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Governance Models
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social enterprises through a comparative
study of the legislation of eleven
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Abstract:

One of the aspects least focused upon in studies of Social Enterprises is governance, which is crucial when defining a type of governing system that could improve its efficiency and efficacy. The need to consider both social and economic aims in the decision-making process furthermore emphasizes the importance of: stakeholder participation, accountability, and transparency.

This paper explores governance through an in-depth analysis and comparison of the legislation of eleven European countries on social enterprises or social cooperatives. The countries included are: Belgium, Finland, France, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Spain, Latvia and the United Kingdom.

DEFINING SOCIAL ENTERPRISE

“Social Enterprise” is a broad term used to define economic businesses aimed at achieving social and collective objectives by means of an entrepreneurial organizational structure and system. These systems use the legal forms which are usually used by the private sector. They are also highly involved in providing services to the Public Administration, mainly in the fields of disadvantaged people integration. In other words, social enterprises are for the most part private organizations that respond to collective needs by managing social utility services in an entrepreneurial way. They therefore lie “at the crossroad of market, public policies and civil society” (Nyssens, 2006). In Europe, however, the term has come to cover a wide range of organizations, including: sheltered workshops, child care services, social cooperatives, personal services for disabled people, environmental protection activities, work integration services, housing associations and so on, that all in many ways work to achieve social aims (Borzaga and Defourny, 2001).

In the European context, there are three main fields in which social enterprises perform their economic activity:

1. work integration (WISE);
2. enterprises whose primary aim is to produce goods and services with social utility or are driven by a collective interest;
3. enterprises which foster local economic and social development (e.g., proximity services), through promoting citizen and local government participation in business management.

An in-depth study of the organizations operating in these fields has demonstrated the following: the presence of a large variety of initiatives and legal forms, differing ways to manage businesses

and structure enterprise organization, as well as differing levels of autonomy and stakeholder involvement.

The two concepts of social enterprise and social entrepreneurship, despite their seeming similarities, have different meanings. The former refers to a more European concept of Social Economy, or Third Sector organizations. These organizations work to achieve social goals by means of an entrepreneurial activity that usually originates as a community project or is initiated by a collective action (Defourny, 2001). The latter, on the other hand, is more often found in the Non-Profit, Anglo-American context. It is centred on a more Schumpeterian view of the single entrepreneur who “strives to combine the heart of business with the heart of the community through the creativity of the individual”¹; one who “recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture”² in order to create something for the community or for the disadvantaged through his own means, with an innovative spirit and a direct involvement in business. Thus, it is thereby evident that there are different “schools of thought” that run behind these two varying concepts: the European one and the American one. The European concept is primarily based on the EMES definition³, in which social and economic principles are defined by an “ideal-type” which depicts an enterprise that runs a business (characterised by economic risk and the presence of employees) with the aim of achieving and satisfying the general interest (i.e. the standard of living of a target group or of the community). Other characteristics include: a great sense of stakeholder participation and involvement, the presence of a non-profit distribution constraint (even if limited), and a decision-making process not based on capital ownership. The American concept, on the other hand, places

¹ Gary McPherson, Executive Director of the Canadian Centre for Social Entrepreneurship, July 12, 2002.

<http://www.bus.ualberta.ca/ccse/>

² Wikipedia.

³ For a broader description of the EMES criteria, see Borzaga C. Defourny J., “The Emergence of Social Enterprise”, Routledge, London 2001, Intro.

its stress on the single entrepreneur⁴ who achieves social goals by means of a business subject to the normal rules of the market; in which case, the innovation brought about by the entrepreneur is a way in which he may achieve a general interest aim. This concept has been developed by various authors in the US (Young 1983 e 1986, Bornstein, 1998; Dees, 1998; Drayton, 2002) and in the UK (Leadbeater, 1997) throughout the past ten years.

The main differences between these two concepts lie in the organizational form that the enterprises choose to adopt and the involvement of the different categories of stakeholders and institutions. Moreover, there is an ongoing debate on the nature of their economic and financial models, particularly on the earned income strategies that foster this kind of business, as well as the role of private and public funders, and the non-profit nature of these kinds of activities. These topics, in particular, have led to different implementation strategies of the term “social enterprise” at a national level throughout Europe as well as to a dualistic view of the term brought on by two different schools of thought in the US. First, we have the “*social enterprise school of thought*”, which is more focused on the concept of a single entrepreneur reaching a social purpose through an organisation that follows an “*earned-income*” strategy. Second, we have the “*social innovation school of thought*”, which focuses on the way to find innovative solutions that address social problems and meet social needs (Dees and Anderson, 2006).

From the European point of view, the varying definitions and interpretations of the term, social enterprise, have led to a quite understanding of the concept, especially in the development of its legislative framework. As a result, only a few common elements can be found that tie the

⁴ Dees defines social entrepreneurs as follows:

“Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value);
- Recognizing and relentlessly pursuing new opportunities to serve that mission;
- Engaging in a process of continuous innovation, adaptation, and learning;
- Acting boldly without being limited by resources currently in hand;
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.” (Dees 1998).

organizations together in the European context. Examples of such elements lie in the private nature of these institutions, the presence of paid workers, the need to face the market and perform an entrepreneurial activity, and most importantly the continuous trend to foster research projects aimed at understanding how this new kind of business could lead to an improvement of both the standard of living and social skills of disadvantaged people.

