established as associations in those countries where the legal form of association allows for a degree of freedom in selling goods and services on the open market, such as for instance France and Belgium. In countries where associations are more limited in this regard, such as the Nordic countries and Italy, social enterprises were more often created under the legal form of cooperative. Cooperatives are more interesting as they have a clear entrepreneurial nature.

The second trend is characterized by the adoption of specific legal forms either via the adaptation of the cooperative formula or through the introduction of legal brands and categories that recognize the social commitment taken on by certain economic entities. The trend of recognizing social enterprises via the cooperative formula was marked by the acknowledgment of specific activities (supply of social services or work integration) carried out beyond the boundaries of the cooperative membership. This trend undermines the traditional model of cooperatives, which is based on a single stake-holding system and it is supposed to promote the interests of its members (Levi, 1999).

It started formally in Italy in 1991 when the law N° 381 on social cooperatives provided the legislative framework for a phenomenon, which had developed spontaneously in the previous twenty years (Borzaga and Ianes, 2006).

Italian social cooperatives have, indeed, not been constituted, but just recognized by the 1991 law. According to it, their goal is to:

"pursue the general interest of the community in promoting personal growth and in integrating people into society by providing social, welfare and educational services (A type) and carrying out different activities for the purposes of providing employment for disadvantaged people (B type)" (Law 381/1991).

A-type cooperatives offer a wide range of services to different population groups: the elderly, minors, the disabled, drug addicts, the homeless and immigrants. B-type cooperatives are required by law to hire at least 30% of their staff from among disadvantaged categories of workers and they can carry out any kind of economic activities excluding the production of social services. In exchange, their social security contributions are tax-deductible and they may receive government subsidies.

Since the approval of Law 381/1991, social cooperatives have registered an annual growth rate ranging from 15 to 30%. In 2005, there were over 7,300 social cooperatives; they employed 244,000 workers. Their density appears to be significant, as there are 12.5 cooperatives every 100 thousand inhabitants (Moreschi and Lori, 2007).

In the absence of legal structures adapted to meeting community needs through the carrying out of economic activities in a stable and continuous way, an imitation of the Italian acknowledgment of the social enterprise via the cooperative formula followed in a number of countries, including Portugal, Spain, France, and more recently Poland. The development of social enterprises via cooperatives has not followed the Italian model, which separates clearly social services from work integration. In other countries activities that can be carried vary, ranging from general activities (e.g. Portugal: social services and work integration through the same enterprise) up to specific ones, mainly limited to work integration (e.g. Poland). A number of representative countries are analyzed.
In Portugal, the decree № 323/81 recognized "social solidarity" as a field of activity where service cooperatives were allowed to operate. In addition, "special education and integration cooperatives", regulated by the decree № 441-A/82, art. 3, were established as a result of the 1974 democratic revolution. These kind of cooperatives started to be used by parents of disabled children and professionals operating in the same field in order to cope with the need of special education and rehabilitation institutes. The cooperative form, beside reasons of economic convenience, was chosen because of its important elements of autonomy, solidarity and economic organization. The introduction of a new form of cooperative, namely the social solidarity cooperative, was thus meant to put all these kind of cooperatives under the same definition (Do Campos, 1998). Their statute was specified by the 1998 law, which defined their goals as follows: to give support to vulnerable groups (children, youth, disadvantaged persons, old persons), families and socially disadvantaged communities in view of their economic integration, as well as to Portuguese emigrants in difficulties; to establish support programs; and to promote both education and work integration of socially disadvantaged groups. The 1998 law differentiates regular members – beneficiaries of the services supplied, members of the family benefiting or collaborators remunerated – from voluntary members – bearers of goods and services not remunerated, donors. The latter do not have the right to vote and are and are not eligible, but they may constitute with the social bodies a consulting committee called “general council” (Articles 5 and 6). The surplus generated has to be assigned to the reserves, which are entirely indivisible (articles 7 and 8). Social solidarity cooperatives, as defined by law 1998, are expected to satisfy the social needs of their members, their promotion and integration. At the same time, social solidarity cooperatives are expected to carry out activities characterized by an extroverted connotation (Espagne, 1999). Social solidarity cooperatives are supposed to play an active role against social exclusion, which is not limited to the rehabilitation of disabled persons, but which covers also the support given to elderly people and the inclusion of both individuals and communities socially disadvantaged. So far social solidarity cooperatives seem to be weakly embedded in the social fabric (Perista and Nogueira, 2006).

