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# Social Enterprise in Italy: Typology, Diffusion and Characteristics\*

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## Abstract

Italian social enterprises are not a new topic in literature. Several aspects e.g. theoretical frameworks, quality of work and job satisfaction, networking strategies, and the impact of the recent financial crisis, have been studied from many different perspectives in the last twenty years. Most of these contributions focus in particular on social cooperatives, as the most representative legal form of social enterprise in Italy. Therefore, the idea that has been spreading in literature and among scholars is that social cooperatives are the only example of social enterprise existing in Italy. Conversely, in recent years, new forms of non-profit organizations, that were traditionally based on volunteer and donor support, have started to operate as social enterprises, employing people and running commercial activities.

This article, which is one of a very few works that explore this topic, is intended to answer the following research questions: “How many different types of SEs are there in Italy?”; “How many SEs of each type are there?”; “In what ways and to what extent do they differ from each other?”.

## Keywords

Social Enterprises; Social cooperatives; Social capital; Governance, Italy

## JEL codes

L30; L31; P13

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## 1. Introduction

In recent years, several scholars have engaged in the study of Italian social cooperatives from different perspectives, such as work quality and job satisfaction (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006; Becchetti, Castriota and Depedri, 2014), theoretical framework (Bacchiaga and Borzaga, 2001; Borzaga and Tortia, 2009; Poledrini, 2015), networking strategies (Daniele, Johnson and Zandonai, 2009), or the impact of the recent financial crisis (Costa and Carini, 2016). The focus on this type of enterprise has led over the years to the belief that social cooperatives are the only—or at least the main—type of social enterprise (SE) that exists in Italy.

Social cooperatives, however, do not exhaustively represent the whole “phenomenon” of Italian SEs; indeed, other non-profit organizations can also be considered as SEs in all respects, even though they sometimes do not declare or consider themselves SEs. The activities managed by SEs are also wider than those managed by social cooperatives. In fact, social enterprises have expanded their sectors of activity in recent years: whereas the first social enterprises only provided social, healthcare, educational and work integration services, their current activities include the provision of other innovative services such as environmental, cultural, sport and recreational activities, the promotion of economic development, etc. Moreover, the “Italian” SE concept is increasingly being flanked by those of “community enterprise”, “community cooperative” and “citizens’ cooperative”, and these types of SE seem to have a considerable potential for growth.

In light of the above considerations, this working paper aims to present the widely varied landscape of social enterprise in Italy. In particular, the paper will take into account all the non-profit organizations characterized by a non-profit distribution constraint and by a clear social purpose but which behave as enterprises, despite not being legally classified as such. In other words, within the scope of the present analysis, the term SE will refer not only to the organizations considered as social enterprises by Italian law, such as social cooperatives and social enterprises ruled by Legislative Decree No. 155 of 2006, but also to *de facto* social enterprises, established as associations, foundations and religious institutions. We will consider as social enterprises all the non-profit organizations that derive at least 50 per cent of their total revenue from contracts or agreements with public institutions or from the sale of goods and services, and that have at least one employee among the human resources in their workforce.

The research questions we intend to answer are the following: “How many different types of SE are there in Italy?”; “How many SEs of each type are there?”; and “How do these various types differ?” To answer these research questions, we will present the various types of SE and we will describe them in both qualitative and quantitative terms. The qualitative analysis will take into consideration: (i) the organisations’ legal forms; (ii) their sector of activity, and (iii) their governance configurations. Concerning the quantitative aspects, the information is mainly derived from the 2011 Census on non-profit institutions; the main aspects that will be considered are (i) the turnover and (ii) the number of members and employees.

The paper is structured as follows: Section 2 describes the historical background of the evolution of Italian SEs. The following section illustrates the various types of Italian SEs, along with their key features. Section 4 presents the quantitative information available for each type of SE. Section 5 covers the main challenges that Italian SEs are facing and their future prospects. The final section presents the conclusions.

## **2. The historical background of Italian SEs**

To understand the origins and the evolution of SEs in Italy, both as a concept and as a reality, it is important to bear in mind the economic, social and cultural changes that have taken place in the country since the 1970s. In fact, these decades brought about the conditions that led to the formation of the first Italian experiences in the field of SE. The overall evolution can be summarized in four basic stages (Borzaga and Ianes, 2006): (a) the emergence of new social problems, to which the Italian welfare system was unable to respond (in the 1970s); (b) the birth of the first SE experiences, initiated by citizens (in the 1980s); (c) the legislative recognition of SEs as players in the Italian welfare system (in the 1990s); and (d) the evolution of traditional forms of non-profit organizations into SEs (from the 2000s to the present day).

### *2.1. The 1970s: the emergence of a growing gap between the demand for and supply of social services*

In the 1970s, Italy experimented for the first time a growing rift between new, emerging needs and the ability to cope of the public welfare system.

The “economic miracle”—i.e. the intensive growth of the Italian economy—had come to an end some years earlier, and the oil crisis had further slowed down economic growth. This resulted in an unexpected rise in unemployment, which public policies failed to contain. All these events resulted in the emergence of what was called as the “new poverties”, or rather the emergence of new needs linked to drug addiction, disadvantaged youth and adults, increased homelessness, etc. The emergence of these new needs created a new “demand” for social services, which the public welfare system was not prepared to deal with. Since social and personal care was considered as falling within the responsibility of individual families, and not as a public policy issue, Italian welfare authorities found themselves unprepared to handle the emergence of these new needs. The public or semi-public structures that provided a few social services, i.e. the so-called “welfare and charity institutions” (Istituzioni di Assistenza e Beneficenza, or IPABs), were not only unprepared to face the new needs; they also tended to segregate—rather than integrate—those who turned to them. In fact, at the time, the Italian welfare system was still somehow “incomplete” (the health care reform was only carried out in 1978) and this system was primarily redistributive in nature, with a tendency to respond to social needs by providing monetary compensation rather than services. Moreover, in contrast to other countries, the non-profit sector was also poorly developed. In those years, Italy was almost devoid of non-profit

organizations (Perlmutter, 1991; Barbetta, 1997). Existing non-profit organizations dealt almost exclusively with advocacy. Law No. 6972 of 1890, which established the IPABs, was still in force, and this law included a ban on the provision of social services by private entities, and required that all activities in this field be authorized by the Ministry of the Interior and managed as IPABs, thus placing them under public control. Furthermore, according to the wording of the Civil Code, associations and foundations could not perform production and commercial activities.

All of these elements resulted in a situation in which neither the Italian public welfare system nor the non-profit sector were able to cope adequately with the new social needs of Italian society.

### *2.2. The 1980s: the emergence of a civic organized response to the emerging needs*

In the 1980s, the marginalization of various segments of the population (a phenomenon linked *inter alia* to the “new poverties”) gradually began to gain ground, due not only to the emerging new needs, but also to the progressive closure of the traditional facilities for people with health and social problems (i.e. psychiatric hospitals), as a consequence of the reaction against their segregative nature. These closures were done without the government providing an organized and adequate range of alternative services, so that those who were discharged from psychiatric hospitals often ended up being marginalized within their communities or in hosted alternative structures, like those for the elderly. At the same time, the public became increasingly aware of people with disabilities who, after having completed periods of training, were trying to enter the labour market, but without the benefit of public supporting policies.