Dees (2001) defines three types of enterprises: those purely philanthropic, those hybrid (related to social matters) and those purely commercial. The following table shows how the three different types are related by looking at the differences they hold in some distinctive features, such as: motivation, goals, market ties, and profit distribution:

Insert Table 1 about here

Alter (2007), adapting a model from Etchart and Davis (1999), talks about a Hybrid Spectrum of enterprises, each having different objectives, which can be both partially social-driven and partially market-driven. In this spectrum, she identifies four types of hybrid enterprises:

- non-profit enterprises with income-generating activities;
- social enterprises;
- socially responsible businesses;
- corporations practicing social responsibility.

Insert Figure 1 about here

Each type adopts different ways to improve their social and economic value, and so their strategies are guided by different aims. On the left side of the spectrum, we have those enterprises which create social value with a look at earned income activities, such as the production or provision of social services for which the price of the goods and services produced is often paid by donors or public entities rather than by the users. On the right side, we have enterprises whose primary objective is to create economic value for their shareholders who sometimes look at the social implications of their activities. Their production or provision of goods or services on the contrary is market-driven. We must keep in mind that social value can mean different things in different sectors with different missions. It could be used to protect the environment, human rights, or to create job opportunities for disadvantaged people.

The main type of social enterprise, in the Anglo-Saxon context, is defined as “a business with primarily social objectives whose surpluses are principally reinvested in the business or in the community, rather than being driven by the need to maximize profit for shareholders or owners” (Department of Trade and Industry – DTI, 2004). The main features of this kind of enterprise have been listed by the Social Enterprise Coalition as follows:

- **Enterprise Orientation** - They are directed toward the production of goods and the provision of services to a market.
- **Social Aims** - They have explicit social and/or environmental aims such as job creation, training, or the provision of local services. Their ethical values may include a commitment to building skills in local communities, and their profits are principally reinvested to achieve their social objectives.
- Many social enterprises are also characterised by their **social ownership**. They are autonomous organizations whose governance and ownership structures are

normally based on stakeholder participation (e.g. employees, users, clients, local community groups and social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental, and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.” (Social Enterprise Coalition, 2003).

A social enterprise can be established as an independent organization, or can be participated in or entirely owned by a for-profit enterprise (which is not possible in the Italian framework, cfr. Art. 4 Decree 155/06) or by a non-profit enterprise. As a for-profit business unit, the social enterprise will not realize social programs that run contrary to the mission; as a trading arm of a non-profit, social enterprises could be a way to have earned-income generating activities that could finance social activities or cover the organization’s costs.

In both cases, entrepreneurial success and social impacts have to be linked.

Social Enterprise in Europe

During the last few years it seems as if for-profit enterprises have tried to install a more “socially responsible” production process, fostering improved working conditions for its employees, establishing environment-friendly practices, and conforming to quality standards for their products, etc. This, however, is not what we are referring to when we talk about social enterprise. Social enterprise is a different way to define entrepreneurship, focused on a democratic participation of stakeholders and the creation of an environment where workers matter more than capital. Social Enterprise takes part of Social Economy, which has been increasingly awarded the attention of the European Commission (e.g. the establishment of the

European Economic and Social Committee, and Toia's recent report to the European Parliament) as well as that of singular countries (the UK and Italy in particular).

The development of a market economy in the last century combining with a growing liberalization and globalization of the market has led to an explosion of social problems related to the economy. Third Sector Organizations (TSOs) consequentially have had a growing influence in finding solutions to these problems, doing often in an entrepreneurial way. The attention given to these organizations has also been increasing even from an academic point of view, with a flourishing of theories explaining their existence in a dualistic (State and Market) economic system (Weisbrod 1977, Hansmann 1980, Young 1983, Borzaga, Fiorentini Maticena 1996, Anheier e Salamon 1999, Borzaga e Defourny 2001, Evers e Laville 2004, Bruni e Zamagni 2004, Steinberg 2005). Due to a crisis in public policies during the 70s, TSOs started to bring innovative solutions to sectors like social services, healthcare, education, and the environment, which were formerly, exclusively ruled by the so-called Welfare State. The new role of TSOs in the economy led to a new concept called Welfare Mix. Third Sector Organizations have since begun to organize themselves in a more productive way. The first appearance of an early version of social enterprise can be found in the Italian social cooperative, a cooperative with a social mission directed toward disadvantaged people, which was first established in Italy in 1991 and later in other countries (Portugal 1998, Spain and Greece 1999, Poland 2006). Social enterprises, as can be seen, have played a huge part in fostering policies for the employment of people usually excluded from the normal labour market (according to the so-called WISE, Work Integration Social Enterprise, Spear and Bidet 2005, Nyssens 2006).

The presence of such enterprises, since the 1990s, has brought on a need for new legal frameworks that allow them to match their social mission to an economic activity. As a result,

legislators of many countries have been promoting laws regulating such kind of businesses in various ways throughout Europe, frequently under the pressure of advocacy groups. This has consequently led to a re-organisation of the traditional legal forms of Social Economy (Cooperatives, Associations and Foundations) in order to fit in a market approach. In some countries, there are now laws regulating a cooperative form of Social Enterprise, while in others, new ways have been explored that try to extend the concept of social economy to the mainstream of the market economy and normal enterprise (Belgium, Finland and Italy). For a review of the laws analysed in this paper, please take a look at the tables in the Appendix.

