

AN OVERVIEW ABOUT SOCIAL ENTERPRISES

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1. INTRODUCTION.

“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”.

Social Enterprises combine the need to be successful businesses with social aims; they seek to succeed as businesses by establishing a market share and making a profit. They emphasise the long-term benefits for employees, consumers and the community.

One problem that can affect this sector of the economy are the labels and definitions. Worse still can be the problem of labelling and defining the different types of Social Enterprise. Above all, remember that Social Enterprises can have an important role to play in our 21st century economy and can present good business opportunities.

This social enterprises' general overlooking will touch the following areas:

Social Enterprises Explained deals with the definition of Social Enterprise and an introduction to the range of organisational models.

Opportunities for Growth provides you with examples of Social Enterprises and some of the growth sectors.

Supporting Social Enterprises provides information for bankers and business advisors working with Social Enterprises.

Finance looks at the sources of finance and the financial structure of Social Enterprises.

Legal Structures gives an overview of the legal structures used by different Social Enterprises.

Types of Enterprise gives details of the many forms that Social Enterprise take: employee-ownership, Credit Unions, co-operatives, social firms, intermediate labour market projects.

Then it will be considered Italian situation about:

Social Enterprises, with an overlook on the typical Italian legal structures such as Co-operatives;

Financing Laws, in order to consider economical opportunities for those who may need a help in starting up their social activities;

Study cases, to show the paths of creation and development of entrepreneurial activities.

2. SOCIAL ENTERPRISES EXPLAINED.

Social Enterprises are businesses that trade in the market in order to fulfil social aims. They bring people and communities together for economic development and social gain. They have three common characteristics:

Enterprise Oriented ~ they are directly involved in the production of goods and the provision of services to a market. They seek to be viable trading concerns, making a surplus from trading.

Social Aims ~ they have explicit social aims such as job creation, training and provision of local services. They have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact.

Social Ownership ~ they are autonomous organisations with governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups etc.) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

Social Enterprises are part of the growing 'social economy'. The social economy is a thriving and growing collection of organisations that exist between the traditional private sector on the one hand, and the public sector on the other. Sometimes referred to as the 'third sector', it includes voluntary and community organisations, foundations and associations of many types. Social Enterprises stand out from the rest of the social economy as organisations that use trading activities to achieve their goals and financial self-sufficiency. They are businesses that combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole.

Social Enterprises have a governance structure based on participation by the workforce and/or other stakeholder. This participation will vary according to the different models applied to the needs of diverse circumstances. Social Enterprises come in a variety of forms, which include:

- Employee Owned Businesses ~ creating jobs and rescuing jobs as part of economic development strategies.
- Credit Unions ~ providing access to finance.
- Co-operatives ~ associations of persons united to meet common economic and social needs through jointly owned enterprises.
- Social Firms ~ providing employment and training to people with disabilities and other disadvantaged groups.
- Intermediate Labour Market Companies ~ providing training and work experience for the long-term unemployed.
- Charities' Trading Arms ~ enabling charities to meet their objectives in innovative ways, such as Fair Trade companies.

3. OPPORTUNITIES FOR GROWTH.

Social Enterprises operate in most economic sectors. Some of the growth areas identified by recent surveys include:

- the ecological economy
- the care economy
- the knowledge economy
- public services
- financial services
- manufacturing
- food & agriculture
- training & business development

4. SUPPORTING SOCIAL ENTERPRISES.

Similarities and differences.

It has been suggested that Social Enterprises may be 80–90% similar to other business, but that the 10–20% that is different is often the make or break factor. The difference is found in the organisational culture. Social Enterprises have participatory cultures with a strong sense of social mission and community. The commitment to a participatory culture can mean it is easier for Social Enterprises to survive downturns than for conventional businesses.

Marketing

Similarity

~ Like other SMEs, Social Enterprises sell goods and services in the market place. They need to develop good marketing skills.

Difference

~ Social Enterprises as community organisations are often able to build community loyalty and maintain support in difficult times. In some key industries such as care, Social Enterprises may have an easier time building up trust. This loyalty and trust does not substitute for providing good products at a good price.

Management

Similarity

~ Social Enterprises require all the management skills of the SME sector. Like many smaller businesses, managers will need to be skilled in more than one management function.

Difference

~ In Social Enterprises, the participatory culture makes extra demands on managers but can bring a greater flexibility from the workforce. It is also more likely that the Board will include non-executive directors. These may well be people with particular skills, local knowledge or contacts. If used properly, they can provide strengths not available to many small firms.

Finance

Similarity

~ Social Enterprise balance sheets look in many ways similar to most SMEs.

Differences

~ The investment instruments are different.

~ Profits may be use for community benefit or distributed to stakeholders under profit sharing plans.

~ Social Enterprises may have difficulty gaining access to finance. However they may in some cases access Community Finance Initiatives. These special funds target Social Enterprises and disadvantaged neighbourhoods.

Organisation Structure

Similarity

~ A Social Enterprise's operational structure will be similar to other firms in the same industry, particularly firms that emphasise teamwork.

Differences

~ Social Enterprises often place more emphasis on training and may have extra training staff. This is particularly true for Social Enterprises working with the long-term unemployed or with people with special needs such as Social Firms or Intermediate Labour Market Projects.

~ Successful Social Enterprises will generally make more use of teamwork and genuine participatory structures than mainstream SMEs.

Legal

Similarity

~ Social Enterprises are subject to all the same regulatory requirements as other SMEs. (Minimum Wage, Health and Safety, etc.)

Differences

~ Social Enterprises may be incorporated under different legislation, particularly Credit Unions & Co-operatives.

~ Social Enterprises have members or trustees not shareholders.

5. OPPORTUNITIES FOR BANKS.

Social Enterprises, just like any other SME, need a full range of bank services. Their requirements may include:

- Money transmission
- Deposit account facilities
- Payroll services (for the larger ones)
- Merchant acquiring (credit card services)
- Insurance (probably more building and contents than key person life insurance)
- Overdraft facilities
- Term Loans
- Equipment leasing
- Factoring

As with any other small business, they may initially need the 'free banking' packages offered to traditional small business start-ups. However, they are as capable of growing into a profitable customer for a bank as any small business. Everything depends on their market, how good their business planning is and the quality of their management.