As a reaction to these failures of public policies and in an attempt to answer the abovementioned needs, groups of people bound by high idealistic values began to organize themselves voluntarily. This resulted in the emergence of new forms of voluntary organizations that, according to their founders, were mainly intended to make up for the shortcomings of the Italian public institutions for a limited time. After a few years, however, some of these voluntary organizations realized that public institutions would hardly be able to intervene systematically to meet the social needs that had emerged. As a result, they gradually came to the conclusion that the range of services offered on a private non-profit basis should be consolidated and extended. This process, however, was hindered by the lack of appropriate legal forms for managing business activities with a social purpose. The legal form of cooperative was adopted: cooperatives were commercial organizations, but they also had the typical democratic characteristics of associations and were recognized by the Italian Constitution as having a social function. Furthermore, the Italian legal system had restricted the distribution of profits and assets by cooperatives since 1946. These various aspects facilitated the decision to adopt the cooperative form to deal with the “new” social needs. However, in those so-called “social solidarity cooperatives”, in comparison to traditional cooperatives, elements of internal mutuality were attenuated, while those concerning solidarity were boosted. These organizations

carried out work integration and service provision activities, run drug rehabilitation communities, group homes for children, reception facilities for the homeless, home care services for the elderly, etc.

At this stage, voluntary organizations and social solidarity cooperatives moved “in sync”, as entities with similar goals and activities. Public support for these groups was not guaranteed and was mainly granted in the form of contributions unrelated to the costs of services, and covered at most a portion of these costs. For these reasons, until the early 1990s, the management of many of these new organizations, including cooperatives—especially social solidarity cooperatives—primarily relied on members’ voluntary activities.

This situation is well summarized by data from the first survey carried out on these cooperatives, which was conducted in 1986; 496 social solidarity cooperatives, out of 600, were surveyed (Borzaga and Failoni, 1990). According to this research, the average size of the cooperatives was relatively small, and their members consisted of more volunteers (4,265 in total) than paid workers (4,057 in total). Volunteers also included 2,200 non-members and 276 conscientious objectors, while the paid workers counted an additional 704 non-member employees. The weekly hours of work provided by volunteers amounted to 50,000, as opposed to the 140,000 hours provided by the paid workers (members and non-members). The beneficiaries of the services of the cooperatives amounted to approximately 25,000 and included the disabled, drug addicts, and adults under conditions of hardship. Almost all the cooperatives surveyed offered social services, and slightly over 80 per cent (nearly 400 of the 496 organizations surveyed) also organized work integration activities, with a high degree of overlap between these two functions. Forty-one per cent of the surveyed cooperatives had no relationships at all with the national or local government bodies, and formalized contractual agreements with public authorities were exceedingly rare.

It can thus be said that, at least during the early stages of the social enterprise phenomenon in Italy, two main facts were particularly salient. First, social enterprises resulted from a bottom-up dynamic. In other words, it was not a phenomenon brought about by public policies (and even less so by government funding); rather, it was driven by social movements. Secondly, the areas of competency in the field of social services and the contractual forms that could be adopted by social solidarity cooperatives were not clearly defined.

### *2.3. The 1990s: the recognition of voluntary organisations and social cooperatives*

The major turning point in the development of Italian social enterprises, particularly under the legal form of social solidarity cooperatives, took place in the late 1980s and early 1990s and was primarily the result of a series of regulatory interventions. During those years, the social and economic context made it necessary for public institutions to regulate the new organizations legally. This led to the implementation of a series of legislative measures, which resulted in turn in the dissemination of SEs throughout Italy during the following years.

The first legal action came with the Italian Constitutional Court's decision No. 396 of 1988, which declared unconstitutional art. 1 of Law No. 6972 of 1890, according to which all welfare activities had to be carried out by IPABs, and had to be public; the 1890 law thus expressly excluded the possibility of an independent form. By invoking art. 38 of the Italian Constitution, the Constitutional Court declared that the provision of welfare services could not be monopolized by the government, and therefore sanctioned the right of all citizens to establish organizations that could provide welfare services and have them assigned a legal form consistent with their characteristics. The Constitutional Court also specified that this right was guaranteed even in the absence of appropriate legal forms. With that measure, in fact, the Italian Constitutional Court pressed the Italian Parliament to accelerate the approval of some laws that had been filed in parliament since the beginning of the decade.

The two main laws concerned with the recognition and regulation of voluntary organizations (Law No. 266) and social cooperatives (Law No. 381) were both approved in 1991. Law No. 266 recognizes voluntary organizations, provided that the members only work for charitable purposes and that, within the organization, voluntary work outweighs remunerated work. The law also allows voluntary associations—even those that are not recognized—to own property, to carry out commercial activities (although in a limited way) and to enter into contractual agreements with public authorities for the provision of services. Law No. 381, on the other hand, recognizes the new cooperatives that had developed during the previous years as “social cooperatives”. This law also allows for the presence of volunteer members and defines, in a separate article, the activities that these cooperatives can perform—namely social, healthcare and educational services, or work integration activities for disadvantaged persons. Finally, the law allows local authorities to establish contractual relationships with social cooperatives for both the provision of welfare services and the management of work integration services.

The other two important legislative initiatives (Laws No. 142 and No. 241, approved in 1990) concern the organization of the provision of social services by local public authorities and their relationships with non-profit organizations. Law No. 142 requires municipalities to recognize the associative forms, and allows local authorities to organize the provision of local public services (including social, welfare and educational services) through outsourcing procedures. The second law (Law No. 241) reaffirms the concepts of the previous law: it explicitly acknowledges the possibility for collective subjects, such as associations, to intervene in administrative proceedings and for public authorities to conclude agreements with private non-profit entities.

The combined enactment of these four laws led to an increase in public contracting, especially among local authorities and social cooperatives and resulted in an extraordinary growth in the number of social cooperatives. Since 1991, social cooperatives have been registering an average annual growth rate comprised between 10 and 20 per cent. Social cooperatives providing social services have hired thousands of highly skilled professionals in the fields of health care,

psychology, mental health, and training. Work integration social cooperatives have developed as an important mechanism of supported employment for disadvantaged workers (Borzaga, 2006).

#### *2.4. The 2000s: towards the recognition of SEs' pluralism*

During the following years, numerous additional legal provisions were adopted. Some of them aimed to reorganize social policies, and more particularly the provision of social and general interest services, while others were intended for acknowledging and regulating new types of non-profit organizations. In particular, three main steps are worth describing here.

The first step is Law No. 328 of 2000, "Framework law for the realization of the integrated system of welfare policies". This law aims at promoting welfare, social and health services to help individuals and families in need. Through this law, Italian institutions explicitly recognized, for the first time, non-profit organizations and social enterprises as actors of welfare policies, in partnership with public authorities, and it regulates their involvement in both the planning and delivery of services.