In Spain, social initiative cooperatives were acknowledged in 1999 through the introduction of a national law. Furthermore, specific legal frameworks at regional level have allowed for the recognition of work-integration cooperatives in 12 autonomous regions. The general law of 1987 did not refer to this type of cooperative, while the law introduced in 1999 provides for cooperatives of social initiative, which are engaged in educational, welfare, medical, and work integration services. Social initiative cooperatives are ruled by the cooperative regulations referred to the activities carried out. An additional provision specifies what does the absence of a profit goal mean: no results distribution, capital rate limited to the legal rate, mandate at the board of directors free of charge, employed members’ and hired workers’ remuneration not higher than a predefined percentage of the remuneration established by the collective bargaining. Co-operatives of social initiative bring in some new elements. Their legal definition underlines their extroverted vocation. According to article 106 (Law № 27/99), cooperative of social initiative may supply services, which benefit cooperative members, through a consumer cooperative. The same article 106 opens up to the supply of services of general-interest and to the work integration of socially excluded persons (Espagne, 1999).
More recently, in France a new organizational model characterized by a declared social purpose has been developing at the local level (Detilleux, 2000). To that end, the text approved on June 28th, 2001 by the French National Assembly introduces a new cooperative form into the French system: the Co-operative Society of the Common Interest (in French société coopérative d’interet collectif - SCIC). On the one hand, the aim was to involve diverse stakeholders (worker, user, volunteer, financial backer) by means of a democratic and participatory governance system which guarantees the permanence of the social goal of the enterprise (Confédération Générale des SCOP, 2002). On the other hand, this organization was legitimized to benefit from the advantages of the associative model (access to public funding) and those of the producer cooperatives (ability to pursue commercial activities). Interestingly, the shift of associations towards an entrepreneurial stance is acknowledged by the law regulating SCICs, which prescribes that any declared association can be transformed into a SCIC without changing its legal status.

Differently from the Italian law on social cooperatives, the French law prescribes a multi-stakeholder membership, namely the existence of minimum three member categories, having a different relationship with the activity carried out, of which obligatory workers and users. The opening of the membership to different stakeholder categories gives ground to a new partnership logic to be established among users, volunteers, workers, and local authorities. This aspect while guaranteeing that the SCIC’s activity is well rooted in the territory in which it operates, seems to have so far slowed down the creation of new SCICs.

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<td></td>
<td>Labour integration cooperative societies</td>
<td>regional laws in 12</td>
<td>Work-integration</td>
</tr>
<tr>
<td>Portugal</td>
<td>Social Solidarity cooperatives</td>
<td>Co-operative code (Law n° 51/96 of 7 September 1996) and Legislative decree n° 7/98 of 15 January 1998</td>
<td>Work-integration of vulnerable groups</td>
</tr>
<tr>
<td>France</td>
<td>General-interest cooperative societies</td>
<td>Law of 17 July 2001</td>
<td>Production or provision of goods and services of collective interest</td>
</tr>
</tbody>
</table>

A contextual and most recently widespread trend has been that of introducing more general legal frameworks for social enterprises, both with respect to the activities run and legal forms admitted. This trend first appeared in Belgium where the “social purpose company” (in French société à finalité sociale) was introduced in 1995. This law can be used by any commercial company, including cooperatives societies and private limited companies (Defourny, 2001). The Belgian legislation did not provide for a specific type of society, but for a procedure which can be introduced in any commercial enterprise. According to the Belgian law, commercial enterprises can all adopt the label of “society with a social purpose”, as long as certain conditions are met.
Partners have: to agree not to seek profit or to seek only limited profit and to define the social goal, whose purpose must exclude the generation of indirect profit for the partners. In addition, the enterprise must produce a special annual report indicating how it went about achieving its welfare goals; any member of staff must be allowed to become a partner after a year of commitment to the enterprise; any member of staff who terminates a work contract loses his status as a partner; in the event of liquidation, any surplus, after all liabilities have been met and the partners have been reimbursed for their outlay, is allocated in keeping with the enterprise's welfare goal (it has to be given to another *société à finalité sociale* or association *sans but lucratif*). The introduction of the *société à finalité sociale* was possible after the new drafting of the article 1832 of the Belgian Civil Code, which took place in 1995. This legal status has so far met with only limited success, owing to the considerable number of requirements in addition to those envisaged for the traditional company and to the absence of specific fiscal benefits like the ones existing for non-profit associations (associations *sans but lucrative*). Thus, very few organizations have chosen this legal status up to now (Defourny, 2001).