Several banks have developed special products targeted at Social Enterprises. Some banks have programmes to lend to Employee Share Ownership Plans (ESOP).

Banks are also supporting Social Enterprise by assisting special community loan funds and serving on boards and advisory committees of some Social Enterprises.

Finally, Social Enterprises can give banks opportunities to establish a good profile with local organisations that may be major customers. For example local authorities may be more willing to place their banking business with banks that have a track record of working with the sort of Social Enterprises that the authority is looking to encourage and develop.

6. ADVISING SOCIAL ENTERPRISES.

Social Enterprises have much in common with other businesses and need access to professional advice on many of the same issues. They also have important differences that business advisors need to consider:

Objectives

Social Enterprises bring together communities around a common purpose and often in demanding circumstances. They are mission driven, often in reaction to social and economic problems, the closure of a factory, social exclusion, the decline or absence of an important service, or lack of employment opportunities. Some Social Enterprise leaders may have a wider perspective but community members sign up to support Social Enterprises out of a desire to meet a real need.

Social Enterprises seek to integrate social goals into their business. In the early stages, they need to clarify these goals and their understanding of how to integrate them within the business. Developing an understanding of the new wave of business enterprises that successfully integrate social and economic goals is critical. The social aims strengthen the business by building loyalty among customers, employees and other stakeholders.

Organisational Development

Social Enterprises are team enterprises, developed and run by groups of people. They require access to people trained in organisational development who:

- understand working with and developing strong boards;
- can coach managers on team building and participatory management;
- understand contemporary employee involvement techniques;
- and have experience of community consultation processes.

Social Enterprises draw on the best in modern management and take participation seriously. This participatory nature can provide a competitive advantage by building loyalty and tapping the knowledge of consumers and employees. Social Enterprises rally communities around a real need. They have the opportunity to become high performance organisations that private firms will envy for their sense of common purpose.

Clusters

Social Enterprises tend to appear in clusters, grouping together in areas where there is a well-managed agency facilitating networking. Assisting a new Social Enterprise to network with existing successful Social Enterprises is an important part of the development process.

7. FINANCE.

Social Enterprises' financial structures are different from other businesses. They also have access to targeted social investment funds and in some cases make use of tax credits for employee ownership. The financial structure is characterised by Self-sufficiency. Social Enterprises are viable trading concerns, making a surplus from trading. They may, legally, be either profit making or not-for-profit enterprises. However their surplus/profits are distributed as profit sharing to stakeholders or used to benefit the community rather than as a return on share capital. This distinguishes Social Enterprises from voluntary sector organisations, which depend on donations and grant aid.

Sources of Finance in Social Enterprises with formal members, the equity may comprise:

- **Member Shares** – an investment by each member varies a lot, though the individual member's share is generally small, often less than €100.
- **Member Investment** – voluntary investment by some members in the form of member loans or preference shares.

Other sources of finance may include:

Retained Earnings including capital grants – capital grants can be shown on the balance sheet and amortised at the same rate as the assets they financed (This means a capital grant need not be included in income in the year received).

Bank Loans – banks will provide loan funds to Social Enterprises on the same basis as they lend to the private sector. Some banks also have special programmes and products to support Social Enterprises. Some banks also have staff that specialise in supporting community enterprises and/or co-operatives.

Social Investment Funds – a number of specialist funds target Social Enterprises. These funds may require less security than banks and will have staff that are knowledgeable about the Social Enterprise sector.

Grants – some Social Enterprises, in particular those addressing social exclusion, receive start-up & capital grants. In disadvantaged communities these substitute for equity investment by financing capital purchases and start-up costs. These grants are usually tied to training programmes or the delivery of other social benefits.

Assets, Liabilities & Security

The ownership of assets in Social Enterprises is similar to other businesses with one exception. Social Enterprises may have had assets donated or transferred to them by supportive organisations. The transfer documents may contain special covenants limiting the use of the assets or governing the disposal of the assets if the business is wound up.

If the Social Enterprise is a trading subsidiary of a charity, it may covenant any profits to the charity. In this case, the Social Enterprise will not normally build reserves, as profits have been transferred to the charity.

There is also a “group” structure problem, i.e. it is effectively impossible to lend on a “group basis” to a charity and its trading subsidiaries. Often the charity owns the assets and cannot use an asset as a charge to securing the borrowing of its subsidiary.

Social Enterprises may be incorporated with limited liability as with other companies.

8. LEGAL STRUCTURES.

Social Enterprises operate within a variety of legal and organisational structures. They need advice on these legal forms, help finding lawyers who are experienced in these structures and sometimes assistance explaining the structures to banks, funders etc.

In establishing new Social Enterprises, the principle of ‘structure follows strategy’ is important. Communities should first focus on developing viable business strategies. Once the objectives are clear, the community can adopt the appropriate legal structure from a large menu of options. Common features of the legal structure include:

Social Ownership - A common feature is that the members or trustees control Social Enterprises. They have voting rights at the annual general meetings and elect the board. (Where a trustee model is used, the members and the directors may be the same people.)

An investment may be required for membership, particularly in employee-owned businesses and co-operatives, but the investment is a fixed amount and the same for all members. Members may make additional investments such as loans or preferred shares, but voting rights are based on membership not the level of investment.

Board of Non-executive Directors – In Social Enterprises, the boards are comprised of volunteers elected by members. Boards play an important role in setting strategy and overseeing management. The board functions include ensuring:

- that the firm remains financially viable;
- appropriate member participation and development;
- that the enterprise’s social goals are incorporated in its activities;
- the accountability of management.

Boards generally do not include executives or managers but may include elected employee representatives and, in some cases professional advisors.

Unique Equity Structure – The finance structure of Social Enterprises is different from private businesses.

Charitable Status - Most Social Enterprises do not seek or qualify for charitable status. Some social firms whose purpose is the ‘alleviation of poverty’ (through employment) for disabled people are charities. Social Enterprises that have a strong regeneration focus, such as Development Trusts, may be closely linked with a charity. The charitable arm will be used for training and other community development activities. The business arm, potentially a subsidiary, will not have charitable status.

