

## SOCIAL ENTERPRISE IN AN ENLARGED EUROPE: CONCEPT AND REALITIES

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### Introduction

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

However, in the United States the social enterprise remained a very broad and often quite vague concept, referring primarily to market-oriented economic activities serving a social goal. The social enterprise was then viewed as an innovative response to the funding problems of non-profit organisations, which were finding it increasingly difficult to solicit private donations and government and foundation grants. The concept is also used to highlight the innovative side of certain types of projects, as well as the financial risks they are taking.<sup>3</sup>

In Europe, the concept made its first appearance in the early 1990s, at the very heart of the social economy, following an impetus which was first Italian, in close link with the co-operative movement. More precisely, in 1991, the Italian Parliament adopted a law giving special status to "social co-operatives", which went on to experience extraordinary growth. These co-operatives arose primarily to respond to needs that had been inadequately met, or not met at all, by public services.<sup>4</sup> In 1990 already, a journal named *Impresa sociale* started to study these new entrepreneurial forces with a social purpose.

In a second phase, European researchers noticed the existence of similar initiatives, though of a substantially lesser magnitude, in various other European countries. In 1996, they decided to form a network to study the emergence of social

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<sup>2</sup> EMES is the acronym of the French title of a vast research project conducted on "the emergence of social enterprises in Europe" (1996-1999). Originally referring to the network of researchers who carried out that research project for the DG Research of the European Community, this name was maintained throughout the projects on social enterprises and social economy subsequently undertaken by the Network. Today, the EMES Network represents nine research centers specialized in these topics as well as other individual researchers across Europe.

<sup>3</sup> See, for example, Dees (1998) and Young (2001).

<sup>4</sup> Borzaga and Santuari (2001).

enterprises in Europe. Covering all of the fifteen countries that then made up the European Union, this network of researchers carried out its initial work over a four-year period and gradually developed a common approach to the study of social enterprises.

In 2002, there was a sudden acceleration of these trends in the United Kingdom. The Blair government launched the "Coalition for Social Enterprise" and created a "Social Enterprise Unit" to improve the knowledge of social enterprises and, above all, to promote social enterprises throughout the country. Within the same framework, the Secretary of Commerce and Industry, which supervises the Unit, recently put forward its own definition of social enterprise and carried out an initial inventory of social enterprises.

Before beginning our discussion of the social enterprise concept, it should be noted that it can be understood in two ways: on the one hand, it designates new organisations, entities created *ex nihilo* that may be viewed as a sub-group of the social economy; on the other hand, it designates a process, a new entrepreneurial spirit influencing and re-shaping older third sector initiatives. Our approach to the social enterprise, discussed below, does not seek to supplant existing concepts of the third sector. Rather, it is intended to clarify and enhance third sector concepts and thus shed light on particular dynamics within the social economy and the "non-profit sector".

We therefore begin with a brief discussion of the principal approaches that, for more than a quarter century, have been developed to apprehend the realities of the third sector. Subsequently, we will assess the extent to which we can really speak of the rise of a new social entrepreneurship within this sector.

## **1. The (re)discovery of the third sector**

The idea of a distinct third sector, made up of enterprises and organisations which are not part of the traditional private sector nor of the public sector, really began to emerge in the mid 1970s. Such organisations were already very active in many areas of activity and were indeed already the subject of scientific works and specific public policies. But the idea of bringing these bodies together and the theoretical basis on which this might be done had not really been put forward until less than 30 years ago.

In the United States the work of the Filer Commission, and, in 1976, Yale University's *Program on Non-profit Organisations*, involving 150 researchers, marked a decisive step in defining the theoretical basis of non-profit organisations (NPOs) and the non-profit sector. Since then, a vast scientific literature on NPOs has developed, with contributions from disciplines as diverse as economics, sociology, political science, management, history, law etc.<sup>5</sup>

In Europe, widely varying socio-political, cultural and economic national circumstances have not allowed such a wide-ranging and rapid awareness of the third sector to develop. However, the economic entities that gradually came to be perceived

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<sup>5</sup> The journals *Nonprofit and Voluntary Sector Quarterly* and *Voluntas* offer a good general survey of this literature.

through a third sector approach were already important in most countries. They were also rooted in solid and long-standing traditions, insofar as mutual organisations and co-operatives had to some extent existed everywhere for more than a century, and association-based economic initiatives had also been multiplying for some considerable time.

In fact, without denying that the general public's view is still strongly characterised by the historical context of each country, it may be said that two theoretical approaches to the third sector gradually spread internationally, accompanied by statistical work aimed at quantifying its economic importance. One is the "non-profit sector" approach already mentioned. The other, French in origin, forged the concept of the "social economy" to bring together co-operatives, mutual societies, associations<sup>6</sup> and, with increasing frequency, foundations.<sup>7</sup> Although the first view has the advantage of having been conveyed, from the outset, by the English language, the second approach has found an ever-greater resonance throughout Europe and has been taken up by the European Union's institutions.<sup>8</sup>

Other theories of the third sector have also been developed internationally. An important example is the tri-polar approach, which sees the economy in terms of three poles, sometimes represented by three types of agents (private enterprises, the state, and households), sometimes according to the principles and methods by which exchanges are regulated (the market, public redistribution and reciprocity), which in turn refer to the types of resources involved (market, non-market or non-monetary resources). In such a perspective, the third sector is viewed as an intermediate space in which the different poles can combine.<sup>9</sup>