The second step dates back to 2005, when the parliament approved Law No. 118 on social enterprises, which was later completed with Legislative Decree No. 155 of 2006. This law recognizes and regulates forms of social enterprise other than social cooperatives (Fici and Galletti, 2007). In particular, the new law expands the range of organizations that can qualify as social enterprises, and it extends the types of goods and services that can be provided by these enterprises. It does not introduce any new company form, instead it creates a new legal qualification that can be assumed by any organization that meets specific requirements (the organisation must have an explicit social aim; it must comply with a non-distribution constraint; and it must make its balance sheet public), regardless of its legal form. Therefore, any cooperative (including social cooperatives), foundation, association or limited company can now qualify as a social enterprise. This legislation clearly constitutes, at least in theory, a significant change in the field of Italian social enterprises. In fact, this law makes it possible to create social enterprises without necessarily making use of the social cooperative form.

Finally, a third major step, which had a great impact on the development of *de facto* social enterprises, consisted in the gradual recognition of the possibility for associations and foundations to engage in the production of goods and services, when consistent with their institutional activities, but without assuming the full entrepreneurial status as required by the law on social enterprises. This evolution resulted from an increasingly flexible interpretation of the provisions of the Civil Code, rather than from the adoption of new legislation and it significantly discouraged the adoption of the full qualification of social enterprise, provided for by Legislative Decree No. 155, and which involved related charges.

Over the years, all these regulations have paved the way for an increase in the number of contractual relations between local authorities and the various non-profit organizations (i.e. mainly social cooperatives) for the provision of a growing amount of social and educational



services. This increase in the number of contractual relationships between local authorities and SEs, as well as the modalities for selecting the providers, have had both positive and negative consequences. On the positive side, there has been an increase in the availability of social services, particularly for communities in which such services were previously almost non-existent, and this, in turn, has had a positive impact on income and employment. On the negative side, the autonomy of many SEs and their ability to attract human and financial resources from the civil society (such as volunteers) have gradually decreased, due to the organizations' growing dependence on the public sector. As a result, SEs' autonomy and ability to both recognize emerging needs and organize innovative responses declined.

In spring 2014, the Italian Government launched a public consultation aiming to define the guidelines of a comprehensive reform of legislation concerning the entire third sector, including social enterprises. The government draft law presented after the consultation was followed by an intense debate, both in the parliament and among leading Italian non-profit sector organizations. Discussions ended in June 2016, and Law No. 106, on “Mandate to the Government for the reform of the third sector, social enterprise and for the regulation of the universal civil service”, was approved. The next step now will be the approval of decrees linked to this new law.

During the legislation process mentioned above, an area of particularly heated discussion was on the amendments to bring to Law No. 155 concerning social enterprises. The most controversial issues concerned the features that organizations wanting to qualify as social enterprises should fulfil, and the possibility to relax the total non-distribution constraint imposed on social enterprises so as to facilitate their access to the financial market.

In its final version, the law opts in both cases for a compromise solution: non-profit organizations that operate a business are not obliged to assume the qualification of social enterprise, but they must—unlike what was the case hitherto—fulfil all the obligations that any enterprise is expected to comply with. In particular, they should ensure transparency and accountability as other enterprises do. As for the distribution of profits, the new law allows for a limited distribution, in line with existing provisions regulating social cooperatives.

Law No. 106 of 2016 also stipulates that social enterprises belong to the third sector, whatever the legal form they assume. In comparison to Decree No. 155 of 2006, the new law allows the government to expand the business areas where social enterprises can operate. It also enlarges the category of disadvantaged individuals who are entitled to work in social enterprises. The reform allows public authorities and for-profit corporations to become members of social enterprises. They can also be appointed in the board of social enterprises, provided they do not appoint in turn the majority of the members.

The law also establishes that all social enterprises must be accountable for their activities; they must consequently produce an annual social report. Finally, the reform does not change the law on social cooperatives, but it states that all social cooperatives are considered as social enterprises by law.

### 3. Main types of Italian SEs

When reviewing the various definitions of social enterprise established in the literature in recent years, the one proposed during the late 1990s by the EMES International Research Network (Borzaga and Defourny, 2001; Defourny and Nyssens, 2008) appears as the most comprehensive and influential. To date, it is supported by many scholars, and it is even used by the legislators of various European countries, as well as by the European Commission itself (European Commission, 2016).

According to the EMES approach, a social enterprise is a private legal entity, independent from the government, which carries out production activities, regardless of the legal form adopted. Moreover, unlike conventional businesses, SEs have an explicitly social aim and engage in activities that generate direct benefits for a community or for disadvantaged persons; they are constrained—at least partially—in their profit distribution, and they are characterized by an inclusive and participative governance. Although the EMES indicators are not intended as conditions that should be entirely fulfilled for an enterprise to qualify as a social enterprise, they can serve as a basis to identify—in the Italian context—the following four groups of social enterprises: (i) social cooperatives, as regulated by Law No. 381/1991; (ii) social enterprises under the form of associations; (iii) social enterprises under the form of foundations or religious institutions; and (iv) limited companies social enterprises (complying with Legislative Decree No. 155 of 2006).

#### 3.1. Social cooperatives

As previously stated, social cooperatives (SCs) have been recognized and regulated since 1991. Despite being part of the cooperative sector, SCs have several characteristics that distinguish them from traditional cooperatives.

Article 1 of Italian Law No. 381 defines “social cooperatives” as those cooperatives that aim to pursue the general interests of the community and the human promotion and social integration of citizens through: (a) the management of social, healthcare and educational services, or (b) the performance of any activity with the aim of providing employment for disadvantaged people. There are four types of organizations that belong to the SC sector. The first type consists of those organizations that only perform the activities described under point (a), and are therefore referred to as “A-type social cooperatives”. The second type consists of cooperatives that only perform the actions referred to under point (b), i.e. work integration of disadvantaged people, such as former drug and alcohol addicts, prisoners and prisoners in probation, or individuals with physical, mental and sensory disabilities. Disadvantaged persons must constitute at least 30 per cent of the total number of workers, and their employment must be the ultimate purpose of the social cooperatives. These cooperatives are referred to as “B-type social cooperatives”. The third type consists of social cooperatives that perform activities indicated under both points (a) and (b). For this reason, these are referred to as “mixed social cooperatives”. The last category is made up of consortia of social cooperative.

Social cooperatives have in common with traditional cooperatives a democratic governance (i.e. they are governed according to the “one person, one vote” rule) and a partial non-profit distribution constraint. Social cooperatives cannot distribute more than 70 per cent of their overall profits, and with a cap of about four-five per cent (depending on the rate of return paid to the subscribers of bonds issued by the Italian postal services) for each share, and they cannot distribute any asset to their members in case of closure, merger or bankruptcy.