Co-operatives - A co-operative is an enterprise like any other, but it is also an enterprise that exists to serve the needs of the members who own and control it, rather than solely to provide a return on investment. All enterprises exist to serve the interests of their cardinal stakeholder groups. For traditional companies that means investors, however in a co-operative returns on capital (which are in some cases permitted) must always be subordinated to other interests. In fact a non-co-operative enterprise might be called an association of capital (or investor-driven business) whereas a co-operative is an association of people (or people-driven business).

There is a place in a modern mixed market economy for a model of business that is driven by the needs of the people who use its services rather than those who invest their capital in it.

Indeed such forms assist the efficient and sustainable functioning of markets. According to the definition of the International Co-operative Alliance (ICA) a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

The defining characteristics for a co-operative are:

- Possibility of free and voluntary association and withdrawal from the enterprise;
- Democratic structure, where each member has one vote (or a limited amount of votes), majority decision making and an elected leadership accountable to its members;
- Equitable, fair and just distribution of economic results.

A co-operative can adopt any kind of legal form, which can be adapted to the above definition and characteristics. A co-operative does not necessarily require specific co-operative legislation, its co-operative nature can be defined by its internal statutes (by-laws or articles of association). However specific co-operative laws exist in most Member States (see Annex 1) and provide an adapted framework for their operation and the protection of members and third parties.

Co-operatives vary considerably in size, sector and type of membership. The traditions of cooperatives vary considerably between Member States. The benefits that members and other stakeholders achieve from their transactions with the co-operatives also vary greatly. A cooperative can be active in almost any field where there is a group with fairly homogeneous and common needs. For example:

- Where the members are farmers, the benefits will include quality inputs at fair (equitable) prices and economies of scale in adding value to, marketing and distributing produce;
- Where the members are consumers, the benefits will include the availability of quality goods at fair (equitable) prices;
- Where the members are independent retailers, the benefits will include economies of scale in marketing and distribution, and greater common buying power;
- Where the members are workers, the benefits will include participation in the management of their enterprise and a fair (equitable) reward for their labour;
- Where the members are primary producers, the benefits will include access to markets for their produce and more control over the value added;
- Where the members are savers or borrowers, the benefits will include a fair (equitable) return on their savings and access to credit at a fair (equitable) rate of interest.

It is particularly useful to divide co-operatives into three categories according to the interest of their main stakeholders and members/owners:

- Customer co-operatives where the consumers of the services of the co-operative own the business;
- Client (producers) co-operatives where producers of certain products or services own the co-operative for purpose of marketing or further processing their products and services, or to purchase jointly raw materials or means of production;

- Employee owned co-operatives, where the employees of the business own the enterprise. Co-operative members may be either physical persons or legal persons. Co-operatives of legal persons can be an effective form of business co-operation, alongside for example networking, strategic alliances and franchising.

An interesting recent development is Multi-stakeholder co-operatives. These can accommodate wider interests than traditional co-operatives (which are oriented to members' interests) or capital companies (which are oriented towards investors' interests). These stakeholders may include employees, consumers, local authorities and local enterprises.

A further distinction can be made between "first tier" and "second tier" co-operatives, the former being constituted of individual (physical or legal) persons, the latter being a "cooperative of co-operatives". Second tier co-operatives are usually established to provide common services (buying, marketing, distribution etc.) to member co-operatives. They are controlled by their member co-ops and their democratic structures are normally based on a board composed of persons elected by the boards of the member co-operatives.

Co-operative enterprises tend to be very sensitive to their social responsibilities. Their first responsibility is naturally towards their members, but their decentralised and democratic nature means that they are firmly rooted in local and regional communities. Their decisions are therefore more likely to take into account these interests than in a company where returns on capital are the primary concern.

As one type of economical co-operation, co-operatives have certain similar features to mutuals and associations in their organisation and objectives. These types of organisation are therefore collectively referred to as the "social economy" in some Member States. Credit Unions and worker controlled companies (such as the *Sociedades Anónimas Laborales* in Spain) also have many similarities to co-operatives, but are excluded from the scope of this document on the basis that they do not entirely fulfil all of the co-operative principles of the ICA definition.

Co-operatives are explicitly recognised in European Union as one type of 'companies or firms' under the Treaty of Rome (Article 48).

Within all Member States co-operatives have a legal framework within which they can operate (although there is not always a specific co-operative law) and which protects the interests of members and third parties. However it is more difficult to ensure that cooperatives are treated equally and fairly vis-à-vis other forms of enterprise.

Co-operatives have the right to expect equal and fair treatment in the market place. In order to address their potential disadvantages two approaches are possible:

- A more flexible regulatory *régime* can be applied. For example allowing access to traditional equity capital, or voting rights related to share-ownership;
- A stricter regulatory environment can be applied with particular advantages or derogations being justified in return for respecting these rules.

The choice of approach differs significantly between Member States. Of course in all cases the approach is nuanced and in reality a combination of both exists. The dilemmas created by both approaches are evident. The first approach dilutes the co-operative identity and may ultimately call into question the need for a different legal form. The second approach can lead to accusations of unfair advantages, or worse still, use of the co-operative form purely as a means of avoiding tax. Any such advantages or derogations must be a measured response to

the restrictions implicit in the co-operative form. In those countries where no specific cooperative legal form exists the possibilities of the second approach are limited.

Social firms - A Social Firm is a business created for the employment of people with a disability or other disadvantage in the labour market. It is a business which uses its market-oriented production of goods and

services to pursue its social mission. These firms are tackling new sectors such as ICT and Tourism instead of the traditional sectors for disabled people (assembly, furniture work etc).

One of the core objectives is to enable disabled people to become economically independent. Paying wages at market rate is an important aspect of social firms where a minimum of 25% of the employees will be disabled people. In social firms, work opportunities are the same for disadvantaged and non-disadvantaged employees alike and employees have the same employment rights and obligations.