The importance of this third sector is now such that one can affirm that it is broadly associated with the major economic roles of public authorities: the third sector is involved in the allocation of resources through the production of many quasi-public goods and services (in the fields of health, culture, education, social action, proximity services, sport, leisure, the environment, advocacy etc.); it has a redistributive role through the provision of a wide range of free or virtually free services to deprived people via the voluntary contributions (in money or through voluntary work) which many associations can mobilise; and this sector is also involved in the regulation of economic life when, for example, associations or social co-operatives are the privileged partners of public authorities in the task of helping back into work low qualified unemployed people, who are at risk of permanent exclusion from the labour market.

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<sup>6</sup> This approach is notably broadcasted by the *Revue des Etudes Cooperatives, Mutualistes et Associatives* (RECMA), Paris.

<sup>7</sup> This idea is particularly embodied by the European Standing Conference of Co-operatives, Mutual Societies, Associations and Foundations (CEP-CMAF) whose goal is to represent the social economy in its entirety at a European level.

<sup>8</sup> There has existed for a long time now an inter-group "social economy" within the European Economic and Social Committee and the European Parliament. Moreover, the action programmes as well as the decisions made by the European Council of Ministers increasingly refer to the social economy.

<sup>9</sup> See Evers and Laville (2004).

The persistence of high structural unemployment in many countries, as well as the difficulties of traditional public policies in coping with new economic and social challenges, have naturally raised the question of how far the third sector can help to meet these challenges and perhaps take over from public authorities in some areas.

Of course there is no simple answer to this question, and the debate is today wide open. Some regard associations as made-to-measure partners for new transfers of responsibility and parallel reductions in public costs. The qualities usually attributed to private enterprise (flexibility, rapidity, creativity, a willingness to take on responsibility etc.) are expected to lead to improvements in the services provided. Others fear that the third sector will become an instrument for privatisation policies, leading to social deregulation and the gradual unravelling of acquired social rights. Yet others stress the fact that our societies are moving towards a redefinition of relationships between the individual, the intermediate structures of civil society and the state.

In any case, many deem it necessary to move from a "welfare state" to a new "welfare mix" where new bases should be found for the sharing of responsibility among public authorities, for-profit providers and third sector organisations.

## **2. A new entrepreneurship**

Can we talk about a new social entrepreneurship and not simply of an evolution of non-profit or social economy organisations? This question recalls the various theories concerning entrepreneurship, which we do not intend to review in the present work. We will, however, refer to the classic work of Schumpeter (1934) for whom economic development is a "process of carrying out new combinations" in the production process<sup>10</sup> and entrepreneurs are precisely the persons whose role it is to implement these new combinations. According to this author, entrepreneurs are not necessarily the owners of a company, but they are responsible for introducing changes in at least one of the following ways: i) the introduction of a new product or a new quality of product; ii) the introduction of a new production method; iii) the opening of a new market; iv) the acquisition of a new source of raw materials; or v) the reorganisation of a sector of activity.

Following the work carried out by D. Young (1983) and Ch. Badelt (1997), this typology can be adapted to the third sector and it is pertinent to examine, at all levels, to what extent a new entrepreneurship can be identified within the social economy.

### ***New products or a new quality of products***

Numerous analyses of the third sector have demonstrated that the latter has often developed in response to needs in areas where the traditional private sector or the state were unable to provide a satisfactory solution.<sup>11</sup> There are countless examples of organisations that have invented new types of services to take up the

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<sup>10</sup> Schumpeter (1934, 66).

<sup>11</sup> That is indeed one of the major themes of studies devoted to identifying the principal reasons for the existence of the third sector.

challenges of their age. Nowadays, as in the past, many of these organisations can be said to be born or have been born from an entrepreneurial dynamic. But have the last two decades been different in any specific ways? We believe that it is possible to speak of a new entrepreneurship, which is probably more prevalent in Europe than in the United States, because the crisis of European welfare systems (in terms of budget, efficiency and legitimacy) has resulted in public authorities increasingly looking to private initiatives to provide solutions that they would have implemented themselves if the economic climate had been as good as in the glorious 1945-1975 period. The shrinking of public initiative is undoubtedly the most striking in the United Kingdom, but the same trend is apparent in most Member States of the European Union, albeit to differing degrees. The two main fields of activity covered by the work of the EMES European Research Network, namely the work integration of unskilled jobseekers and personal services, have seen multiple innovations in terms of new activities being set up or ensuring that services are better adapted to needs, whether in regard to vocational training, childcare, services for elderly people, or aid for certain categories of disadvantaged persons (abused children, refugees, immigrants, etc.).<sup>12</sup>

This entrepreneurship seems all the more innovative as, even within the third sector, it contrasts sharply with the highly bureaucratic and only slightly innovative behaviour of certain large traditional organisations (for example, the very large welfare organisations – *Wohlfahrtsverbände* - in Germany).