More recently in Italy and the United Kingdom a shift towards more general legal forms was favoured by the legislators of both countries. This trend is contextual to the expansion of the set of activities carried out by social enterprises, which are increasingly committed to supply general-interest services other than welfare ones, including cultural and recreational services; activities aimed at protecting and regenerating the environment; social housing; and services aimed to support the economic development of specific communities.

In Italy, the recently-enacted law on Social Enterprise widens the types of general-interest services to be supplied and allows a wider range of organizations eligible for classification as social enterprises. According to the law, a social enterprise is defined as a non-profit private organization, which permanently and principally carries out an economic activity aimed at the production and distribution of social benefit goods and services, and pursues general-interest goals. The definition of social enterprise introduced in the Italian legal system by Law 155/2006 and by the Decrees of year 2007 and 2008, prescribes a total distribution constraint. Moreover, goals pursued and fields of activity overlap. While defining precisely the fields of activity, the Italian law limits itself to prescribe a weak involvement of stakeholders (workers and users).

According to the new law, the social enterprise is neither a new legal form, nor a new type of organization. Rather, it is a legal category in which all eligible organizations may be included, regardless of their organizational structure. Eligible organizations include cooperatives (i.e. worker-, producer-, or consumer-owned firms), investor-owned firms or traditional non-profit firms (i.e. associations and foundations). Social cooperatives are naturally but not automatically included. To be classified as social enterprises, they have to comply with two additional requirements: deliver a social account and implement participation mechanisms that favour the involvement of users and workers when not members. As far as associations are concerned, the law introduces a number of constraints that strengthen their entrepreneurial nature.

This choice is consistent with the aim of promoting pluralism in the production of general-interest services, especially in the welfare and health sectors. Attributes organizations need to hold simultaneously to be qualified as social enterprises are: being privately owned (no public owned social enterprises are admitted); performing

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6 According to article 1832, “*une société a pour but de procurer aux associés un bénéfice patrimonial direct ou indirect, à moins que, dans le cas prévus par la loi, l’acte de société n’en dispose autrement*” (Espagne, 1999).
entrepreneurial activity of production of social utility goods and services; acting for the common interest and not for profit. Interestingly, the law clearly identifies the economic sectors where social enterprises are expected to carry out their activities, being: welfare, health; education; culture; environmental protection; development of cultural heritage; social tourism; academic and post-academic education; research and delivery of cultural services, extra-curricula training; support to social enterprises. Furthermore, the structure of social enterprise is subject to a number of general principles: correct and efficient management, transparency, “open door”, participation, worker protection (Fici, 2006).

Nevertheless, the law is relatively new and similarly to the Belgian law it is not supported by fiscal advantages. Consequently, it is still too early to assess the impact of this new legal framework. Italian organizations performing social enterprise activities currently continue to use mainly the social cooperative form.

Community Interest Companies (CICs) are limited companies – set up under company law in Great Britain – that can engage in any lawful trade activity or enterprise. They have been designed for enterprises that want to use their profits and assets for the public good. CICs are conceived to complement government services at the community level in areas such as childcare provision, social housing, community transport or leisure. The CIC framework was primarily envisaged for productive non-profit organizations, but it can also suit the needs of a number of organizations that deliver some form of community benefit, including in particular those that are either unable or unwilling to become charities (Regulator of CICs, 2007).

The introduction of a new brand for social enterprises was aimed at filling the gap in the range of options available, in response to a demand led by the social enterprise community. No restrictions are introduced as concerns the field of economic activity, provided that CICs pass a Community Interest Test, which is a reasonable person test;

comply with the asset lock, and send in an annual Community Interest Report (Court, 2006). The CIC law does not provide for any fiscal advantages, limiting itself to provide a flexible legal structure and a lighter regulation when compared to charities. However, the lack of any fiscal advantage is compensated by the possibility to partially redistribute profits. CICs are also endowed with the ability to issue shares, which can contribute to both raise finance for community endeavour and support local enterprise for local people (Regulator of CICs, 2007).