Social Firms create supportive workplaces but in businesses which are sustainable. The Social Firms registration scheme identifies a minimum sales of products/services to total turnover ratio of 50%, so that Social Firms can be distinguished from projects which have an enterprise element but whose core purpose is care, rehabilitation or training.

9. FREQUENTLY ASKED QUESTIONS ABOUT SOCIAL ENTERPRISES.

Are Social Enterprises real businesses?

Yes, they are enterprises directly involved in the production of goods and the provision of services to a market. They seek to be viable trading concerns, making a surplus from trading. While they have explicit social aims such as job creation, training and provision of local services, they aim to be self-sufficient and not to depend on grant funding. Some, particularly those addressing social exclusion, receive start-up and capital grants. In disadvantaged communities these substitute for equity investment by financing capital purchases and start-up costs. Revenue grants are usually linked to training programmes or the delivery of other social benefits.

Where do Social Enterprises find finance?

In addition to equity contributed by the community, Social Enterprises raise their capital from a mixture of sources. Banks will provide loan funds to Social Enterprises on the same basis as they lend to the private sector. Some banks also have special programmes and products to support Social Enterprises. Several banks provide special packages to Credit Unions, while others offer special products for employee-owned businesses particularly ESOPs. Some banks also have staff that specialise in supporting community enterprises and/or co-operatives. A number of specialist social investment funds target Social Enterprises.

What is the role of management in a Social Enterprise?

Within Social Enterprises, leaders at both board and management levels manage decision-making. Their role is to make things work and work well. They ensure that proper and effective decision-making processes are designed, understood and followed. They keep the organisation focused on its common purpose. Leadership in Social Enterprises requires both good political managers, providing community leadership, and good task leadership focused on implementation and execution.

Is there a model structure for creating Social Enterprises?

Social Enterprises operate within a variety of legal and organisational structures. In establishing new Social Enterprises, the principal of 'structure follows strategy' is important. Social Enterprises bring together communities around a common purpose, often in demanding circumstances. Successful Social Enterprises tend to have a strong underlying sense of common purpose and are mission driven, often in reaction to social and economic problems. These could be: the closure of a factory, social exclusion, the decline or absence of an important service or a lack of employment opportunities.

What type of development support do Social Enterprises need?

Social Enterprises tend to be found in clusters, where a local support infrastructure and network exists. Success is often underpinned by being able to learn from each other and to access specialist expertise and support in their locality. Business networks and clusters are the focus of much economic development thinking. The success of mainstream clusters is explained by the informal forms of co-operation found at the heart of such networks. Due to their nature as social organisations, there is a natural fit between Social Enterprise and the approach to business clusters more generally.

Do Social Enterprises rely on good will or the charity of their customers to market their products?

In the 1980's, some community businesses were closely linked to local government initiatives and training programmes. They required ongoing subsidies to operate. Now communities recognise the need to build sustainable businesses that out live the Single Regeneration Budget or other grant programmes that financed their start-up. While some successful community businesses deliver local services, (community-owned retailing or Credit Unions for example) most now seek wider market opportunities. As with other businesses, finding a viable market is the key to sustainable community businesses.

What are the key success factors for a Social Enterprise?

The strongest Social Enterprises have:

- A strong internal understanding and consensus about the business's mission and strategy - thus keeping the business externally focused.
- Robust staff development and training programmes.
- Continuous improvement in the quality of community participation.
- A strong enterprise orientation involving good marketing and business skills.

10. SOCIAL ENTERPRISES' GLOSSARY.

Asset Based Development ~ a development strategy that recognises that the possession of tangible assets – land, buildings or a dedicated income – is the key to achieving the goals of self-sufficiency, independence and sustainability which underpin community based regeneration organisations.

Capacity Building ~ the use of organisational development models and training to develop a community's skills. The aim is to increase the ability and willingness of community members to initiate projects, programmes, and businesses, to organise these ventures, and to keep them running. This body of talent, skill and experience is known as community organisational capacity. It is at once the key product and the driving force behind the community's economic development.

Community Business ~ a trading organisation which is set up, owned and controlled by the local community and which aims to ultimately create self-supporting jobs for local people and be a focus for local development. The term Community Business is normally used for Social Enterprises that have a strong geographical definition and focus on local markets and local services.

Community Finance Initiatives ~ are special loan funds that lend to entrepreneurs and to Social Enterprises in disadvantaged communities and to groups that are likely to experience difficulties launching their ideas. They may operate in defined deprived geographic areas, focus on particular disadvantaged groups or have a mandate to support particular types of Social Enterprises.

Co-operative ~ an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Corporate Social Responsibility ~ a wide-ranging agenda that involves businesses looking at how to improve their social, environmental and local economic impact, their influence on society, social cohesion, human rights and fair trade. CSR is an issue both for large multinationals and for small locally based businesses.

Credit Unions ~ a financial co-operative which is owned and controlled by its members. As well as being a good savings option, with successful Credit Unions paying an annual dividend, the money saved can be used to make low interest loans to other members. Only people who come within the common bond of the Credit Union can join it and make use of its services. They are directed and controlled by a volunteer Board of Directors.

ESOP ~ stands for 'Employee Share Ownership Plan', a plan that allows employees to participate in their businesses on a significant scale in a tax efficient way. An ESOP is a combination of an employee benefit trust (EBT) and a share distribution mechanism approved by the Inland Revenue (in the form of a profit-sharing trust, a company share option, or a savings-related share option). An unapproved option scheme can be used in some cases.

Fair Trade ~ is an alternative approach to conventional international trade. It is a trading partnership, which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by raising awareness and by campaigning.

Intermediate Labour Market Projects ~ provide training and work experience within the supportive structure of a community business. The work experience, often a year in length, provides a stepping stone to employment.

Managed Work Space ~ buildings, frequently converted buildings in deprived areas, that provide accommodation for start-up and existing businesses. In addition to leased space, new businesses also have access to training and advice. They also provide an important income stream to community regeneration organisations such as Development Trusts.

Mutuals ~ take many forms: Credit Unions, co-operatives, building societies, employee-owned businesses. They are organised by their members, who band together with the common purpose of providing a shared service from which they all benefit.