### ***New methods of organisation and/or production***

It is common to see the third sector organise its activities along different lines from the traditional private and public sectors. But what is most striking in the current generations of social enterprises is the involvement of different partners, of several categories of actors: salaried workers, volunteers, users, support organisations and local public authorities are often partners in the same project, whereas the traditional social economy organisations have generally been set up by more homogeneous social groups.<sup>13</sup> If this does not necessarily revolutionise the production process in the strict meaning of the term, it often transforms the way in which the activity is organised. In some cases, one could even sometimes talk of a joint construction of supply and demand, for example when providers and users co-operate in the organisation and management of certain proximity services. The setting-up of childcare centres run by parents in France or in Sweden is just one of many examples of such co-operation.

### ***New production factors***

One of the principal, long-standing specific characteristics of the third sector is its capacity to mobilise volunteers. In itself, the use of volunteers is not an innovation, but it is the case in numerous recent initiatives because voluntary workers make it possible to produce goods or provide services that were not previously available or

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<sup>12</sup> On the subject of integration, see Defourny, Favreau and Laville (1998) or Davister, Defourny and Grégoire (2004); on personal services, see Laville and Nyssens (2001b).

<sup>13</sup> This greater homogeneity is reflected in particular in the names of the different types of co-operatives or mutual societies, e.g. workers' co-operatives, agricultural co-operatives, mutual societies for civil servants, craft workers, farm workers and so on.

which were only available with the help of paid workers (in which case it is rare that it is really the same "product").

It is also noteworthy that volunteering has profoundly changed in nature over the last few decades: it seems to be not only much less charitable than forty or fifty years ago, but also less "militant" than in the 1960s or the 1970s. Today's voluntary workers are fairly pragmatic and focus more on "productive" objectives and activities that correspond to specific needs. Moreover, it is not unusual to find the entrepreneurial role, in the most commonly used sense (launching an activity), carried out by voluntary workers.

Paid work has also seen various innovations. On the one hand, many third sector organisations have been at the forefront of experiments regarding atypical types of employment, such as the hiring of salaried workers in the framework of unemployment reduction programmes, the development of semi-voluntary formulas or part-time work (with very reduced working hours), etc.<sup>14</sup> On the other hand, it can be said that the traditional employee status are often "enriched" when employees are recognised as members of the governing bodies of the social enterprise in their own right, with the resultant control and decision-making powers that this implies.<sup>15</sup>

### *New market relations*

In a growing number of countries there is a trend towards "contracting out" and towards the development of quasi-markets for certain services, which were previously carried out by the public authorities or by non-profit private bodies long favoured by the state. In fact, with a view to reducing costs and ensuring that the services are better adapted to user needs, public authorities are making increasing use of calls to tender, which bring different types of service providers into competition for public funding linked to the carrying out of previously defined contract specifications. It was the conservative governments in the UK that went furthest in this direction, but this switch from "tutelary control" to "competitive control" is becoming more and more commonplace almost everywhere.

Such profound changes in the welfare state inevitably have major consequences at different levels. For the purposes of this introduction, it is sufficient to emphasise the factors that tend to accentuate the entrepreneurial character of the associations, in the sense that they have an increasing number of characteristics in common with traditional companies and also, in part, in terms of the "new combinations" referred to by Schumpeter:<sup>16</sup>

- existing associations find themselves in competitive situations, sometimes with traditional companies, when tendering;
- they are consequently obliged to install or reinforce an internal management culture very much modelled on that of the commercial sector;
- the ending of certain public monopolies (for example in Sweden) or of the monopolies enjoyed by large welfare organisations (for example in Germany)

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<sup>14</sup> These evolutions are noted here obviously without saying that they constitute social advances.

<sup>15</sup> Once again, care must be taken when interpreting this evolution: part of this innovative behaviour comes from the organisations themselves, but it is also a question of reactions and adaptations to the impetus or constraints inherent in public policies.

<sup>16</sup> See on this subject Laville and Sainsaulieu (1997).

encourage the emergence of new private initiatives (for-profit or non-profit organisations) structured from the outset taking into account this context;

- last but not least, both for old as well as new associations, the economic risk is greater since their financing henceforward depends on their ability to win these quasi-markets and to satisfy users.

Finally, it goes without saying that this is reinforced by the increased demand among private individuals with adequate financial resources for certain services that become accessible because of the continued rise in the living standards of an important part of the population. Thus for example, elderly people who receive a decent pension or who have accumulated considerable savings represent new markets, but these are often very competitive.

### *New forms of enterprises*

The recent introduction of diverse legal frameworks in the national legislation of various European states tends to confirm that we are dealing with a somewhat original kind of entrepreneurship. These legal frameworks are intended to be better suited to these types of initiatives than the traditional non-profit or co-operative structures.

We have already mentioned the new status created in 1991 for Italian social co-operatives. In 1995, Belgium introduced into its legislation the concept of a "social purpose company", whilst Portugal introduced the "social co-operative with limited liability". The Spanish law of 1999 about co-operatives provides for the existence of "social services co-operatives", and specific legal frameworks have been introduced in the various regions. More recently still, France created the "co-operative society of collective interest", while a new legislation is about to be passed in the United Kingdom regarding the "community interest company".

Generally speaking, these new legal frameworks are designed to encourage the entrepreneurial and commercial dynamics that are an integral part of a social project. They also provide a way of formalising the multi-stakeholder nature of numerous initiatives, by involving the interested parties (paid workers, voluntary workers, users, etc.) in the decision-making process. However, it must be emphasised that except in Italy, the great majority of social enterprises are still using traditional third sector legal forms.