Three very important aspects distinguish social cooperatives from traditional cooperatives. First, social cooperatives pursue the general interest of the community, and not the interests of their members. The second difference lies in the possibility for social cooperatives to include volunteers as members, up to 50 per cent of the total membership. These members have a power of control over the cooperative but cannot receive any monetary or non-monetary reward. In other words, the volunteers are part of a “dominant” group in terms of decision-making, but they are distinct from the beneficiary group. The last difference with traditional cooperatives is the presence of disadvantaged people among the members of B-type social cooperatives.

### *3.2. Social enterprises under the form of associations*

Associations are organizations constituted by groups of people to pursue a shared goal, which can consist in an advocacy activity for members and non-members, but also in the provision of services. In most countries, associations cover a vast and widely varied area within the non-profit sector, including both rudimentary and small-scale organizations (e.g. recreational or amateur sports clubs) as well as larger and better-known entities, with complex organizational structures.

In Italy, associations are freely established and can be non-recognized or recognized by public authorities. The legal recognition, and therefore the legal status, is granted by the president of the Italian Republic, or, if the association operates within a limited geographical area, by the president of the region in which the association is based. With this recognition, associations can sign contracts and assume obligations.

The Italian Civil Code foresees that associations are constituted to pursue only non-economic goals. They cannot distribute profits to their members but they are not required to be—although they often are—democratically managed. Since 1991 however, after the approval of Law No. 266 on voluntary organizations, associations of volunteers were allowed to engage also in income-generating and commercial activities. Furthermore, in the following years, several special laws were approved that recognize specific types of associations (e.g. social promotion associations), progressively expanding the possibility for associations to carry out income-generating activities. In fact, this evolution did not take into account the restrictions provided for in the Italian Civil Code and removed almost all limits on the conduct of production activities by associations, regardless of their qualifications. The only obstacle that remains is the unlimited liability for those administering unrecognized associations.

### *3.3. Social enterprises under the form of foundations and religious institutions*

The Civil Code defines foundations as assets dedicated to pursuing a specified objective. According to Italian law, a foundation must be recognized by a public authority and must, therefore, have legal status. To obtain the recognition of their legal status, foundations must undergo the same procedure as associations willing to be recognised.

The objectives of a foundation can vary widely; nevertheless, they are characterized by their non-commercial nature. Foundations can pursue educational, religious, family-related, and even military objectives. The legal recognition requires a minimum amount of assets (at least EUR 50,000); in all cases, the government is responsible for evaluating the total assets necessary to pursue the objectives of the foundation. In short, property plays a primary role within foundations.

As it is for associations, legislation on foundations has changed significantly since the early 1990s. As a consequence, the sector has been strengthened.

Based on the activities performed, a distinction can be made between grant-making foundations and operational foundations. Grant-making foundations manage their assets with the goal of distributing profits in the form of grants to individuals or to other organizations performing activities functional to the achievement of the foundation's objectives. In Italy, these foundations were comparatively underdeveloped until the creation of the so-called "banking foundations". These are the result of the transformation and privatization of numerous saving and public banks implemented by Law No. 218 of 1990. This law requires banking foundations to focus their activities on philanthropic and social objectives. In particular, they must pursue goals of public interest and social utility in the fields of scientific research, education, art, and healthcare; they can also pursue goals of support and protection of disadvantaged social groups.

Operational foundations, on the other hand, instead of distributing the revenues derived from their assets, directly perform activities that are functional to the pursuit of their objectives. These foundations can for example manage museums, hospitals, rest homes, libraries or other types of business. Like grant-making foundations, operational foundations remained fairly underdeveloped since the end of the 20th century, due to the difficulties in obtaining their recognition from the ministerial offices and to the lengthy bureaucratic process, but knew a period of significant growth around the turn of the century.

Religious and charitable institutions—which almost all belong to the Catholic Church—can also be included in the category of foundations, and more specifically in the subcategory of operational foundations. These organizations conduct different charitable activities, such as providing educational, health and social services. They often take the form of foundations or a similar form (such as that of "moral entity") and are governed, like foundations, by a board of directors—which, in this case, is appointed by the religious authorities. Non-religious activities fall entirely under specific legislation intended for them (e.g. private schools run by religious institutions), and the organizations performing them often have a contractual agreement with

public institutions. Although their importance as providers of welfare services has been in progressive decline since the end of the 19th century, with the implementation of the welfare state, they continue to be important, especially in some regions.

### *3.4. Limited company social enterprises*

As previously mentioned, the possibility to use the limited company form to create a social enterprise was introduced in 2006, with Decree No. 155. In order to qualify as a social enterprise, a limited company must meet three main criteria: (a) it must be privately owned; (b) it must mainly perform business activities, involving the production of goods or the provision of services; and (c) it must act in the interest of the community on a non-profit basis. Social enterprises established as limited companies cannot be controlled by public agencies nor by for-profit companies. Furthermore, the law requires that these social enterprises respect certain general principles regarding transparency and proper and efficient management, as well as guarantee the participation and protect the interests of both their workers and users (Fici, 2006). Unlike social cooperatives, and until the conclusion of the legislative process initiated with the approval of Law No. 106 of 2016, these social enterprises cannot distribute any profit or asset, and they face limitations to the remuneration of workers and managers.

Like the other legal forms qualifying as social enterprises, limited company social enterprises may undertake activities in the following sectors: social and healthcare services; education and training; social tourism; environmental and ecosystem protection; promotion of cultural heritage; university and post-graduate education; research and provision of cultural services; extra-curricular training; delivery of services that are instrumental to social enterprises.

Furthermore, social enterprises operating under the form of a limited company have to publish not only a financial budget but also a social report, to show how they fulfil their social mission (Fici and Galletti, 2007).

## **4. A quantitative analysis of the main types of Italian SEs**

Quantifying the size and analysing the main characteristics of Italian social enterprise is now possible by drawing on two different sources of data. The first one is the 2011 Census on non-profit institutions (Istat, 2011), which provides information on social cooperatives, associations, foundations and religious institutions; the second one is the Business Register of the Italian Chamber of Commerce, which provides information on social enterprises operating under the form of limited company. Data from the Business Register used in the present analysis refer to year 2013.

Since all the 301,191 organizations included in the Census are, by law, submitted to a (total or partial) non-distribution constraint, have a social aim and perform general-interest activities, in order to identify social enterprises among them, we simply had to single out those that could be regarded as enterprises. Against this background, we considered as social enterprises all the

non-profit organizations surveyed by the Census that met the following two characteristics: (a) they derived at least 50 per cent of the income from the sale of goods and services to private individuals or from contracts/agreements with public institutions; and (b) they had at least one employee.

Based on these criteria, out of a total of 301,191 non-profit organizations surveyed, we identified 20,431 social enterprises (6.8 per cent of the total number of non-profit institutions). These figures probably underestimate the real size of the sector, not only because the joint use of two parameters is very selective, but also because traditional cooperatives performing activities similar to those of social enterprises are not taken into account by the Census.