Mutualisation ~ refers to the increased use of mutual organisation to provide services under contract to Local Authorities, either new services or existing services transferred to new mutual structures.

New Generation Agricultural Co-operatives ~ represent the newest generation of producer co-operatives. Their major focus is on 'Value-Added' processing rather than limiting themselves to marketing 'Commodities'.

Non-profit or 'Not-for-profit' ~ terms commonly used to describe organisations which do not distribute profits, although they seek to make an operating surplus.

Social Audits ~ Social and ethical accounting and auditing are all methods of measuring and reporting on an organisation's social and ethical performance. An organisation which takes on an audit makes itself accountable to its stakeholders and commits itself to following the audit's recommendations.

Social Business ~ Term sometimes used by Social Enterprises where there is a small core of members who act in a similar way to trustees. Social businesses often focus on providing an income or employment opportunity for disadvantaged groups, or providing a service to the community.

Social Capital ~ by analogy with notions of physical capital and human capital-tools and training that enhance individual productivity-"social capital" refers to features of social organisation, such as networks, norms, and trust that facilitate co-ordination and co-operation for mutual benefit. Social capital enhances the benefits of investment in physical and human capital.

Social Economy ~ is seen as existing between the private, market sector on the one hand and the public sector on the other and is separate from both. It includes not only Social Enterprise organisations but also voluntary organisations, foundations, trade unions, religious bodies and housing associations.

Social Entrepreneurs ~ An entrepreneur has imagination to identify new opportunities and determination to bring them to fruition. A social entrepreneur does so for public good rather than private profit.

Social Exclusion ~ is a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown.

Social Firm ~ is a business created for the employment of people with a disability or other disadvantage in the labour market. It is a business which uses its market-oriented production of goods and services to pursue its social mission. A significant number of its employees will be people with a disability or other disadvantage in the labour market. Every worker is paid a market rate wage or salary appropriate to the work whatever his/her productive capacity. Work opportunities are equal between disadvantaged and non-disadvantaged employees. All employees have the same employment rights and obligations.

Surplus ~ the profit in many Social Enterprises is referred to as surplus, to reflect their 'not-for-profit' status.

11. SOCIAL ENTERPRISES: THE ITALIAN SITUATION.

If we analyze the issue from the regulatory aspect, the social cooperative can be seen as the "social enterprise" par excellence.

The law instituting Social Cooperatives in Italy is L.381 from 1991. This institutionalized an experience begun almost fifteen years earlier with: the "Comunità di Lavoro" ("Work Communities"), "Comunità di Accoglienza" ("Reception Communities") and "Comunità Terapeutiche" ("Therapeutic Communities"), along with the "Social Solidarity" Cooperatives, that all were slowly transformed into "entrepreneurial" subjects, having as their founding value "working with" and not "working for", implying the need to give a specific organizational context, where the requirement of 30% of member-workers in disadvantaged situations (prisoners, ex-prisoners and prisoners on release programs, former drug addicts, the psychologically and physically disabled, former mental patients, alcoholics, working age minors in difficult

family situations, gambling addicts) becomes a criteria for caring for these enterprises in addition to a qualification.

Law 381/1991 defines the role, qualification criteria, the tasks of social cooperation, the relationships with public bodies, forms of financial assistance and beneficiary subjects.

Role:

Social cooperatives have the purpose of pursuing the general interests of the community in human advancement and the social integration of citizens through:

- the management of socio-health and educational services;
- the performance of various activities - agricultural, industrial, commercial or service oriented - aimed at the integration of disadvantaged persons into the workplace.

Beneficiaries and qualifying criteria:

- Disadvantaged persons are considered as: those with physical, psychological and sensory handicaps, former mental patients, subjects under psychiatric treatment, drug addicts, alcoholics, minors of working age in difficult family situations, prisoners placed in alternative methods to detention, former prisoners and gambling addicts;
- disadvantaged persons must constitute at least thirty percent of the member-workers in the cooperative;
- the condition as disadvantaged person must be documented by the public administration;
- apart from member-workers, social cooperatives can accept volunteer members who perform their activities free of charge, but their number can not go beyond half the total number of members;
- social cooperatives must be registered with the regional list of cooperatives in the social cooperative section;
- social cooperatives are considered “ONLUS”, (i.e. the Italian acronym for Socially Useful, Non-profit Organizations) and benefit from the total or partial reduction of certain government taxes;
- the redistribution of income, funds or capital reserves to members is expressly forbidden;
- there is the express obligation to use income for performing institutional activities.

Social cooperation, public bodies and benefits:

- Public bodies, including economic bodies and joint-stock corporations with public participation, as an exception to regulations regarding contracts with the public administration, can negotiate agreements with social cooperatives for the supply of goods and services different from social-health and education services, with an estimated net cost, before VAT, lower than EU directives regarding contracts, as long as these agreements are aimed at creating job opportunities for disadvantaged persons;
- for those contracts with a cost higher than those established by EU directives, public bodies and joint stock corporations with public participation may include, as part of the conditions of fulfillment, the obligation of carrying out the contract with the employment of disadvantaged persons and the adoption of specific programs of recovery and integration into the workplace;
- the overall rates for contributions relative to social security and welfare insurance required by the social cooperatives for disadvantaged persons are reduced to zero.

The development of social cooperation can be summarized in three historical phases and with several key words:

Key Words

| <i>First Phase</i> | <i>Second Phase</i> | <i>Third Phase</i> |
|--|---|---|
| Association (Associazione) 1978/85 | Social Solidarity Cooperative (Cooperativa di Solidarietà Sociale) 1985/91 | Social Cooperative (Cooperativa Sociale) 1991/2001 |
| Alternatives | Context Social Role Normality Protagonists | Entrepreneurial Subject Social Enterprise Social Economy Political Role Network Point Being a Bridge |
| Volunteers | Volunteer Service Member Operator | Social Entrepreneurs Member Worker Member Volunteer Disadvantaged Subjects |
| Militancy | Militancy + Professionalism | Professionalism |
| Egalitarianism | Roles Participation “Small is good” | Organization Contract |
| Work Therapy | Protected job On-the-job training Education at work Educational service Subsidies and | Training Personalized Project Productive Work Work Fellowship |
| Creativity | Production of goods | Objectives Results Innovation Quality Credibility Competitiveness Market Legality |
| Free of Charge Self-financing | Balance | Earnings Social Balance Sheet |
| Precarious | | Security Autonomy |
| Manual work | | Technologies |
| Socialization | Social Solidarity | Community Economy |