INSTITUTIONAL STRUCTURES AND GOVERNANCE IN SOCIAL ENTERPRISES

We will now explore the numerous governance models in social enterprises in Europe. The institutional structure of an enterprise is defined as “the institutional configuration of stakeholders, their inputs to the firm, the rewards and benefits they obtain, the institutional figure and aims, and the governing bodies that manage the correlations between stakeholders, and the long term inputs and rewards”⁵.

We will compare and contrast all procedures linked to governing rights and the decision-making process with that of corporate governance. We must also consider stakeholder engagement and how to structure the governance system in order to pursue their objectives with a relative measure of accountability.

We therefore consider governance as “the configuration and functioning of governing and control bodies”⁶, referring to those subjects which have to address, manage and control the firm in its functions, the influence of their decisions, and their responsibility toward the stakeholders.

⁵ Airoidi, Brunetti e Coda, 2005.

⁶ Airoidi, Brunetti e Coda, 1994.

Insert Figure 2 about here

Low (2006) enhances two kinds of governance models for social enterprises in the U.K. (particularly the Community Interest Companies): the for-profit stewardship model and the non-profit democratic model. He defines the Board of Directors as the locus of the organizational governance, where critical decisions take place autonomously but in line with the stakeholder' objectives; their participation in the process is guaranteed through the Annual General Meeting (AGM).

The models are presented in this table:

Insert Table 2 about here

The participation of the local stakeholders in the board (Pearce 2003) is one of the most interesting issues as it is the local community that has to define the primary needs to be addressed by the social enterprise (the ongoing debate in Italy on social enterprises is even focused on the stakeholder engagement in the boards). The main problem in this model lies in how to manage the trade-off between participation and the efficiency of the decision-making process.

In the last part of his work, Low defines social enterprise as a business characterised by a non-profit purpose and a for-profit governing model. The problem however lies in how to balance the interest of members/stakeholders (represented in the AGM) with those of the managers (which often have the direct control of the business).

There is hence the need to both foster and implement tools to measure the economic and social performance of social enterprises (e.g. SROI – Social Return On Investment – or VAS –

Social Added Value) and to select board members on the basis of their expertise and capacity to represent stakeholder interests.

An empirical study⁷ on a panel of British social enterprises has led to the configuration of three governance models:

- Self-selecting trustee-based: Trustees are the only members. They manage the organisation by themselves or by external managers. The board is restricted by the mission, but there is a low level of accountability toward the external stakeholders;
- Hybrid structure: Members and trustees cooperate, but there is tension in selecting board composition and the way in which the mission is to be achieved;
- Democratic member-based structure: Members select the board by a democratic process and control it through the AGM and direct involvement. The transaction costs however could be higher.

Empirical studies made in Italy have highlighted a different model of governance for social enterprises, and a variety of ways in which stakeholder engagement could be improved⁸.

The EMES Research Network definition characterized governance with the following indicators:

- a high degree of autonomy;
- a decision-making power not based on capital ownership (“one head, one vote”);
- an initiative launched by a group of citizens;
- a participatory nature (multi-stakeholdership approach);
- a limited profit distribution.

⁷ Spear, Cornforth and Aiken (2007).

⁸ Brunello (2006), Fazzi (2007), Cesarini e Locatelli (2007).

In the following section we will compare and contrast the governance elements found in some European legal frameworks in order to present a critical view of the European governance model of social enterprises.

A REVIEW OF THE EUROPEAN LEGISLATION ON SOCIAL ENTERPRISES FOR THE ANALYSIS OF GOVERNANCE MODELS

The recognition of the European legal framework on social enterprises has given us eleven countries to examine that regulate this kind of business. The legislation analysed is divided into two main categories of laws:

- those on social cooperatives: France, Greece, Poland, Portugal, Spain;
- those on social enterprises: Belgium, Finland, Italy, Latvia, Lithuania, and United Kingdom.

Cafaggi and Iamiceli (2008) talk about a tripartite legislative model of social enterprise in Europe:

- the “cooperative model”, with social enterprises that act as cooperatives with social aims;
- the “company model”, derived from the for-profit model and confined by a social objective and a limited profit distribution;
- the “open form model”, defined by the law on the basis of their social purpose, without considering the legal form.⁹

In order to analyse the legislative framework, we must begin with a definition of the object and aim of the laws.

Object of the Laws and Social Aim

⁹ Cafaggi and Iamiceli (2008).

In regards to the object, we can find two categories of laws: those which regulate the work integration of disadvantaged people through an entrepreneurial activity (WISE, Work Integration Social Enterprises¹⁰ whose entrepreneurial organization is the main feature that distinguishes such kind of businesses from other kinds of work integration initiatives (Borzaga and Defourny 2001, Nyssens 2006), and those which work in limited fields of activity such as development cooperation, education, advocacy, environmental protection and so on.