### **3. Enterprises which may be called "social"**

If, as seems to be the case, we can identify a new form of entrepreneurship, it remains to explain why we should describe these enterprises as "social". More precisely, one may wonder if the new economic trends in their behaviour are compatible with explicit social dimensions.

It seems to us that these dimensions can express themselves on three main levels, which are also found in the conceptualisations of the third sector.

#### *The purposes of the activity*

The concept of the social economy includes as a key criterion "the aim of serving members or the community rather than generating profit", while the non-profit approach stresses the fact that members or managers may not receive any part of the surplus. Although the social economy does not exclude the possibility of a limited distribution of profits to members, particularly in co-operatives, the common feature of these two approaches should be stressed here, as it is found in all social enterprises: this common feature is the requirement (absolute or in part) for the production surplus to be "socialised", that is to be reinvested in the development of the activity or to be used for the benefit of people other than those who control the organisation.

### *Non-commercial resources*

As just stressed, both concepts (the non-profit sector and the social economy) involve the existence of benefits to the community or to specific target groups. Such benefits very often justify the payment of subsidies to third sector organisations. This is also true for most social enterprises, that are financed both by resources deriving from the market and by non-commercial resources, allocated by the public authorities in the community's name. Usually, donations and non-monetary resources (such as voluntary work) are also used.

### *Particular organisational methods*

The non-profit and social economy approaches share the view that third sector organisations are autonomous entities, with their own decision-making bodies. The social economy approach also stresses that there should be a democratic decision-making process. Such features are often found in social enterprises since they are generally founded on a participative dynamic which involves their members (paid workers, volunteers, users and/or other partners, representing for instance the local community) in management and controlling bodies and since members' power is generally not proportional to any capital stake they may hold. So we clearly have here characteristics which may be classified as social.

## **4. Towards a definition of the social enterprise**

There are currently two definitions of the social enterprise that seem to arise consistently. They therefore serve as a conceptual reference point for other works.

The most recent definition, developed by the British government, was published in July 2002. It is found in a paper entitled *Social Enterprise: A Strategy for Success*: "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".<sup>17</sup> Up to that time, a wide variety of approaches to this increasingly popular concept had coexisted, but after the publication of this paper, a series of empirical studies based on this definition were carried out across the country.

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<sup>17</sup> DTI (2002), p.13.

The job of summarizing the research was assigned to a research organisation<sup>18</sup> that reported its findings to the "Social Enterprise Unit". The report noted that (i) the government's definition clarified the concept, and (ii) based on a preliminary estimate, there were 5,300 social enterprises in the United Kingdom. But it also underlined a series of difficulties in terms of consistency and comparability to make the definition operational. To redress these shortcomings, the authors point out that some of the studies also examined how social enterprises actually operated. They follow this approach and recommend breaking down the definition into a set of characteristics or indicators, which are far more useful than an "overall statement" in creating an inventory of social enterprises in the United Kingdom. Such indicators would be split among three main categories: entrepreneurial orientation, social objectives and social property of the activities observed.<sup>19</sup>

In other words, while the British approach deserves much recognition, since it has introduced a policy that explicitly fosters social enterprises, it is still under construction. Furthermore, given that the studies it has generated form part of a national framework that so far has been very restricted, it seems reasonable at this stage to give preference to the approach developed since the second half of the 1990s by the EMES European Research Network.<sup>20</sup> To its merit, the latter approach derives from extensive dialogue among several disciplines (economics, sociology, political science and management) and also takes into account the various national traditions and sensitivities present in the European Union. Lastly, guided by a project that is both theoretical and empirical, it has from the outset preferred the identification and clarification of indicators over a concise and elegant definition.

Since 1996, the EMES Network has devoted itself to the definition of a set of common criteria to identify organisations likely to be called "social enterprises" in each of the fifteen EU member countries studied. A working definition was built up in this way; it was to be considered as a "working hypothesis", not necessarily encompassing the whole reality of social enterprises, but as it turned out, this initial set of indicators proved to be fairly robust and reliable.

This working definition distinguishes between, on the one hand, criteria that are more economic and, on the other, indicators that are predominantly social. These indicators, such as they can be found in the works published by the Network<sup>21</sup>, are presented below.

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

*a) A continuous activity producing goods and/or selling services*

Social enterprises, unlike some traditional non-profit organisations, do not normally have advocacy activities or the redistribution of financial flows (as, for example, grant-giving foundations) as their major activity, but they are directly

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<sup>18</sup> ECOTEC Research & Consultants Limited.

<sup>19</sup> ECOTEC (2003), pp. 22-26.

<sup>20</sup> See note 2.

<sup>21</sup> Defourny (2001), pp. 16-18. The first works by EMES were published in 1999 but this set of criteria had already been identified in the interim reports (EMES European Network, 1997 and 1998) which were used by the OCDE (1999).

involved in the production of goods or the provision of services to people on a continuous basis. The productive activity thus represents the reason, or one of the main reasons, for the existence of social enterprises.