Although they only account for slightly less than seven per cent of all non-profit organizations, social enterprises account for more than EUR 28 billion in terms of revenues, i.e. about 45 per cent of the sector's total revenues (see Table 1). The share of revenues of SEs in the revenues of all non-profit organizations (NPOs) is particularly high if we consider the income derived from the sale of goods and services to government agencies. SEs' share amounts to approximately EUR 17 billion out of a total of about EUR 18,6 billion (just over 90 per cent), while revenues from the sale of goods and services to private individuals exceeds EUR 9 billion for SEs, which corresponds to 76.3 per cent of the non-profit sector's total, which is around EUR 12 billion.

**Table 1. Sources of revenue of Italian SEs and NPOs in 2011**

Source of revenue (thousands of EUR)	SEs		All NPOs (including SEs)	
	Revenue in EUR	%	Revenue in EUR	%
Contracts and/or agreements with public institutions	17,058,185	59.6	18,645,787	29.2
Sales of goods/services to private users	9,104,010	31.8	11,935,553	18.7
Other	2,479,112	8.7	33,358,544	52.2
<i>Total revenue</i>	<i>28,641,307</i>	<i>100</i>	<i>63,939,884</i>	<i>100</i>

In addition, if we consider the distribution of the three different sources of revenues for both SEs and all NPOs we see that SEs derive around 92 per cent of their total revenues from commercial activities (“contracts and/or agreements with public institutions” and “sales of goods/services to private users”), while the corresponding figure for all NPOs is only around 48 per cent.

With regard to the human resources employed by SEs (see Table 2), the number of volunteers is smaller than in other NPOs; paid staff is SEs' primary source of labour. In fact, SEs employ respectively the 80 per cent of the total number of employees in NPOs, and around 32 per cent of collaborators with non-standard labour contracts. Concerning gender aspects, it is worth

noting that, regardless of the distinction between workers and volunteers, SEs tend to employ a higher percentage of women than NPOs in general.

**Table 2. Types of human resources in SEs and in non-profit organizations in Italy in 2011**

	SEs		All NPOs (including SEs)	
	Value	% of male workers	Value	% of male workers
Employees	545,270		680,811	
<i>of which males</i>	141,039	25.9	187,010	27.5
Collaborators	85,338		270,769	
<i>of which males</i>	32,506	38.1	128,399	47.4
Volunteers	306,512		4,758,622	
<i>of which males</i>	162,204	52.9	2,949,030	62
Disadvantaged users				
	9,327,188		20,763,078	

Another figure that reveals the relevance of SEs, both overall and in comparison to other NPOs, is the number of users. It should be noted that although, as already mentioned, SEs only represent the 6.8 per cent of all NPOs, their users represent 45 per cent (9,327,188 users out of a total of 20,763,078) of all the disadvantaged users served by the non-profit sector (see Table 2).

The 20,666 SEs identified (i.e. the 20,431 SEs identified on the basis of information provided by the Census and the 235 SEs established as limited companies and registered by the Italian Chamber of Commerce) can be analysed from the point of view of the typology described in Section 3, based on legal and governance forms. In such perspective, the 20,666 SEs are distributed as follows (see Table 3):

- (a) 8,491 (41.1 per cent of all SEs) are social cooperatives;
- (b) 7,883 (38.1 per cent of all SEs) are associations;
- (c) 3,324 (16.1 per cent of all SEs) are foundations and religious institutions;
- (d) as just mentioned above, 235 (16.1 per cent of all SEs) are limited company social enterprises<sup>1</sup>.

As regards the distribution of the labour force<sup>2</sup>,

- social cooperatives had 303,715 employees in 2011, which constituted 55.7 per cent of all the workers employed by SEs except limited companies (totalling 545,270) and 44.6 per cent of all the employees working for NPOs;

<sup>1</sup> 733 organizations (“Others” category in Table 3) could not be assigned to any of the four groups of SEs because the available information was incomplete. They will not be taken into account hereafter.

<sup>2</sup> The number of employees is not available for limited company SEs.

- associations represented 12.7 per cent of all the employees working for SEs except limited companies, and just over 10 per cent of all the staff working for NPOs;
- foundations and religious institutions had 148,977 employees, constituting 27.3 per cent of all the workers employed by SEs except limited companies, and 21.9 per cent of employees in the entire non-profit sector.

Finally, it is worth noting that, if we take into consideration all the workers employed by social cooperatives and by foundations and religious institutions, these two types of SEs alone (which represent only eight per cent of the NPOs) employ 66.5 per cent of all the labour force of the non-profit sector (see table 3).

**Table 3. Number of employees and of organizations by types of SE (2011)**

	SCs	Associations	Foundations and religious institutions	Others	All SEs excluding limited companies
Organizations	8,491	7,883	3,324	733	20,431
Employees	303,715	69,421	148,977	23,157	545,270

Data from the Census on non-profit institutions (Istat, 2011) and the Italian Chamber of Commerce also allow for more in-depth analyses of the four types of SEs; these are presented in the following sections<sup>3</sup>.

#### *4.1. Social cooperatives*

Out of the 8,491 social cooperatives (SCs) that comply with the definition of social enterprise, 5,621 are either A-type or mixed social cooperatives, and 2,870 are B-type social cooperatives. These enterprises are primarily concentrated in the North of Italy: Northern Italy is indeed home to 43.5 per cent of all the social cooperatives (3,690 organizations), while Southern Italy and the Islands are home to respectively 23 per cent and 14.9 per cent of SCs (3,218 enterprises for both regions together). The remaining 18.6 per cent (1,583 SCs) are located in Central Italy (see table 4).

As expected, 75.3 per cent of SCs are concentrated in two sectors: social services (40.6 per cent) and economic development and social cohesion—a sector of activity that includes almost only work integration social cooperatives (34.7 per cent) (see Table 5). The large majority (77.1 per cent) of A-type and mixed social cooperatives provide social and health services, and 97.2

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<sup>3</sup> The analyses on SEs operating under the form of social cooperatives, associations, foundations and religious institutions are based on data from the Census on non-profit institutions (Istat, 2011), which concern in total 19,698 organizations, while analyses about limited company SEs are based on the dataset of the Italian Chamber of Commerce, which includes data about 235 SEs. Unless otherwise specified, when referring to “all SEs” in subsections 3.1, 3.2 and 3.3, we mean “all SEs except those registered as limited companies”.



per cent of B-type social cooperatives have work integration activities (economic development and social cohesion).