The countries that regulate a framework only under WISE are: Finland, Poland, Greece and Lithuania even if some differences can be find. In particular, In Finland for example the Article 1 of the Act on Social Enterprise identifies the two categories of disadvantaged people to be considered accordingly: disabled people and the long-term unemployed. Article 3 provides subsidies for those enterprises which insert at least 30% of disadvantaged people into the job force. In Poland the worker cooperative has to be launched by unemployed and disadvantaged people as defined by the Act on social Employment in 2003: (e.g. the homeless, for men alcoholics and drug addicts after completion of therapy in a medical institution, mentally ill people, former prisoners and refugees). The purpose of this law is to set up businesses established by disadvantaged members with the economic support of the Employment Fund. In Greece for instance, the Social Cooperative of Limited Responsibility is an operative unit of the Department of Mental Care and owned by different stakeholders which are both disadvantaged and non-disadvantaged people. Last, in Lithuania, Article 2 of the Law on Social Enterprise defines the main purpose as “the return of disadvantaged people to the normal labour market, their social integration and the reduction of social exclusion”. The target groups are identified by the law (Article 4), and have to represent at least 40% of total workers and not be less than 4

¹⁰ Many laws are referred to European Commission Regulation EC No. 2204/2002 in order to define the disadvantaged.

(particular conditions are provided for the so-called “social enterprises of the disabled”). The operative objectives of that kind of enterprise have to be included in the memorandum in order to start the business.

In Italy and Spain, work integration is considered as a social activity in itself and therefore grants the freedom of choice about the sector in which the business could be started the business. This means that an enterprise employing a certain percentage of disadvantaged people (which may vary from state to state depending on the national laws; in Italy the rate is 30%), could start a business even in a sector that is not normally considered by non-profit organizations.

It would be interesting to deepen the laws which provide a limited list of sectors in which the activity has to be performed. In Italy Article 2 limits the social utility activity to a list of categories (from which work integration is excluded as stated above) as is Spain even if in their law there is not list but rather a determined field (e.g. healthcare, social services and education). In Portugal the list is given in reference to target groups. These differences may result in hindering existing enterprises willing to start a social business but operating in fields not related to these listed, or in a continuous attempt to fit existing activities to a different target of people (and this could result in higher cost and a loss of effectiveness).

In the UK, Belgium, France and Latvia, no limitations are given referring to the activity sector; the social finality is considered to be the attempt to bring social changes to the local community or benefits for a general interest. In Belgium, in particular, the social finality is not defined by the law, but has to be stated in the Memorandum. In the UK an autonomous Regulator, an authority appointed by the Secretary of State for Trade and Industry, must evaluate the community interest test. This document is necessary to start the business, and contains a

cost-benefit analysis as well as the impact of the business on the community (CIC Regulations 2005). In France, the activity has to be opened to external users or beneficiaries: the general interest pursued by the enterprise must be stated in a mandatory declaration. This declaration must contain objectives, organization and operative tools to perform the business, and has to be sent to the Prefect in order to get the authorization to start the business (the declaration lasts five years and could be renewed). In Latvia, the legal forms allowed are: associations, foundations (regulated by the Association and Foundation Law of 2002), and religious entities. The aim is to establish organizations aimed at bringing social benefit to the beneficiaries.

In the following table, we highlight the aim and objectives of the laws analysed:

Insert Table 3 about here

Stakeholder, Members, and Voting Rights

In this paragraph we will discuss of the subjects identified as members (which are shareholders) or stakeholders¹¹ of an organization. In social enterprise governance, the relationship with the stakeholders is important and is moreover the foundation in the relational approach between internal and external participants. The multi-stakeholder feature of social enterprises (a long studied issue in the Italian field of social cooperatives. See Borzaga, Fiorentini e Matacena 1996, Travaglini 1997 and Fazzi 2008) has been studied for years in Europe, and many authors have worked to establish such an approach (Borzaga and Defourny 2001, Campi, Defourny and Gregoire in Nyssens 2006, Spear Cornforth and Aiken 2007). This approach requires a pro-active approach in the decision-making process, which is not an easy

¹¹ The stakeholder theory identifies the participants to the enterprise's life with different criteria. Hereinafter we will refer to some approaches: in particular Freeman and Reed (1983) defines stakeholder as "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" and Ben Ner (1991) which elaborates a distinction between demand-driven and supply-driven stakeholders. Jones (1995) gives a broad recognised distinction between internal and external stakeholders.

end to reach in a dynamic context in which decision have to be taken quickly and in a market characterised by a personalization of the services. The trade-off between stakeholder engagement and the quickness of the decision-making process is one of the challenges of social enterprises involved in the local community and in the construction of a local governance system.

As with the laws, there are no well-defined characteristics to define the stakeholders and their involvement in the organization; more is said in relation to the target groups or beneficiaries of the activities (see table 3). In Italy, Article 1 states that those organizations limiting the supply of social utility goods or services only toward members, can't obtain the status of social enterprise; in this law it is also said that the involvement of workers and beneficiaries have to be provided through mechanism of information consultation or participation which could engage these categories in the decision-making process (Art. 12 and 14). In France, it is clearly stated that the activities of the SCIC have to be directed toward external beneficiaries of a local community.

Regarding membership, the laws could be read differently. In Greece, the social cooperatives are established in order to guarantee a job for mentally ill people: a minimum number of 15 members (and in general the 35% of total members) have to be patients of the Unit of Mental Health, while the remaining percentage of members have to be divided between workers in the psychiatric hospital (max 45%) and private or public institutions (max 20%). In France, there are three mandatory categories of members that are to be represented in the board: workers, beneficiaries and a third to be mentioned in the Articles. In Belgium those workers employed as staff members have the right to be members for at most one year after their appointment. In Poland 80% of members have to be unemployed and disadvantaged (as identified by the Act on Social Employment), while the remaining 20% can be found among

people having skills necessary for the development of the cooperative working in private and public entities, and NGOs (if provided by the Statute). Furthermore, this type of cooperative cannot have less than 5 or more than 50 members (this rule does not apply if this is a cooperative of blind people). In Portugal there are two mandatory categories of members: effective (workers and beneficiaries) and honorary (funders and others); the former have the right to vote in the board, while the latter must be represented through a General Council.