*b) A high degree of autonomy*

Social enterprises are created by a group of people on the basis of an autonomous project and they are governed by these people. They may depend on public subsidies but they are not managed, directly or indirectly, by public authorities or other organisations (federations, private firms, etc.). They have both the right to take up their own position ("voice") as well as to terminate their activity ("exit").

*c) A significant level of economic risk*

Those who establish a social enterprise assume totally or partly the risk of the initiative. Unlike most public institutions, their financial viability depends on the efforts of their members and workers to secure adequate resources.

*d) A minimum amount of paid work*

As in the case of most traditional non-profit organisations, social enterprises may also combine monetary and non-monetary resources, voluntary and paid workers. However, the activity carried out in social enterprises requires a minimum level of paid workers.

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

*e) An explicit aim to benefit the community*

One of the principal aims of social enterprises is to serve the community or a specific group of people. In the same perspective, a feature of social enterprises is their desire to promote a sense of social responsibility at local level.

*f) An initiative launched by a group of citizens*

Social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a well-defined need or aim; this collective dimension must be maintained over time in one way or another, even though the importance of leadership - often embodied by an individual or a small group of leaders - must not be neglected.

*g) A decision-making power not based on capital ownership*

This generally means the principle of "one member, one vote" or at least a decision-making process in which voting power is not distributed according to capital shares on the governing body which has the ultimate decision-making rights. Moreover, although the owners of the capital are important, the decision-making rights are generally shared with the other stakeholders.

*h) A participatory nature, which involves the various parties affected by the activity*

Representation and participation of users or customers, stakeholder influence on decision-making and a participative management are often important characteristics of social enterprises. In many cases, one of the aims of social enterprises is to further democracy at local level through economic activity.

*i) A limited profit distribution*

Social enterprises not only include organisations that are characterised by a total non-distribution constraint, but also organisations which - like co-operatives in some countries - may distribute profits, but only to a limited extent, thus avoiding a profit-maximising behaviour.

## **5. On the proper use of the EMES approach**

If the approach employed by the EMES Network is to be properly understood and possibly used, two additional considerations must be taken into account. We have already underlined the first one: while economic and social indicators can help identify totally new social enterprises, they can also lead to designate as social enterprises older organisations which have been reshaped by new internal dynamics.

A second consideration is proving even more crucial: the indicators do not represent a set of conditions that an organisation must meet to qualify as a social enterprise. Rather than constituting prescriptive criteria, these indicators describe an "ideal-type" that enables researchers to position themselves within the "galaxy" of social enterprises. They constitute a tool, somewhat analogous to a compass, which can help the researchers locate the position of certain entities relative to one another, and that will maybe enable researchers to establish the boundaries of the set of organisations that they will consider as that of social enterprises. For example, in their first identification phase, the members of the EMES Network differentiated between a "central" (or "ideal-typical") group of social enterprises and a more "peripheral" group around this ideal-type.

Taking into account these considerations, the EMES approach may prove to be empirically fertile. For example, when J.-F. Draperi (2003) studied 151 organisations subsidized over a twenty-year period by France's Fondation Crédit Coopératif, he found in varying degrees most of the features outlined above. Originally, he had not adopted the "social enterprise" approach, but this is what he finally ended up doing; with reference to the EMES approach, he underlined the capacity for social innovation demonstrated by these organisations.

Similarly, in 2003 EMES researchers made an inventory of different types of social enterprises working in the fields of on-the-job training and occupational integration of low-qualified individuals. Covering 12 EU countries, the survey combined the indicators to which we have referred above with criteria peculiar to these fields and came up with the concept of the "work integration social enterprise" (WISE). This conceptual framework allowed to identify at least 39 categories or models of WISEs in the twelve countries surveyed.<sup>22</sup>

## **6. Examples from the enlarged European Union**

### *The European Union before its enlargement*

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<sup>22</sup> The country studies were published in the EMES Working Papers collection. They may also be consulted at the following Web site: [www.elexies.info](http://www.elexies.info). For a summary, see Spear and Bidet (2003) and Davister, Defourny and Grégoire (2004).

In their first study (1996-1999)<sup>23</sup>, which included the 15 countries which composed the European Union at the time, EMES Network researchers devised the approach described in section 4. Using this approach, they devoted themselves to describing and analysing social enterprises emerging in one or several of the three following fields: personal services, training and reintegration through work and local development.

A quick listing of some of these national realities allows us to illustrate the above developments and to highlight leading trends in social enterprise fields of activity in the countries which constituted the European Union prior to its enlargement of May 2004:

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<sup>23</sup> Borzaga and Defourny (2001).