The term “disadvantage” in the Italian sense assumes a very distinct meaning with respect to that used in European policy documents which do not distinguish between the different situations of disadvantage (the cause of grave social stigma for disadvantaged persons) for a person who is undergoing a rehabilitation course. These disadvantages are not limited to the exchange “money/work”, neither can they be transformed into a judgment of the “value” of the person; persons who, in the overwhelming majority, are unemployed because they are disadvantaged and do not lose their disadvantaged status the moment they are placed in the circuit of rehabilitation and work. This is why work, social production, and the production of monetary income must be seen as tools used to restart the relationship of exchange of a person who gives work, hours of his/her own life, physical and mental effort, in exchange for money and collaborative working relationships. This money and those relationships will then be exchanged for something else. In other words, work allows us to begin the practice of relationships. Nothing assures us that this start or restart of exchange practices might lead as far as creating friendships and loves and that these might potentially be reciprocated. What helps us support the weight of our contradictions without being crushed is above all the sentiments and love we feel and that others feel for us. Rehabilitation, and work as part of a course of rehabilitation, must create certain conditions useful in ensuring that a person is capable of being able to love someone else and have this reciprocated.

A New Type of Cooperative - Some Historical Background.

Relief for the financial strain on the national system of social welfare has been found in Italy through an innovative new form of cooperative. A blend of old and new features, using volunteers and what would be considered less desirable workers, the Italian “social cooperatives” are deserving of notice. These cooperatives developed to furnish welfare services to the “economically weaker layers of society” as Italy, like other western European nations which had developed extensive “welfare state” programs, sought to diminish the financial burden of such programs. They were also able to make a dent in the unemployment problem, which by the 1980’s was extensive in Italy as well as other west European countries. Certain marginal groups of the unemployed were given work in the co-ops, under special arrangements which also made use of volunteer help.

The first experiments with this new entrepreneurial form began in Italy in the late 1970’s. Major growth followed the enactment of a law on social cooperatives. But that law, first drafted in 1981, was ten years in the making, as political parties and Italy’s major cooperative groups debated its exact form. The law was passed late in 1991.

The downsizing of the state-sponsored mental health system gave rise to a particular need to care for patients released from mental hospitals. At first this need was met by mostly Catholic volunteers, banded in “associations.” Thus, the motivation for beginning what at first were termed “social solidarity cooperatives” was initially philanthropic, based on a Christian desire to help those in greater need. As the movement grew, so did the issue of the role of volunteers.

The legislative debate of the 1980’s clarified a number of issues. First, that the preferred legal form for these organizations should be that of a cooperative, though not a co-op in the traditional sense, with a primary aim of mutual benefit to its members. However, the cooperative movement had throughout its history also assigned itself a role in the broader community; and this aspect of cooperative philosophy had been recognized in the Italian Constitution of 1946, which provided that cooperatives may have a social or community function. On this clause could be based a legal recognition of social cooperatives. It must be said that the Italian cooperative movement, one of the strongest in Europe or in the world, was at first sceptical about the mutation of the traditional forms; and that in the end the law on social cooperatives was supported by the Catholic-backed network of cooperatives, but not by the Socialist-oriented Lega.

Second, the work of social cooperatives was to be oriented toward the local community, and toward the segments of that community in greater need. Two distinct areas of need were identified, corresponding to social welfare services and to unemployment. Third, to perform these services the new organizations were

allowed, in fact required, to create a diverse membership structure, including: normally employed working members; special workers, handicapped in some way, required to comprise 30% of the co-ops dealing with unemployment; volunteers, whose numbers and scope were limited; and user non-worker and non-volunteer members, or physical or legal persons providing financial support.

The law regarding social cooperatives gave impetus to their expansion. What are the salient provisions of this law? Several have already been referred to: first of all, re-orienting the purpose of the co-op, from mutual benefit for members to primary benefit to the local community. The law further clarifies two basic forms: (A) social service, in the areas of health care, care of the elderly, and education; and (B) the creation of employment for certain disadvantaged groups: namely, physical or mental invalids, present or former psychiatric patients, drug addicts, alcoholics, young workers from troubled families, and criminals subject to alternatives to detention. In addition, the law regulates and restricts the role of volunteers, who must comprise less than 50% of the workforce, whose work should be only complementary to that of paid workers, and who may be reimbursed only pocket expenses (although they do receive health insurance).

Employment standards and benefits are basically those of the Italian state, but with certain advantages to the cooperatives. For handicapped members, the co-op need not make welfare contributions to the state, and it may also compensate them at lower than standard pay rates (which are now conformed to those of the European Union), presumably based on their lower productivity. Social co-ops also receive a 25% reduction on land and mortgage taxes.

Beyond these regulations at the national level, governance of the individual social co-ops, or of the regional consortia which link them together, is disaggregated to the provinces and regions. Thus the regulation of work intended to benefit local communities is handled on a local or more nearly local level. Also foreseen in the 1991 law, and significant in the growth of the social cooperatives, has been the linkage to organs of government which in effect have been the co-ops' leading customers. This connection holds for both the social service and the employment cooperatives. Government funding for programs contracted with the co-ops has been and is a major portion of their budgets.

If the element of membership structure has evolved, the size of the social cooperatives has remained true to the traditional blueprint. Any given co-op provides its service or employment only in one locality: the terms of the 1991 law tie them to serving only in a given municipality. Still, these are small economic units, and Italy today is a sophisticated economy with a number of giant corporations. The solution to this problem has been the formation of geographic consortia which link all the social co-ops of a locality and/or region. A network of some 40 regional, provincial and national consortia now provides a superstructure, or support structure, for all of Italy's social co-ops. The consortium provides its member co-ops with advantages deriving from a larger economic scale. It is also politically useful in streamlining the dealings between the regional political authorities and the member co-ops. At the national level, the Consorzio Gino Mattarelli functions also as a research organization which studies the workings and development of the social cooperatives. The regional consortia may be seen as second level cooperatives; or as support structures, giving assistance to their member co-ops, as has so often proven useful in cooperative history. They too are a vital component in the co-ops' success.