Some laws provide that public entities or private institutions can be members of the organization. Spain and France in particular have this provision provided by the law, (in France the share for the public administration is limited to 20% if provided by the Articles). In Italy, Article 4 does not allow public and private institutions to manage, control or own a social enterprise, and these institutions cannot even appoint members on the board.

The volunteers are dealt with in different ways: in Spain, voluntary members are foreseen by the Statute and participate in board meetings but are without voting rights. In the Italian law, Article 14 provides that voluntary worker can be present with the limit of 50% of the total workers.

Last, considering the voting rights, which is a primarily matter in order to define the power distribution in the organization, only some laws give clear indication; this is due probably to the fact that the general Companies Code, or Civil Code provide further information. However, some specification could be found. In Belgium voting rights are limited to 10% of the total votes per person, and to 5% if the shareholder is employed as a staff member. In the UK, the possibility to choose between the Company Limited by Shares and the Company Limited by Guarantee, gives different rights, as defined in the Companies Act 1985. In the first case, they are related to the share, in the second one the rule is “one head, one vote”. In both cases however,

only members have the right to vote in the assembly and to appoint the board. Considering the cooperative laws, generally speaking, the rule “one head, one vote” (the maximum expression of democratic participation, as highlighted even by the International Cooperative Alliance), is applied. In Portugal, the right to vote in the board is given to effective members only. In France there is the possibility to form colleges of members which can have from 10% to 50% of the total votes in the Assembly (Art. 19.8). These colleges, if provided by the Articles, have to be at least three and not established on the basis of the shares.

According to Margado (2004), these smaller groups could be used as a tool to guarantee a higher involvement of members to the activities and decision-making of the cooperative.

Composition of Governing Bodies

Social enterprises have a complex organisational structure and are often not clearly defined by those who have the power and responsibility to take strategic decisions, or have the tasks assigned to the operative structures. The legislative rules about the boards and governing and control bodies are not always well-defined and furthermore present different models. Even if this is due, as mentioned above, to the necessary adaptation to the Codes regulating companies in each country, particular issues can be found in some laws.

In Italy, if the public company form is chosen the General Assembly appoints the Board of Directors (different directional systems are provided by law). An external body for account auditing is also necessary (there are some exemptions). If the limited liability company form is chosen, managers are appointed directly by the members. Moreover, for-profit companies or public administrations cannot manage or own a social enterprise, nor elect the majority of the board if they own shares, or appoint the majority of board members (Articles 4 and 8). In the UK, the board of directors, is appointed by the members/shareholders, and control is given to

every member as well as to a Regulator, depending on the need of each CIC. In Latvia, the law on Association and Foundation governs the duty of the administrative bodies (the Executive Board). In the Portuguese cooperative model there is a board of directors which is appointed by the effective members and a supervisory board and a General Council with consultative functions composed by both effective and honorary members. In Spain, a governing council is requested to manage the cooperative. If provided, voluntary members can participate in the Board without voting rights which could bring a higher level of democracy to the decision-making process of the social enterprise. In France, limited companies can have managers appointed by the general assembly, while joint-stock companies need a board and a supervisory committee. According to Polish law a supervisory board is mandatory for cooperatives that have more than 15 members; otherwise the control is given directly to the members.

GOVERNANCE MODELS FOR SOCIAL ENTERPRISES: CONCLUDING REMARKS AND RESEARCH QUESTIONS

Governance is a term which has many implications in the economic activities of an organised system such as an enterprise. The emergence of social enterprises has brought scholars to face the analysis of governance systems in a different way, decreasing the consideration of the shareholders as the only group of people who have interest in the business, and increasingly considering different actors who bring different interests both economic and non-economic: the so-called stakeholder. The multi-stakeholder model of governance of social enterprise is a way to foster democratic participation and promote a higher involvement of different groups of workers, beneficiaries, funders, and so on, that all participate in the effectiveness and efficiency of the business. Thus, the development of local governance systems in social enterprises which local actors, public entities, and civil society could all take part is a further challenge to deal with.

The democratic model of governance (and so the principle “one head, one vote”) seems to be more adaptable to the internal governing system of social enterprises, even if the need to implement tools derived from the for-profit stewardship model have to be taken into account in order to get a more effective and efficient structure.

Nevertheless, it seems to be harder to define the right ways in which external stakeholders should be involved in the decision-making process and in governing bodies. Therefore a further development of empirical research studies would serve to broaden the knowledge of innovative solutions regarding the role of external stakeholders.

Last but not least, the need to legitimize social enterprises and make them more recognisable in the economic system of each country is a further step that has to be made. However, in order for this step to be made, the legislator must cooperate with civil society in order to guarantee that the right tools are installed to control the activities of such enterprises, to avoid the appearance of misleading social enterprises.