**Table 4. Geographical distribution of Italian SCs in 2011**

	A-type and mixed SCs		B-type SCs		All SCs		All SEs (including SCs)	
	No. of entities	%	No. of entities	%	No. of entities	%	No. of entities	%
North	2,413	42.9	1,277	44.5	3,690	43.5	10,516	51.5
Centre	900	16	683	23.8	1,583	18.6	4,139	20.3
South	1,337	23.8	616	21.5	1,953	23	3,357	16.4
Islands	971	17.3	294	10.2	1,265	14.9	2,419	11.8
<i>Total</i>	<i>5,621</i>	<i>100</i>	<i>2,870</i>	<i>100</i>	<i>8,491</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

**Table 5. SCs' sectors of activity in Italy in 2011**

	A-type & mixed SCs		B-type SCs		All SCs		All SEs (including SCs)	
	No. of entities	%	No. of entities	%	No. of entities	%	No. of entities	%
Social services	3,398	60.5	49	1.7	3,447	40.6	5,457	26.7
Economic development and social cohesion	157	2.8	2,789	97.2	2,946	34.7	3,187	15.6
Healthcare	932	16.6	7	0.2	939	11.1	2,431	11.9
Education and research	559	9.9	0	0	559	6.6	3,966	19.4
Culture, sports, and recreation	398	7.1	8	0.3	406	4.8	3,817	18.7
Environment	74	1.3	4	0.1	78	0.9	337	1.6
Other activities	103	1.8	13	0.5	116	1.4	1,236	6
<i>Total</i>	<i>5,621</i>	<i>100</i>	<i>2,870</i>	<i>100</i>	<i>8,491</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

A-type and mixed SCs derive approximately 70 per cent of their income from “contracts and/or agreements with public institutions” and 26.2 per cent from the “sale of goods and services to private clients” (see Table 6). Donations (included in the “other” category in the table) play a very limited role. B-type SCs rely to a much larger extent on resources derived from private clients: 37.8 per cent of their total resources come from the “sale of goods and services to private clients” and only 57.1 per cent from “contracts and/or agreements with public institutions”, often acquired as a result of participation in competitive tenders.

**Table 6. SCs' source of revenues in Italy in 2011 (expressed in thousands of euros)**

	A-type & mixed SCs		B-type SCs		All SCs		All SEs (including SCs)	
	Amount in EUR	%	Amount in EUR	%	Amount in EUR	%	Amount in EUR	%
Contracts and/or agreements with public institutions	5,233,492	69.4	1,104,188	57.1	6,337,680	66.9	17,058,185	59.6
Sale of goods and services to private clients	1,975,443	26.2	730,950	37.8	2,706,393	28.6	9,104,010	31.8
Other	330,589	4.4	97,140	5	427,729	4.5	2,479,112	8.7
<i>Total revenue</i>	<i>7,539,524</i>	<i>100</i>	<i>1,932,278</i>	<i>100</i>	<i>9,471,802</i>	<i>100</i>	<i>28,641,307</i>	<i>100</i>

#### 4.2. Social enterprises under the associative form

Like the other types of Italian SEs, associative SEs are more concentrated in Northern Italy. This part of the country is indeed home to 52 per cent of all associative SEs (4,101 associations). The distribution of associative SEs in the various regions is quite similar to that of SEs in general: associative SEs located in the Central Italy represent 23.2 per cent of the total number of associative SEs (the corresponding figure for all SEs is 20.3 per cent), and associative SEs located in Southern Italy and on the Islands represent approximately 25 per cent of all associative SEs (the corresponding figure for all SEs is 28 per cent; see Table 7).

**Table 7. Geographical distribution of associative SEs in 2011**

	Associative SEs		All SEs (including associative SEs)	
	No. of entities	%	No. of entities	%
North	4,101	52	10,516	51.5
Centre	1,828	23.2	4,139	20.3
South	1,008	12.8	3,357	16.4
Islands	946	12	2,419	11.8
<i>Total</i>	<i>7,883</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

Concerning the activities performed, it should be noted that 37 per cent of all SEs in this group operate in the field of “culture, sports and recreation” (see Table 8). 2,925 associative SEs are operating in this sector, which corresponds to approximately 77 per cent of all the SEs working in this field. It should also be noted that, even though only about 12 per cent and 3 per cent of all the activities performed by associative social enterprises fall respectively within the categories of “other activities” and “environment”, associative SEs in these two sectors represent respectively 75.3 per cent and over 67 per cent of all Italian SEs active in these fields. Finally, also worth noting is the fact that the area of activity in which these social enterprises are less present is that of “economic development and social cohesion”. In fact, there are only

165 entities operating in this area, which corresponds to 2.1 per cent of the total, while about 16 per cent of all Italian SEs are active in the same area.

**Table 8. Sectors of activities of associative SEs in 2011**

	Associations		All SEs (including associations)	
	No. of entities	%	No. of entities	%
Culture, sports and recreation	2,925	37.1	3,817	18.7
Education and research	1,469	18.6	3,966	19.4
Social services	1,155	14.7	5,457	26.7
Healthcare	1,012	12.8	2,431	11.9
Environment	226	2.9	337	1.6
Economic development and social cohesion	165	2.1	3,187	15.6
Other activities	931	11.8	1,236	6.0
<i>Total</i>	<i>7,883</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

Social enterprises in this group derive 52 per cent of their revenues (about EUR 3 billion) from “contracts and/or agreements with public institutions” (see Table 9). Associative SEs thus depend less on public resources than SEs overall. Among all the types of Italian SEs, they are the type with the highest percentage of “other” sources of funding (13.9 per cent); these are primarily constituted by membership fees.

**Table 9. Types of revenues of associative SEs in 2011 (expressed in thousands of euros)**

Types of revenues	Associations		All SEs (including associations)	
	Revenues (in thousands EUR)	%	Revenues (in thousands EUR)	%
Contracts and/or agreements with public institutions	2,942,209	52.0	17,058,185	59.6
Sales of goods and services to private clients	1,935,277	34.2	9,104,010	31.8
Other	784,243	13.9	2,479,112	8.7
<i>Total revenues</i>	<i>5,661,729</i>	<i>100</i>	<i>28,641,307</i>	<i>100</i>

### *3.3. Social enterprises under the form of foundations and religious institutions*

Among the various types of SEs analysed, the group of SEs operating under the legal forms of foundations or religious institutions is that with the greatest concentration in the North of Italy. Indeed, 71 per cent of these institutions (2,351 enterprises, out of 3,324) are located in the Northern regions (see table 10). Throughout the rest of Italy, this form of SE is distributed in the following manner: 17 per cent of these SEs are located in Central Italy and 12.3 per cent in Southern Italy and on the Islands.

**Table 10. Geographical distribution of SEs operating under the form of foundations or religious institutions in 2011**

	Foundations and religious institutions		All SEs (including foundations and religious institutions)	
	No. of entities	%	No. of entities	%
North	2,351	70.7	10,516	51.5
Centre	564	17.0	4,139	20.3
South	286	8,6	3,357	16.4
Islands	123	3,7	2,419	11.8
<i>Total</i>	<i>3,324</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

Like those in the previous two groups, SEs operating under the form of foundations and religious institutions concentrate their efforts on specific areas of activity. Approximately 52 per cent of these SEs (1,726 organisations out of a total of 3,324 entities) operate in the field of education and research (table 11). They account for 44 per cent of all SEs operating in the field of education and research. Other important activities performed by social enterprises in this group are social services, healthcare, and culture, sports and recreation.