The Italian social cooperatives have "cousins" in other European states. The problems that brought them into being the financial crisis of the European welfare state system, along with surging levels of unemployment in the 1980's, were not limited to Italy. Other countries came up with their own programs, often though not always in cooperative form. CECOP (European Confederation of Workers' Cooperatives, Social Cooperatives and Participative Enterprises), an umbrella committee within the framework of the European Union, centralizes information on them.

Still, certain elements can be identified as specific to the Italian situation. The original motivation to help those in greater need was based on Christian principles; that motivation at first took the form of volunteer associations to address specific Italian needs. The volunteers brought to these actions their values of social solidarity and building of community. The Law of 1991, which codified the former volunteer associations

and co-ops into a defined cooperative form, prescribed limits but also gave the co-ops specific rights and benefits, and more generally, a positive attitude of support from the state. The law also formulated the connection of the co-ops to the local community. In the case of the “B” coops, the law created a wide scope of help for people with specific impediments to employment.

Further, the new firms could connect to a strong old cooperative tradition in Italy, which has many worker cooperatives and a couple of national cooperative federations. For the Italian cooperative movement as a whole, the social co-ops have meant the exploration of the broader social mission of cooperative work, and its orientation toward the whole community, an aim which goes back to the beginnings of the movement.

12. ITALIAN CO-OPERATIVES AND SMEs FINANCING LAWS.

| SOURCE OF FINANCE | WHAT THE LAW OFFERS | WHO THE LAW IS FOR | REFERENCES |
|---|--|---|---|
| Law 10.4.91, n°125 “Positive actions for the realization of equality between men and women in job ambit” | Funds (total and partial) for projects for promotion of employment of women and realization of parity | Enterprises, also in co-operative form, economic public administrations, syndicates, training organizations | Labour and Social Welfare Ministry |
| Law 31.1.92, n°59 “New regulation for co-operative societies” | Financing or contributes for constitution of new co-operative enterprises: development of technology, increasing of employment | Co-operative enterprises and syndicates | Work and Social Welfare Ministry, Provincial Direction of Work Ministry, Co-operative Confederation, General Association of Italian Co-operatives, National Union of Italian Co-operatives, National League of Co-operatives and Mutual associations. |
| Law 19.7.93, n°236 “Urgent interventions for employment sustain” | Financial facilities. Services of technical assistances and entrepreneurial training | Co-operative societies and enterprises with requirements of law 44/86 for the promotion of new enterprises, for increasing of employment and development of new enterprises of young people in cultural, tourism ambit for young people in south Italy | Society for young people’s enterprises (Rome), Labour and Welfare Ministry |
| Decree Law 1.12.97, n°468 “Revision of discipline on social work” | Financing facilities and contributes of payment | Public and economic administrations, co-operative societies and syndicates | Labour and Welfare Ministry |
| Law 28.2.86 n°44, revised with Law 29.3.95 n°95 “Promotion and development of young people’s entrepreneurship and in south Italy | Contributes for investments and technical assistance for project in the field of agriculture, industry and handicraft and also for furnishing of services for enterprises of every sector. In according with law 23.12.98 n° 448 (financing law) they have be expanded regulation for social co-operative law. | Societies, also the product and work, composed in the majority by young people from 18 till 29 years old or young people from 18 till 35 resident in 1,2,5 b project area. In case of co-operatives it’s necessary to be inscribed in Central Register of business. | Society for young people’s enterprises |
| Law 23.12.98 n°448 (financial law 1999) “Public financing measures for stabilization and development | | Social Co-operatives created following law 8.11.91 n°381 | In order to declaration of Premier |

13. STUDY CASES.

a. Ceramic products valorisation centre.

Project's objective.

My project idea become from the opportunity to recuperate part of manufacture magazines "Ceramic Este" to create a documentation and valorisation centre of ceramic itself.

This initiative will give Este (a small town near Padova) the opportunity to strength its own identity, new energy for the research, for professional training and for productive valuation.

This structure has to be valorised for its historical and cultural tradition.

Moreover this initiative is a way to improve and better tourism, to valorise the city and it is a possibility to create a museum where to give important archaeological evidence of ceramic tradition, which continues since Middle Age.

This project aims to create a "centre of centres" in fact it will contain the ceramic documentation centre, the projecting point of shapes and decorations, and the centre for training paths ad hoc.

In particular it will contains

- Ceramic documentation centre, with a didactic exposition, a cataloguing and the archive;
- Projecting centre of shapes and decorations with CAD,
- Research centre of different techniques of work,
- Bibliotheca specialized in ceramic sector,
- Box office for selling products,
- Guided visits of the Centre and of the Museum,
- Specializing courses for ceramic work.

Enterprise.

History: this project aims to cerate a new destination use of a part of the firm "Ceramic Este" in particular where to find stamps magazines and past sets of samples.

Lower floor will be destined for the production of ceramic.

Visibility of ceramic activities will be possible through glass partitions, and will be more interesting and suggestive for visits at upper floor in the valorising Centre.

Organization.

Centre will be organized by me as an individual firm.

The centre will have,

- a centre co-ordinator (an half-time);
- a ceramic expert secretary;
- consultants and teachers of ceramic and restoration;
- an historian (teacher in pension) for the didactic material catalogue and for organize the centre from the beginning of the project;
- Technicians (ex- employee of the firm to save work tradition).

Moreover they will be organized working-groups by teachers, decorators, students who have finished courses at Este Art Institute.

The service.

Ceramic Valorisation Centre will be composed by

1. a Museum zone,

2. a laboratory zone “play with ceramic”,
3. an exposition zone of models, stamps, instruments,
4. a bibliotheca for meetings and stages.
5. a projecting centre,
6. a ceramic and restoration techniques training paths centre,
7. a ceramic course for tourists and hobbies,
8. a truck shop zone for ceramic product,
9. a coffee zone inside the Centre,
10. a garden zone for shows and opening expositions.