*Table 1 - Examples of social enterprises*

<b>Sectors</b>	<b>Countries</b>	<b>Examples</b>
<b><i>Personal Services</i></b>	Austria	Children's Groups: childcare services supported by a high level of parental involvement.
	France	Parent-led childcare organisations: childcare services partly led and managed by parents. These organisations formed a national network (ACCEP).
	Denmark	Social residences: residential institutions designed as an alternative to conventional institutions for children and adolescents with difficulties. They focus on training and care services.
	United Kingdom	Home Care Co-ops: co-ops employing their members, mainly women with dependents at home, on a part-time basis.
	Sweden	Co-operative local development agencies organised at the national level (FKU); their objective is to rehabilitate and reintegrate individuals with a mental handicap.
	Italy	Type A social co-operatives: co-operatives active in the fields of health, training or personal services, and controlled by the legal framework adopted by Italy's national Parliament in 1991.
	Portugal	Co-operatives for the training and rehabilitation of handicapped children; they merged into a national federation in 1985.
<b><i>Training-integration through work</i></b>	Belgium	On-the-job-training enterprises and work integration enterprises in the Southern part of the country, integration enterprises and social workshops in the Northern part of the country. Work-integration enterprises, which are supported by the various Regions, are highly market oriented and focus on long-term employment.
	Italy	Type B social co-operatives: co-operatives active in the field of work-integration of individuals in precarious situations (1991 legal framework).
	Germany	Market oriented "social enterprises" receiving temporary public assistance. Their goal is to create jobs and promote economic development while aiming at the social and occupational integration of the long-term unemployed. The jobs are created either in existing private enterprises or in new enterprises (in their start-up phase).
	Luxemburg	Associations (and sometimes co-operatives) providing their members with integration through work and economic activities in various fields, including environment, agriculture, construction, recycling of waste, etc.; most are pilot projects subsidised by the State.
	Spain	Work integration enterprises for the handicapped or individuals excluded from the conventional labour market. In both cases, the current trend is to provide access to transitional employment designed to ultimately integrate target groups into the conventional labour market, rather than providing them with long-term "protected" jobs.

<b>Local development</b>	Finland	Labour co-ops, organised by region into nine Cooperative Development Agencies (CDA); they constitute an important lever for economic development at the local and regional levels. These cooperatives differ from traditional workers' cooperatives in that they subcontract their members' services to other enterprises.
	The Netherlands	"Neighbourhood management enterprises": independent enterprises developing proximity services; they provide the inhabitants of disadvantaged neighbourhoods with the opportunity to perform paid work either in the maintenance/improvement of private residences and shared infrastructure or by providing social services in their neighbourhood.
	Greece	Farm tourism cooperatives: cooperatives set up by women living in rural areas with tourism potential; they provide services in the areas of accommodation, catering and small crafts.
	Ireland	Local community development enterprises with various legal statuses; they provide a variety of services, including social housing, work-integration, credit unions, proximity services and others.

### ***The Central and Eastern European Countries***

There has not been yet a study of the realities of social enterprises in the Central and Eastern European Countries (CEEC) comparable to the one conducted by EMES in the 15 countries which constituted the European Union before its enlargement. Nonetheless, based on available information<sup>24</sup> and the conferences already held on the topic<sup>25</sup>, it is possible to highlight some general trends.

In contrast to the situation in Western Europe, where social enterprises are currently undergoing a renewal, several obstacles are slowing the growth of social enterprises in the CEEC<sup>26</sup>:

- the dominance of the "transition myth" which, until now, induced policies highly reliant on the creation of a free market and failing to appreciate the value of "alternative" organisations and enterprises as *bona fide* forces for local and national development;
- cultural opposition to co-operatives and a belief that they are somehow politically suspect. In many countries, there is a negative perception of old co-operatives as organisations with ties to former Communist regimes – even though many of these organisations were actually created before the Communist era;
- an excessive dependence of social enterprises on donors, combined with a limited view of the role that alternative organisations can play. As regards associations, it appears that many NGOs are created, but they often suffer from two weaknesses. First, they are highly dependent on external donor agencies - especially American foundations - that tend to use them for their own purposes and significantly limit their autonomy. Second, while NGOs sometimes emerge as forces that are certainly associative, they are often

<sup>24</sup> Borzaga and Spear (2004).

<sup>25</sup> Such as the October 2002 Prague Conference "Enlarging the Social Economy".

<sup>26</sup> Borzaga and Galera (2004).

less an authentic expression of civil society than the upshot of strategies linked to funding opportunities;

- a lack of legal frameworks to regulate co-operatives and other non-profit organisations;
- a general lack of confidence in solidarity movements – the concept of solidarity being used primarily to describe an individual's relationship with friends and family - and a view of economic activity orientated towards the pursuit of personal gain, rather than as an activity with positive benefits for the community as a whole;
- the predominance of a "parochial" political culture inducing, among social economy actors, a tendency to limit their horizons to the pursuit of their immediate interests;
- the difficulty in mobilising the necessary resources.

However, despite the cultural, political and legal difficulties they face, both traditional co-operatives and the new generation of non-profit organisations display real potential for growth.

The OECD's Centre for Local Development<sup>27</sup> has noted that when co-operatives return to their roots, they can play an important role in regions with underdeveloped markets. This is true of Poland, for example, where interesting co-operative initiatives have arisen in different areas, including credit, housing and agriculture. It is also true of Estonia, where the co-operative sector, which took off in the 1990s, has now become a cornerstone of Estonia's social economy, among others through the creation of the Estonian Union of Co-operative Housing Association.<sup>28</sup> Today, this association consists of 7,500 housing co-operatives (out of a total of 16,500 non-profit organisations across the country). The co-operative housing movement in Estonia has made remarkable progress; 55% of the population now lives in co-operative housing units.

Meanwhile, new forms of social entrepreneurship are emerging in Eastern Europe. They are starting to provide services of general interest redressing the failures of the social system. There are now associations in all CEEC, and foundations in all except Latvia and Lithuania. In addition to associations and foundations, about half of the CEEC have created at least one new type of organisation.