**Table 11. Sectors of activity of SEs operating under the form of foundations and religious institutions in 2011**

	Foundations and religious institutions		All SEs (including foundations and religious institutions)	
	No. of entities	%	No. of entities	%
Education and research	1,726	51.9	3,966	19.4
Social services	672	20.2	5,457	26.7
Healthcare	408	12.3	2,431	11.9
Culture, sports and recreation	371	11.2	3,817	18.7
Economic development and social cohesion	18	0.5	3,187	15.6
Environment	11	0.3	337	1.6
Other activities	118	3.5	1,236	6.0
<i>Total</i>	<i>3,324</i>	<i>100</i>	<i>20,431</i>	<i>100</i>

Of all the types, SEs taking the forms of foundations or religious institutions have the highest overall revenues. These amount to over EUR 10 billion, and account for 35.3 per cent of all the revenues generated by SEs and approximately 16 per cent of all the revenues produced by the non-profit sector—even though these organizations only represent 1.1 per cent of all NPOs (Table 12). Furthermore, SEs belonging to this group can be distinguished from the other types of SEs by the fact that the revenue they derive from the sale of goods and services amounts to over EUR 3.4 billion—a figure that is significantly higher than the corresponding figure for the other types of SEs, and which corresponds to approximately 38 per cent of the total income derived from this source by all SEs.

**Table 12. Source of revenues of SEs operating under the form of foundations and religious institutions in 2011 (in thousands of euros)**

Source of revenues	Foundations and religious institutions		All SEs (including foundations and religious institutions)	
	Amount	%	Amount	%
Contracts and/or agreements with public institutions	5,758,260	56.9	17,058,185	59.6
Sale of goods and services to private clients	3,443,088	34.0	9,104,010	31.8
Other	922,854	9.1	2,479,112	8.7
<i>Total revenues</i>	<i>10,124,202</i>	<i>100</i>	<i>28,641,307</i>	<i>100</i>

#### *4.4. Limited company social enterprises*

As previously stated, following the introduction of Law No. 118 of 2005 and Legislative Decree No. 155 of 2006, a social enterprise can be constituted under the legal form of a joint stock company or a limited liability company.

The primary source of data about enterprises of this type is the Business Register managed by the Chamber of Commerce. According to this source, 774 private organizations had registered as social enterprises by the end of 2013. Of these 774 organizations, only 235 (around 30 per cent) had the legal form of limited company. More precisely, 231 were limited liability companies, and four were joint stock companies. The remaining 70 per cent are cooperatives, mainly social cooperatives and a few associations, already included in the Census data.

Some more detailed information can be obtained by crossing the data from the Business Register with a sample survey recently conducted by the Iris Network (Venturi and Zandonai, 2014). It appears that 55 per cent of these SEs are primarily engaged in education and training activities, with a particular focus on education and other education-related services. The remaining enterprises are mainly involved in the provision of social and healthcare activities (22 per cent of organisations), including medical and dental services, and in environmental, cultural, heritage protection, and social tourism activities (13 per cent). These figures reveal that, although the new law allows SEs to operate in a wider range of fields than those permitted to social cooperatives, SEs have actually seized this opportunity only to a limited extent. Analysis also reveals that a large share (47.5 per cent) of these SEs are located in the southern regions.

Moreover, SEs operating under the form of a limited company can be distinguished from traditional social cooperatives by their focus on the demands of households. In fact, they mainly offer their services directly to individuals and families, rather than through local authorities.

Not all SEs in this category have paid workers, and the average number of paid workers is much lower in limited company SEs than in the other types of SEs. In fact, in 2013, the average number of employees for limited company social enterprises in Italy was 16, while for the other types of SEs, it was around 27.

Not all limited company SEs arose from a small number of capital contributors such as traditional limited companies; rather, like it was the case for the other types of social enterprises, several of them were established by groups of people with common ideals and shared values. Some of these SEs were constituted by other NPOs, such as associations, foundations, and social cooperatives. The main reasons for choosing this legal form included the possibility of “intercepting” a new public demand, combined with the desire to maintain or reinforce the social nature of the activity performed. It should also be noted that a certain number of these enterprises were constituted before the approval of the two above mentioned laws, and only took on the form of social enterprises at a later stage (basically, they already behaved as limited company SEs, although they were not yet recognised by the law).

Finally, data show that SEs constituted as limited companies do not seem particularly dynamic: they have a low propensity for investment and innovation, and the vast majority of them closed their balance sheets with neither gains nor losses, and expect to maintain this trend for years to come.

Thus, despite the legislative modifications, the limited company form does not seem to be of particular interest for those who intend to constitute a social enterprise, at least under the current conditions in Italy. People willing to establish a new social enterprise continue to prefer the collective—associative or cooperative—entrepreneurial forms.

## **5. Challenges and perspectives**

The data presented in the previous sections refer to a year in the middle of the protracted crisis that hit most of the developed economies and in particular the Italian one. It is therefore interesting to analyse how social enterprises have reacted to this crisis; this type of analysis is not possible for all Italian social enterprises, but it can be conducted for the most important type, namely the social cooperative, for which data are available for all the years from 2008 to 2013. The main result of the analysis of this set of data is the following: despite the fact that, in this period, the Italian GDP dropped by more than nine per cent, total employment fell by over one million units, and public spending was drastically cut, especially by local authorities, social cooperatives maintained a positive trend.

Relying on data provided by the Chambers of Commerce and the National Social Security Institute (Inps), Carini and Borzaga (2015) show that, between 2008 and 2013, both the number of SCs and their overall number of employees increased by about 15 per cent (from 11,334 to 13,041<sup>4</sup> enterprises, and from 339,763 to 390,079 employees). The value of production showed an even more positive trend: it increased by 31.5 per cent (from EUR 6.8 billion to 9 billion).

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<sup>4</sup> These numbers differ from the data previously displayed due to the fact that, in the previous paragraphs, not all SCs were considered as SEs, but only those deriving at least 50 per cent of their income from the sale of goods and services to private individuals or from contracts/agreements with public institutions and having at least one employee, while Carini and Borzaga (2015) refer to all SCs by their legal form.

A more detailed analysis of activity by sector shows that, in terms of value of production, the health and social services sector increased by 31.6 per cent (+ EUR 1.5 billion) and other services by 35.1 per cent (+ EUR 417 million). The remaining areas, i.e. those in which B-type social cooperatives operate, are the agri-food area, which grew by 20.9 per cent (to EUR 20.6 million); manufacturing, which increased by 26.3 per cent (to EUR 71.4 million), and the construction sector, which grew by 23.4 per cent (to EUR 11.5 million). In this period of crisis, both A-type and B-type social cooperatives have proven to be one of the most resilient types of organization of the Italian economy.

Reflecting on the challenges and perspectives for SEs, it is necessary to take into consideration at least four main trends that will influence their future development.