The above comparative analysis of the European models of social enterprise has highlighted a variety of governance models, but has also highlighted some questions on the main features of a social enterprise. For example, it has demonstrated that the subject of how the multi-stakeholdership could be put into practice must be further studied. In particular:

- the dependence of social enterprises on governance and other characteristics;
- the governance specifics in work integration social enterprises;
- the presence of primary or necessary member groups (workers or beneficiaries);
- the presence of both members and other stakeholders (in particular beneficiaries) in the general assembly;

- an higher involvement and presence of stakeholders in the board or supervisory committee;
- the trustees model as well as the democratic one;
- the specific structure of governance or the adoption of a model defined by the Commercial or Civil Code (cooperative, limited or public company, association and foundation);
- the integration in social enterprises of participants from public administrations and the necessary controls to be guaranteed by them;
- the involvement of local actors different from public entities;
- the inclusion of economic, social, or idealistic aims of the participants.

The answer to these questions could lead us to a singular or plural model of social enterprise which could be implemented in a legislative, promotional, and programmed framework for the Italian Social Enterprise, with a look at the flourishing initiatives in the European context.

Appendix A: Law on Social Enterprise

	Social Enterprise Law 155/2006 (Italy)	Social Enterprise Law (Latvia)	Social Enterprise Act 1351/2003 (Finland)	Social Enterprise Law 1/6/2004 (Lithuania)	Social Finality Company Reform of Companies' Code 13/4/1995 (Belgium)	Community Interest Company Regulations 2005 Companies Act 2004/2005 (UK)
Activity	Organizations principally performing in a stable manner entrepreneurial activity of production or exchange of social benefit goods and services. 70% of total income must be reached through this main activity.		Commercial production of goods and services	Small or medium-sized enterprises (Law on SME). The income from non-supporting activities must account at most for 20% of total income	Production and selling of goods and/or services.	Production and selling of goods and/or services.

<p><i>Mission</i></p>	<p>Social benefit pursuing general interest goals activities (a list of sectors is provided).</p>	<p>The aim is to create social benefit.</p>	<p>Work integration</p>	<p>Development of employees' working and social skills and social integration</p>	<p>Social finality must be qualified in the Articles of the company.</p>	<p>Social finality directed toward a community or general interest purpose.</p>
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<p><i>Work force</i></p>	<p>Minimum amount of paid work (max 50% of voluntary workers) If there's work integration, disadvantaged workers have to make up at least 30% of the total.</p>	<p>Presence of voluntary and paid workers in the case of an association; the former must draw up an agreement with the establishing organization work hours and job duties</p>	<p>At least 30% of total workers have to be disadvantaged (disabled or long-term unemployed)</p>	<p>At least 40% of employees must be classified as target groups and at least 4 of such employees. Particular conditions are established for social enterprises for disabled persons</p>		
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<p>Legal forms and Governance system</p>	<p>Private organizations. Control and direction depends on the legal form: If a public company: board and general assembly & supervisory committee If a limited liability company: managers are appointed by the general assembly.</p>	<p>The forms admitted are: Associations Foundations (Association and Foundation Law) Religious entities. The executive committee and other governing bodies have to be established as provided by the articles.</p>	<p>It depends on the legal form assumed (provided forms are that of corporation, foundation or other registered trader)</p>	<p>Any registered legal person or any legal form; it is a status that can be granted in accordance to the laws provided.</p>	<p>It depends on the form assumed (any kind of company provided by the Companies' Code). Voting rights: no more than 10% of the capital per shareholder, and this is less in the case of a worker shareholder (5%). Strict constraints in terms of sanctions and control by the courts.</p>	<p>The company legal form be: company limited by share (CLS) or by guarantee (C... – “one member, one vote” rule). The CIC Regulator supervises governance decisions and monitors the boards (helped by member Board of directors appointed by members only.</p>
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<p><i>Members and stakeholder involvement</i></p>	<p>Involvement of customers and workers has to be provided in the Articles or in the internal regulation. So that through the provision of information, consultation, and participation they can influence the decision-making process.</p> <p>Organizations whose activities are directed only toward members are excluded.</p>	<p>Association: General meeting as the main force, and the presence of the board.</p> <p>Foundation: Board or stewardship given to the other bodies.</p>	<p>Membership is not mandatory, the focus is on contract law and the relations with the public administration (subsidies are provided)</p>		<p>Workers appointed as staff members can become members at most after one year from their appointment.</p> <p>The statute has to provide procedures allowing each employee to participate in the governance.</p>	<p>A community interest test requested in order to become a CIC and to verify first the purposes of the company.</p> <p>The community is one of major stakeholders.</p> <p>Beneficiaries may represent a section of a community.</p>
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Accountability	A social balance sheet is mandatory and the main information as provided by the law.			A report on the use of subsidies every four months and at the end of the year	A social balance sheet is required annually.	An annual community interest report is requested providing indicators on stakeholder involvement.
Profit distribution	No direct or indirect profit distribution is allowed to shareholders or managers. There is the possibility to assume the form of Public Company (with shares).	Not allowed at all	No limit, but the mission must be respect .		Limited (dividends with a cap). A profit allocation policy in accordance with their social purpose.	Asset-lock rule. A limited profit distribution can be provided (cap on dividend – CLS – and remuneration of debt/equity).