First, some countries have established a distinction between grant-making organisations and organisations providing services. They classify foundations as grant-making organisations, and created a new legal form for non-governmental organisations without an associative basis which are either grant-seeking or income-generating organisations. These NGOs are most often organisations providing services, such as private hospitals or training centres or institutes. The designation for these organisations varies from country to country. In the Czech Republic, for example, they are called "public interest companies".

Second, in addition to foundations, most of which function over the long term, several countries have created a second form of grant-making organisation: the fund.

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<sup>27</sup> Borzaga and Galera (2004).

<sup>28</sup> Otsing (2004).

In Croatia, for example, funds are differentiated from foundations in that the former must set themselves short-term targets (less than 5 years). Similarly, the Czech Republic recognizes funds that, unlike foundations, do not require an initial grant.

Third, a few countries have created "open foundations", which result from the convergence of some associations and foundations. Like classic foundations, open foundations commit their resources to a particular cause, usually of public interest. However, they differ from classic foundations in that their founding members' committees are open to new co-founders. Furthermore, open foundations can exclude founding members who do not meet their obligations. Latvia classifies open foundations as a particular type of public organisations, while Lithuania applies the same classification to its charity and support funds. The founding members of open foundations generally have the power to control the activities of their organisations; in Lithuania and Latvia, for example, they constitute the organisation's highest decision-making body.

Lastly, in the Czech Republic, Hungary and Slovakia, new types of non-profit organisations, closely related in form to Great Britain's Community Interest Company (CIC), were recently granted legal frameworks. In Hungary, public interest companies provide public services, while pursuing economic activities to raise funds for these services. To obtain the legal status of "major community interest", they are obliged to fulfil two additional conditions: (i) offer services usually provided by public institutions, and (ii) publish their annual financial statements and information on their activities. In this case, public interest organisations can claim additional assistance from the government and a better taxation rate than that obtained by other non-profit organisations.

In sum, despite the problems associated, among others, to the process of economic transition in which CEEC are engaged, social enterprises and the social economy are showing significant growth potential. Co-operatives are regaining ground in some of their traditional roles, and the new associative models that have emerged in Eastern Europe confirm the relevance of the social enterprise model. Clearly, there will be as much to learn from social enterprise initiatives in Eastern Europe as from their counterparts in the West, irrespective of the barriers that must be overcome.

## **7. Paving the way to a theory of social enterprise**

In the last phase of its first study, the EMES Network took the initial steps to develop a theory dealing specifically with the concept of social enterprise.<sup>29</sup> Bacchiaga and Borzaga (2001) used the tools available in institutional organisation theory to highlight the innovative character of social enterprises. In addition, the characteristics defining the social enterprise are interpreted as forming an original system of incentives that takes into account the potentially conflictual objectives pursued by various categories of stakeholders. Evers (2001) developed a more socio-political analysis to demonstrate that a "multi-stakeholder, multiple-goal" structure is more easily understood if we make use of the concept of "social capital". For Evers, creating social capital can also constitute an explicit objective of organisations such

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<sup>29</sup> See the second part of the work edited by Borzaga and Defourny (2001).

as social enterprises. Laville and Nyssens (2001) came up with elements for an integrated theory of an "ideal type" of social enterprises, combining the economic, social and political dimensions of these enterprises. Like Evers, they emphasise the role of social capital, which is mobilised and reproduced in specific forms. In addition, they stress the particularly hybrid and composite nature of social enterprises' resources, viewing this as a major asset of these organisations to resist the trend toward "institutional isomorphism" that threatens all social economy organisations. Lastly, Borzaga and Solari (2001) explored the main management challenges that social enterprise managers and members face. They also considered governance models possibly specific to social enterprises.

Theoretically, the social enterprise concept could point the way toward a more integrated approach to the entire social economy. As a matter of fact, when apprehending the social economy, two sources of tension appear as recurrent and sometimes difficult to overcome. One source of tension originates in the gap between enterprises offering their entire output for sale on the market (as do most co-operatives), and associations whose activities do not have a strong economic character (such as youth movement activities) and whose resources are totally non-market, or even non-monetary resources. A second tension arises between mutual interest organisations (co-operatives, mutual societies and a large number of associations) which, at least in principle, aim to serve their members, and general interest organisations, serving the broader community (such as organisations combating poverty and exclusion, or those involved in development co-operation, environmental protection and so on).

These two sources of tension are partly illustrated in the diagram below. The first source of tension is represented by the coexistence of two completely separate spheres: the left sphere represents the co-operative tradition (which generated specific literature and schools of thought); the right sphere represents the tradition of associative initiatives and movements (which has also inspired numerous sociologists and political scientists and found particular impetus in the North-American research works on non-profit organisations). The second source of tension is more difficult to depict: it is found within each of the two spheres, where the mutual interest organisations are rather located either on the left or on the right of the diagram, whereas general interest organisations are rather located in the area towards the centre.