Interestingly, a considerable number of CICs has been so far established, which varies from village shops up to large companies (Court, 2006). Since the coming into force of the legislation providing the rules on the creation and operation of community interest companies, more than 2,000 CICs have been set up. They are engaged in a number of diverse sectors, including the provision of social and personal services, followed by real estate, renting and business, education, health and social work. Additional fields that see an increasing involvement of social enterprises include: wholesale, retail and certain repair; financial intermediation, manufacturing and hotels, restaurants and social housing (Regulator of CICs, 2007).

The Finnish Act on Social Enterprises was introduced in 2004 and it is specifically aimed to integrate people with disabilities and long-term unemployed to work. According to the new law, all enterprises, regardless of their legal form and ownership

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7 According to the Annual Report 2006-2007

"An organization satisfies the community interest test if a reasonable person might consider that it carries on its activities for the benefit of the community or a section of the community" (Regulator of CICs, 2007).
structure, may apply to become social enterprises, provided that they have been registered as an enterprise to the Trade Register of the Ministry of Trade and Commerce and at least 30% of their employees are disabled or long-term unemployed. When compared to the Belgian, Italian, and UK law on social enterprises, the Finnish one does not impose a limited distribution of profits. Furthermore, it does not prescribe the adoption of participatory decision-making mechanisms that ensure the involvement of recipients, thus straying further from the EMES definition when compared to the Belgian, Italian, and United Kingdom cases (Pattiniemi, 2006).

Table 2 New social enterprise legal frameworks

<table>
<thead>
<tr>
<th>Country</th>
<th>Legal forms used</th>
<th>Profit distribution</th>
<th>Governance</th>
<th>Entrepreneurial model</th>
<th>Definition of social aim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Law of 13 April 1995</td>
<td>Redistribution of profits is possible, but limited</td>
<td>Participatory nature</td>
<td></td>
<td>Activities that are aimed at pursuing a social goal. What constitutes a social goal results from constitutive elements foreseen by the legislation.</td>
</tr>
<tr>
<td>Italy</td>
<td>Law n. 118 of 13 June 2005</td>
<td>Direct and indirect distribution of profits prohibited</td>
<td>Participatory nature</td>
<td>Collective</td>
<td>Production or exchanges of services in the sectors of social and health assistance, education and training, environmental protection, social tourism, cultural services or work integration of disadvantaged persons independently from the field of activity of the enterprise</td>
</tr>
<tr>
<td>Finland</td>
<td>Law n. 1351/2003</td>
<td>Distribution of profits allowed with no constraints</td>
<td>Participatory governance not envisaged</td>
<td>Not relevant</td>
<td>Social enterprises have to employ at least 30% of people with disabilities and long-term unemployed</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Community Interest Company regulations 2005</td>
<td>Partial distribution of profits allowed</td>
<td>Participatory nature</td>
<td>Collective and individual</td>
<td>Wide range of activities that correspond to the needs of communities. Social definition assessed by the Regulator</td>
</tr>
<tr>
<td>EMES Definition</td>
<td>All legal forms admitted</td>
<td>Partial distribution of profits allowed</td>
<td>Participatory nature</td>
<td>Collective</td>
<td>Wide range of activities aimed at pursuing an explicit social goal</td>
</tr>
</tbody>
</table>
5. Conclusions
The upsurge and consequent recognition of social enterprises is a wide process that cuts across various countries. Despite its significant development, a social enterprise definition shared by the researchers committed to study this phenomenon does not exist yet. Nevertheless, this lack of common understanding should not be regarded as a limitation preventing its further development.

What emerges clearly is that the upsurge of social enterprises influences the theoretical concept of enterprise. The shared conception of enterprises as organizations promoting the exclusive interests of their owners is questioned by the emergence of enterprises supplying general-interest services and goods in which profit maximization is no longer an essential condition.

This revolutionary conception of the goals that can be pursued by enterprises implies a number of radical changes of the theoretical definition of enterprise, the legal structure and fiscal law, which normally considers legal forms and not the social relevance of the activities run as basic criteria for acknowledging fiscal benefits. Furthermore, the development of social enterprises questions also the role played by the state in the production of general-interest services.

An interesting cross-pollination among approaches used by researchers to interpret and define social enterprises and legal forms introduced is currently taking place. The next challenge researchers will have to face is the analysis of the legal evolution in order to identify the most interesting mechanisms and most consistent models of social enterprises that are developing at international level.
References


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