In this way profits will be individuated between

- Museum entering ticket,
- Association quote,
- Selling of ceramic products,
- Restoring of private goods,
- Quotes for courses of students, schools in laboratories,
- Quotes for didactic materials,
- Selling of documents and other goods and products,
- Quotes for training paths.

Another element of income is the sponsor of events.

Elements of innovation of this project.

This kind of Centre is the first in North Italy: the originality consists in a new idea of a “dynamic-Museum” instead of the static ones and that’s why it’s placed inside the firm.

Objective of my project is to joint the beauty of the place with the quality of cultural services.

Prices: Prices will be different in order to services given.

Advertisement: I will create a new kind of advertisement, through internet and through tourism information channels and other events.

I will also look for collaboration with public organization so to inform schools, teachers, children and parents.

Promotion: I will participate at fairs, expositions, seminars and congress during which I will explain my entrepreneurial experience.

Productive Structure: I will transform part of inner spaces in order to better the Centre management and to expand laboratories.

I will also create a synergetic and structured collaboration between teachers, artists, and technicians who will frequent the centre.

b. Agri-tourism structure.

Project's object.

“It's time that I have the idea to open a bed & breakfast in Padova, that's a historic and central city between other prestigious cities such as Venetia, Verona, Vicenza, Treviso, and also Bologna e Firenze. This B&B will have a “competitive plus” of organizing a furnished rooms with some personal computers to allow clients to surf on internet, send and receive e-mail, play and chat, with the possibility moreover to consult a lot of sites showing maps of interesting nearing cities with cultural and historical information. I admit that not every kind of client is interested in surfing on internet but I will supply with a constant monitoring and furnishing of information about events, exhibits, markets, concerts, theatre and sport events.

Objective of this project is to be competitive with other structures such as pensions and hotels for prices, comfort and hospitality.

Clients will have three double rooms and an Italian or English breakfast. In other words I will give people which travel the opportunity to find a comfortable place and the possibility to be connected in Internet, that's becoming a cultural way of communication.

The enterprise.

I want to give a birth to this project as individual firm of my proprietorship.

I will personally manage B&B: it's the first time I begin an enterprise but I've always work directly with clients.

I'm studying philosophy and I love theatre: in fact I have a theatrical company since several years and I represent opera.

Italy represents a very interesting destination for Italian and foreign clients as it regards tourism area. It is an attractive and unique Land for naturalistic, ethnographic interests and also for holiday and religious destinations. In front of all these possibility, receptive structures are very inadequate. In fact on one hand hotel industries apply prices higher in relation with services; on the other hand structures are stereotyped and rude, in which clients are undetermined and not guests: in fact there are not exchange between clients and structures: this is the mass tourism.

As integration and complement of hospitality offers it's going to develop different and innovative circuits after the evolution and research of landscape valuation such as Bed&Breakfast.

This typology of apply begun to spread out at first with private initiative, copying Irish model and then for the intervention of local associations and organizations.

Regulation of B&B activities is actually demanded to Regions. The fiscal and legal ambits apply that's not an entrepreneurial activity, because of its characteristic of non professional and occasional.

After a market flow analysis, tourism is growing up and B&B is one of the activities pointed by 47% of opinion leader (part of population made by persons who work in fields of culture, tourism and leisure time), for the creation of new enterprises.

In a list of activities for the creation of new enterprises B&B sector is placed at 6°.

Opinion leaders have considered this kind of offers as a brilliant formula for people who love travel and want to know local customs and traditions.

Essential services are overnight stay, breakfast, clean-up of rooms, assistance to clients and co-operation with other B&B inside a network, renting of sport equipment.

Manager of a B&B has to direct primary to young couple and singles and moreover to foreign, in particular becoming from North of Europe.

Why in Padova?

The city offers a lot of itineraries, cultural visits and enjoyment.

Moreover the competition is very limited: after a study on Internet I know that there are only Three B&B in my city.

The marketing.

Clients of B&B are primary made of persons who want to travel all over the year, also out of traditional tourist circuits (such as “all inclusive” travel). New clients want to structure in autonomy their holiday, for length, for destinations and direct contact with its history and traditions.

Travels is considered as adventure and discovery. Accommodation however should maintain those characteristic which lets traveller to feel security, cultural contacts and caring with hosts.

We look for two kinds of clients:

- a. direct clients: travellers with the characteristic as above described, who will contact and contract directly with B&B;
- b. indirect clients: buyers who work in tourism market buying and selling packages to direct clients.

Communication plan

Promotion.

Modality of promotion will be structured through:

- Web Site, with possibility of booking and payment with Internet and credit card;
- National Yellow Pages;
- Publication advertising on daily paper or magazine in tourism sector;
- Intervention on local radio with interregional diffusion;
- Contacts with association of cultural, naturalistic and religious ambits.

c. Children's care centre.

Project's object.

Children's Paradise is an Under 5's child care centre based in Vicenza, opened a new state of the art nursery on Thursday 24th January.

The centre situated the centre of city, combines state of the art equipment with quality childcare and learning facilities encouraging child progression in a warm, friendly, learning environment giving peace of mind to parents. The new child care centre provides the highest standards in both nursery facilities and customer service, aiming to maximise potential of each child from 3 months to school age.

The success of Children's Paradise is through the 'partnership triangle' which encourages the link between the teacher, the parent and the environment in order to give a child a secure and happy beginning.

The enterprise.

I have been planning the Children's Paradise for over a year, it was a natural progression when the original nursery reached full capacity. I have always strived to achieve a high standard in the nursery's environment, customer service, and the quality of staff that I employ and the Investors in People award is like a seal of quality.

The marketing.

I wanted to help young mothers in order to facilitate their reintegration in job world after their pregnancy. The centre can support motherhood for young children will be supported and followed by great experts in this field.

Communication plan

Promotion.

Modality of promotion will be structured through:

- Web Site, with possibility of booking and payment with Internet and credit card;
- National Yellow Pages;
- Publication advertising on motherhood magazine;
- Contacts with pregnancy associations.