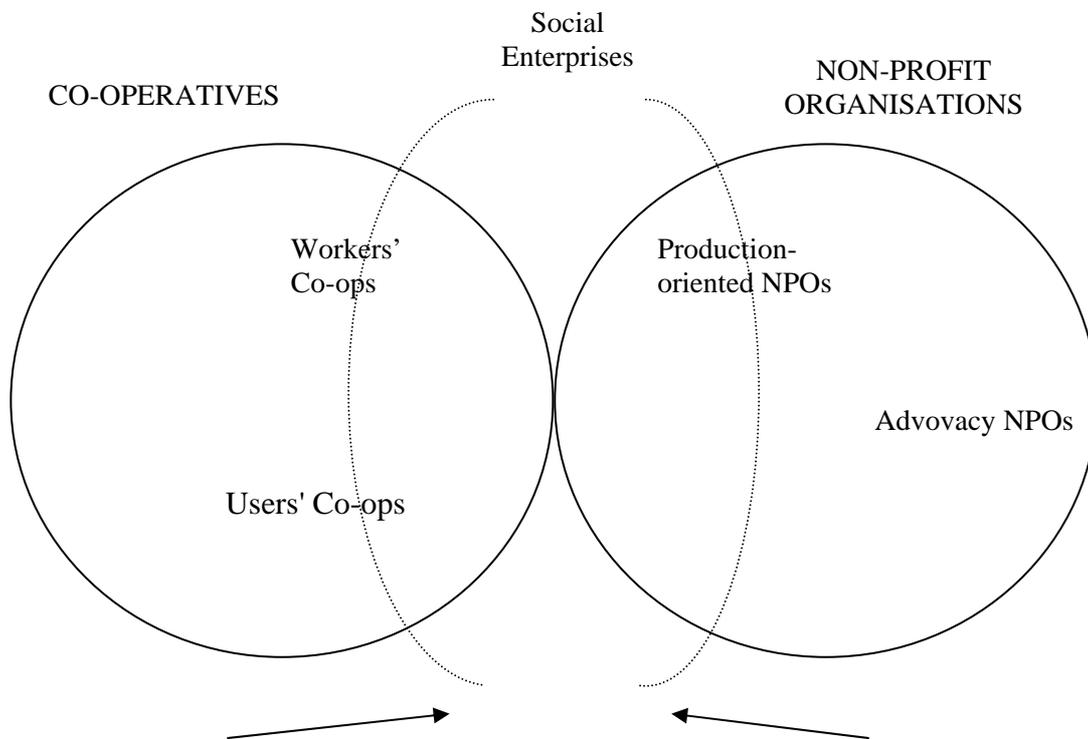
The unifying role of the social enterprise concept resides primarily in the fact that it generates mutual attraction between the two spheres. It accomplishes this by attaching itself to certain organisations within each sphere; these organisations are then drawn to and included in a single group of organisations,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

We also note that social enterprises do not constitute a set of organisations really distinct from traditional workers' or users' co-ops. As a matter of fact, these too can perfectly well develop social entrepreneurship dynamics such as we understood

them, i.e. with a membership bringing together various types of stakeholders, and aiming at the interest of the community at large.

Lastly, by going beyond the two original spheres, the dotted sphere suggests yet another point to be considered: although most social enterprises take the form of cooperatives or associations, there is nothing to stop them from adopting other legal statuses (as is the case in Ireland or with certain "social purpose companies" in Belgium). This is even truer in countries that have designed completely separate legal frameworks for at least part of social enterprises, such as the new "community interest companies" status in the United Kingdom.

*Figure 1 – Social enterprises, at the crossroads of the co-operative and the non-profit sectors*



## Conclusions

We hope to have demonstrated that the concept of social enterprise has not replaced existing third sector concepts and is not competing with them. Rather, it has enriched them, especially the concept of social economy, which has always embraced co-operatives and associations.<sup>30</sup> The concept of social enterprise even contributes to better "linking" together the various components of the social economy (co-operatives, mutual societies and associations), which are sometimes juxtaposed in a somehow formal way.

Also, while there has never been a shortage of socio-political analysis of the social economy, there is still much to be done as regards the economic analysis of the sector. In recent years, significant progress has been made in providing the social economy with relevant economic statistics.<sup>31</sup> Important steps have been taken to apprehend the specific challenges involved in managing the third sector, as indicated by the development of training programmes on this subject. In the same vein, the concept of social enterprise has emerged as an indispensable building block of the social economy. It draws attention to the fact that social innovation often involves economic risks, and that entrepreneurship, so vital in regions in the throes of change, can manifest itself in many ways.

To conclude, the CEEC are helping to build the European social enterprise of tomorrow, through their involvement in the crux of the academic debate on the social economy, and inasmuch as they offer vast scope for social entrepreneurship. Western analyses must guard against taking the easy approach of applying established analytical models to circumstances that have been influenced by a totally different socio-economic and political history. In this sense, CEEC represent both a challenge and a promise of enrichment for the researchers and the field actors interested in new entrepreneurial dynamics within the social economy.

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<sup>30</sup> As A. Gueslin (1987) has so ably demonstrated, in 1900 this was already apparent to Charles Gide.

<sup>31</sup> Especially as part of the vast international study on the non-profit sector co-ordinated by the American university, Johns Hopkins. In Belgium, the pioneering role in this area was played by the original "Compte satellite des institutions sans but lucratif", published by the National Bank of Belgium in March 2004.

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