The first major trend is the emergence of new social needs—linked e.g. to the extension of life expectancy, which creates new needs in terms of assistance to the elderly—and the increase in already existing social needs—linked e.g. to the increase in the number of poor people. On this last point, Istat (2016) highlighted a sharp increase in the number of poor people during the recent economic and financial crisis: by 2015, it was estimated that 1,582,000 families (4,598,000 individuals) lived in absolute poverty. Given the insufficient increase in the provision of public services, this has reduced opportunities for many families to access social health and educational services—a trend that is confirmed by the high number of people who declared to have declined health services for lack of income.

Secondly, public expenditure in welfare services will not increase—and will maybe even decrease—in the future, due to the constraints imposed on public budgets, especially in countries like Italy, which have to reduce their public debt/GDP ratio.

Thirdly, and this is a welcome challenge, private companies are increasingly attentive to the necessity of providing new services for their employees, such as personal services, healthcare and education. The Italian government is also supporting this new trend through tax benefits.

Finally, a fourth major trend that will influence the future development of SEs is the recently approved Law on the third sector, which reduces constraints on SEs and increases the number of sectors of activity in which they can operate. Social enterprises can now be active in the fields of waste management, services for SEs, management of cultural events, social housing and so on. These sectors are characterised by a widening gap between supply and demand, which social enterprises should be able to take advantage of to launch successful businesses.

However, the impact of these four factors on the development of SEs and of the provision of services will depend on how the different types of social enterprises will react. In this respect, it is possible to identify the main challenges that each of the four types of SE will face and their respective future prospects.

A-type social cooperatives will have to face the fact that their experience is based mainly on providing services (such as services for the disabled or nursery schools) for which the demand is no longer increasing. Indeed, for these services, not only is the demand largely satisfied—

especially in the most populated regions of the North—but there is also a considerable reduction of public resources. It is thus highly unlikely that financial support for these services will increase in the future. The capacity of these SEs to overcome the main challenge they will face will depend on their ability to start new cycles of innovation, which will allow them to move towards new services. New services could include health, educational and some of the more traditional welfare services, such as those for the elderly. In order to be able to move in this direction, social cooperatives should also identify new resources (as opposed to traditional ones, i.e. public resources), “intercepting” private demand as well as demand for corporate welfare services from conventional enterprises (European Commission, 2016). These SEs should also try to mobilise resources from the community in the form of voluntary work contributions. To this end, however, they will have to innovate in their ownership and governance structures, opening up to the inclusion of stakeholders other than employees.

B-type social cooperative will face several challenges. These enterprises depend much less than A-type social cooperatives on public procurement: about half of their total turnover comes from the sale of goods or services to private clients. The other half of their incomes is derived from successful participation in public tenders. The weakness of these cooperatives is thus not mainly linked to their type of funding, but rather to the type of activities they carry out, both for the government and for private parties. These activities are indeed, to a large extent, low value-added activities, such as cleaning, maintenance of green areas, or assembly activities, and the current crisis has reduced the demand for these. They also have to face increasing competition from conventional companies, mainly local SMEs. Moreover, the types of activities they carry out are not activities likely to be associated with valuable professional training for their disadvantaged employees. These cooperatives run a double risk: losing market shares, and not being able to guarantee the turnover rate of disadvantaged workers they have experienced in previous years (European Commission, 2016). The challenge that they face is, therefore, to be able to move to productions with higher value-added content, and to be capable of training disadvantaged workers in more skilled tasks demanded by the open labour market.

The many associations, foundations and religious institutions will also have to face many challenges. These types of NPOs, although they have not formally assumed the form of social enterprise, do operate as such. In fact, a significant part of their revenue comes from the sale of goods or services to private users and public administrations. They are now in a situation which, in many respects, is similar to that which characterized the voluntary organizations of the 1980s, when these entities operated as enterprises without a proper legal form (and without the related obligations and advantages); the introduction of a new legal form—namely that of social cooperative—had resolved this situation. Associations and foundations operating *de facto* as enterprises can now formally adopt the legal form of social enterprise; such evolution offers them an opportunity to grow and expand further, especially if they orient themselves towards the private demand for cultural, sport and recreational services. The new law on social enterprise, which forces these organizations to be qualified as social enterprises, should



encourage them to move in this direction. Indeed, they are subject to all the obligations (and the costs linked hereto) required from a traditional company.

It has already been shown that the impact of the law on the creation of limited liability social enterprises has been rather limited, due to the lack of fiscal compensations to make up for the constraints imposed on the distribution of profits. The new law reforming the legal framework for the third sector could make the SE legal form more attractive, in particular in new sectors of activity, other than those where NPOs have traditionally been engaged. In some of these areas, the use of non-profit joint stock and limited liability companies could prove more appropriate than the legal forms usually used by social enterprises.

This being said, the challenges that SEs will face and their future prospects will be influenced not only by the aspects described above but also by future public policies. In fact, since the legal environment has progressively improved, much will depend on the resources that the public actors will provide to finance the supply of services and on the public policies that will be designed to support social enterprises. Among these, of particular importance will be policies aiming to encourage private demand, from either businesses or households, through tax exemptions and other incentives.

## **6. Conclusions**

This working paper summarizes the main developments that have affected and are still affecting Italian social enterprises, their importance and their key features.

First, the paper analyses the dynamics through which social enterprises developed. The emergence of social enterprise in Italy was clearly a bottom-up phenomenon. Indeed, Italian social enterprises are, to a great extent, and regardless of the legal forms used and the activities carried out, a grassroots phenomenon. All this makes the Italian experience unique compared to what happened in other European countries, where social enterprises have often been developed through a top-down process (Hulgård and Spear, 2006). In other words, Italian social enterprises arose from spontaneous initiatives of groups of citizens supported by widespread social participation and civic engagement. In a subsequent stage, they progressively attracted the attention of policy makers, who, after some years, recognized their role and supported them by allocating significant public resources to the services they provided. This was particularly true until the beginning of the 21st century; public support then started growing more slowly, if not declining, following the economic and financial crisis that erupted in 2007.

In just over two decades, social enterprises have grown in numbers and in economic and social importance, especially in terms of employment and number of users served. These users include persons in critical conditions of hardship. Social enterprises have expanded their activities, from traditional social services and job placement to new areas: cultural, health, sports, education and research, and these positive trends have persisted despite the economic and financial crisis.

The analysis also shows that social enterprise is a complex phenomenon, which is based on various models—such as cooperative, association and foundation—, each of which is becoming increasingly specialised in terms of types of activity and types of owners. The only organizational type that seems not to be developing to the same extent as the others—and this is not only the case in Italy—is that of the limited company. It can thus be concluded that social enterprises are primarily collective enterprises, i.e. enterprises launched and operated by people and for people.

The analysis suggests that social enterprise, in its various forms, will be able to self-finance and will continue to contribute to social justice, despite the likely reduction in public funding. However, all this will only happen if social enterprises become more aware of their role and public policies facilitate their development, not only—as they have done up to now—by financing the services SEs deliver, but also by supporting private demand and by strengthening SEs' propensity to innovate and invest.

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