Appendix B: Law on Social Cooperatives

	General Interest Cooperative Law 2001-624 (France)	Social Initiative Cooperative Law 27/1999, Art. 106 (Spain)	Social Solidarity Cooperative Law 22/12/1998 (Portugal)	Social Cooperative Law 27/04/2006 (Poland)	Social cooperative of Limited Responsibility Law 2716/99 (Greece)
<i>Activity</i>	Production or supply of goods and services	Production or provision of goods and services	Production or provision of goods and services	Activities qualified as non-economic	Any economic or commercial activity in any field
<i>Relations with Public Administration</i>	The Departmental Prefect must give 5 years approval. 20% of shares can be owned by local public bodies, as provided for the Articles	Private organizations, but there's the possibility to have public entities as members (if provided by the statutes)		Registration to the register of National Council for Cooperatives	Units of Mental Health directed and monitored by the Department of Mental Health of the Ministry of Health Care.

<i>Work force</i>	Worker must be included as primary stakeholder by law.	It is possible to have activities providing labour integration of socially excluded persons.		Worker co-operatives, established by unemployed and disadvantaged people (Act on Social Employment 2003).	
<i>Mission</i>	Collective interest, social benefit activities. Satisfy emerging needs and help inclusion and cohesion.	Provided by law special fields of activities (health, education, culture or any other activity with a social nature) or any activity for the work integration of disadvantaged people.	Satisfaction of social needs, promotion and integration of disadvantaged people and other target groups, in accordance to the Portuguese population.	Social and/or professional re-integration of their members.	Socio-economic inclusion and professional integration of individuals with psychosocial problems

<p><i>Legal forms and Governance system</i></p>	<p>If Sarl (limited liability company): managers designated by the general assembly;</p> <p>If Sa (joint-stock company): board and supervisory committee</p> <p>“One member, one vote”, but there is the possibility to form colleges of members which can have from 10% to 50% of votes.</p> <p>Provision of cooperative non-voting certificates for a financial contribution.</p>	<p>A governing council is requested.</p> <p>If provided, voluntary members can participate to the board without voting rights</p>	<p>Distinction between effective (beneficiaries and workers) and honorary members: the former may be part of the governing body and have the right to vote.</p> <p>Board of directors and supervisory board have to be provided.</p>	<p>80% members have to be unemployed and disadvantaged.</p> <p>The other 20% can be found between people who have skills that are lacking in the coop.</p> <p>In coop with more than 15 members there is a supervisory board; otherwise members direct control.</p>	<p>Two kind of shares: one compulsory, equal and indivisible for all the members, and one optional</p>
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<p><i>Members and stakeholder involvement</i></p>	<p>At least three categories of members must be mandatory workers and users. Activities opened to third parties.</p>	<p>Public entities can be members, depending on the statutory clauses, voluntary members can be accepted.</p>	<p>Provision of a General Council composed by representatives for both effective and honorary members.</p>	<p>Minimum 5 and maximum 50 members. NGOs can be members too if provided by the Articles.</p>	<p>Members: min 35% (or numerically 15) patients; max 45% workers in the psychiatric hospitals and 20% private and institutional.</p>
<p><i>Accountability</i></p>			<p>A social balance is mandatory in case of more than 100 members.</p>	<p>Separate accounting concerning the statutory activities.</p>	
<p><i>Profit distribution</i></p>	<p>50% of the profit must go to indivisible reserve, then a limited profit distribution is allowed (not including public subsidies in calculating the interests).</p>	<p>Not allowed at all; 100% of surpluses go to reserve.</p>	<p>Not allowed at all: all the surpluses go to institutional activities.</p>	<p>Not allowed. In case of liquidation, 20% of the residual can be divided among members.</p>	

TABLE 1
Spectrum of Practitioners¹²

	<i>Pure Philanthropic</i>	<i>Hybrid</i>	<i>Pure Commercial</i>
Motives	Goodwill	Mixed motives	Self-interest
Methods	Mission-driven	Balance of mission and market	Market-driven
Goals	Social Value creation	Social and economic value creation	Economic value creation
Destination of income / profit	Directed toward mission activities of the non-profit organization (required by law or organizational policy)	Reinvested in mission activities or operational expenses, and/or retained for business growth and development (for-profits may redistribute a portion)	Distributed to shareholders and owners

¹² Alter K. (2007) as adapted from Dees G.J. (2001) and Etchart and Davis (1999).

FIGURE 1
The Hybrid Spectrum of enterprises¹³

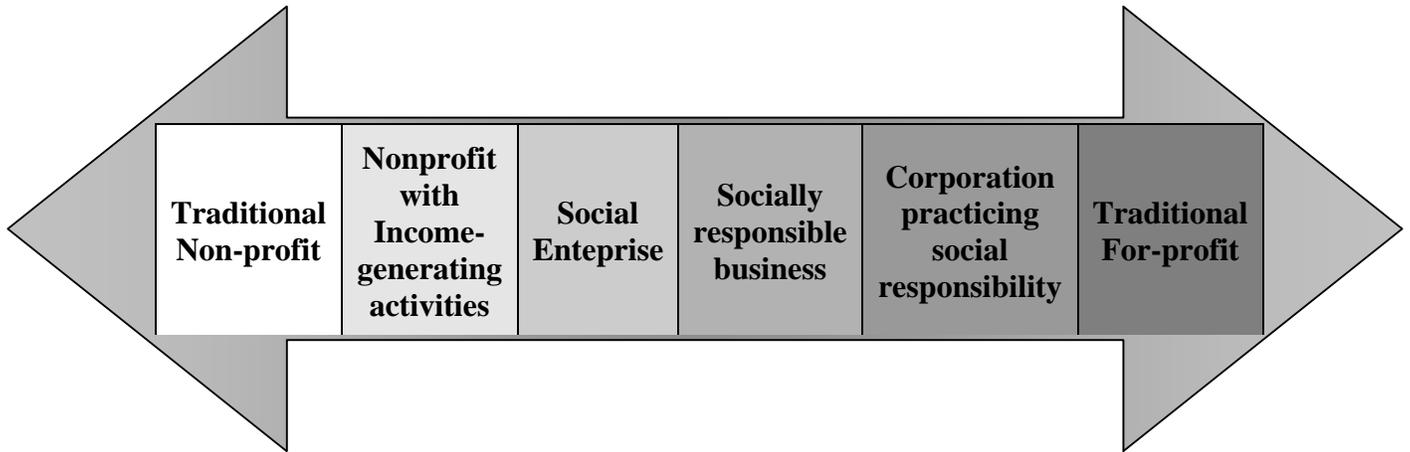
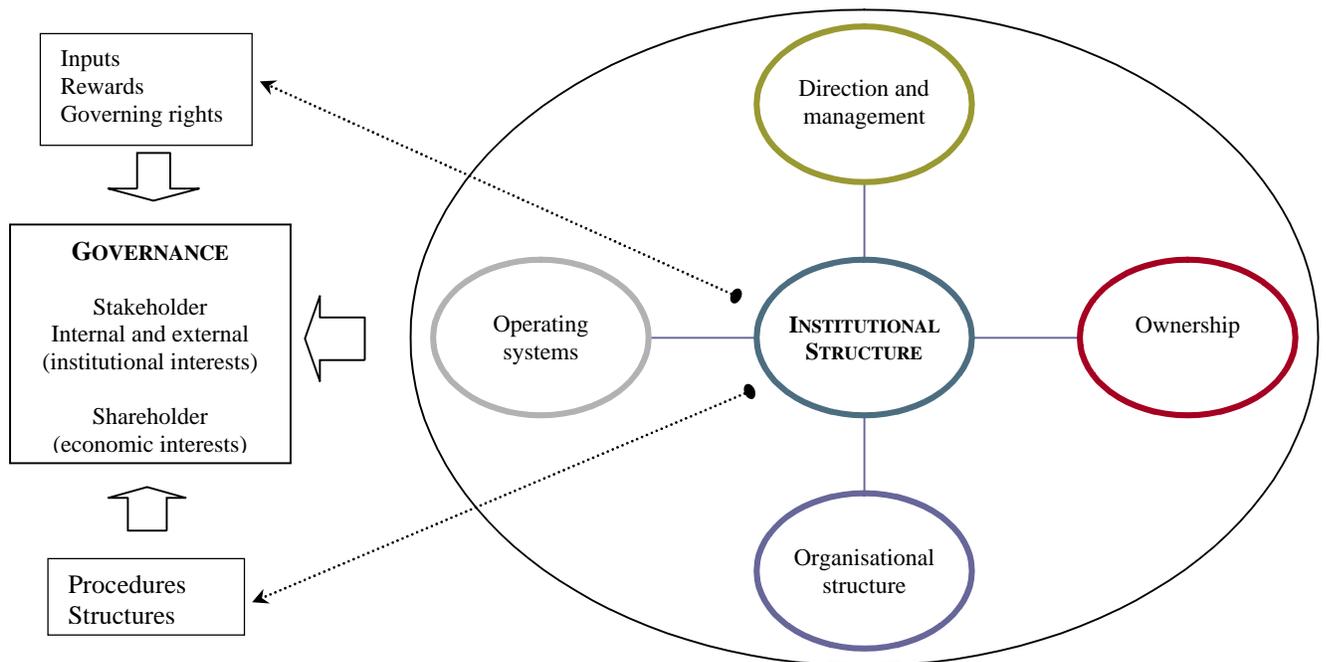


FIGURE 2
Governance and institutional structure of the firm (our elaboration)



¹³ Alter K. (2007) as adapted from Etchart and Davis (1999).

TABLE 2
Social Enterprise Governance Model (Low 2006)

<i>Aim</i>	<i>Ownership</i>	<i>Governance model</i>	<i>Perspective</i>
For-profit	Shareholders have claim on assets	Stewardship	Shareholder
Non-Profit	Assets locked in (sometimes cap on dividends)	Democratic	Stakeholder

TABLE 3
Aim and objectives of the laws (our elaboration)

	WISE	List of sectors	Target Groups
<i>Belgium</i>			
<i>Finland</i>	X		Disadvantaged CE 2204/2002
<i>France</i>			Activities directed toward external users
<i>Greece</i>	X		Mentally ill people
<i>Italy</i>	X (any kind of activity)	X (mandatory if not WISE Art. 2 D. Lgs. 155/06)	Benefit not only for the members of the organization; external mutuality
<i>Latvia</i>			

<i>Lithuania</i>	X		Disadvantaged as defined by the Article 4
<i>Poland</i>	X		Cooperatives established by unemployed and/or disadvantaged people (listed by the law and the Act on Social Emp
<i>Portugal</i>		X (list of activities)	List of beneficiaries
<i>United Kingdom</i>			Community interest test
<i>Spain</i>	X (any kind of activity)	X (list of sector as provided by the Art. 106 of the Cooperative Code)	

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