

1st IESE-LUISS Conference
on Responsibility, Sustainability and Social Entrepreneurship

Hybridization as Systemic Innovation. Italian Social Enterprise on the Move

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Social Enterprises in Italy (1)

Italian Social Enterprise (legally recognized)

Legal status

(Law n. 118/2005 &
legislative decree
n.155/2006)

Social

Co-operatives
(Law n.381/1991)

Social Enterprises in Italy (2)

Legal status

(Law n. 118/2005 &
legislative decree
n.155/2006)

Social
Co-operatives
(Law n.381/1991)

Private organisations, included bodies referred to Book V of the Civil Code, that practicing **stably and mainly an organised economic activity** to produce and exchange goods or services having **social utility**:

- 1) welfare;
- 2) health;
- 3) social care;
- 4) education, instruction and professional training;
- 5) environmental and eco-system safeness;
- 6) development of cultural heritage;
- 7) social tourism;
- 8) academic and post-academic education;
- 9) research and delivery of cultural services;
- 10) extra-curricula training;
- 11) support to social enterprises.

CURRENTLY UNDER REFORM PROCESS

Social Enterprises in Italy (3)

Legal status
(Law n. 118/2005 &
legislative decree
n.155/2006)

Social
Co-operatives
(Law
n.381/1991)

Social co-ops are aimed to pursue the interest of the community,
human promotion, and social integration of citizens by:

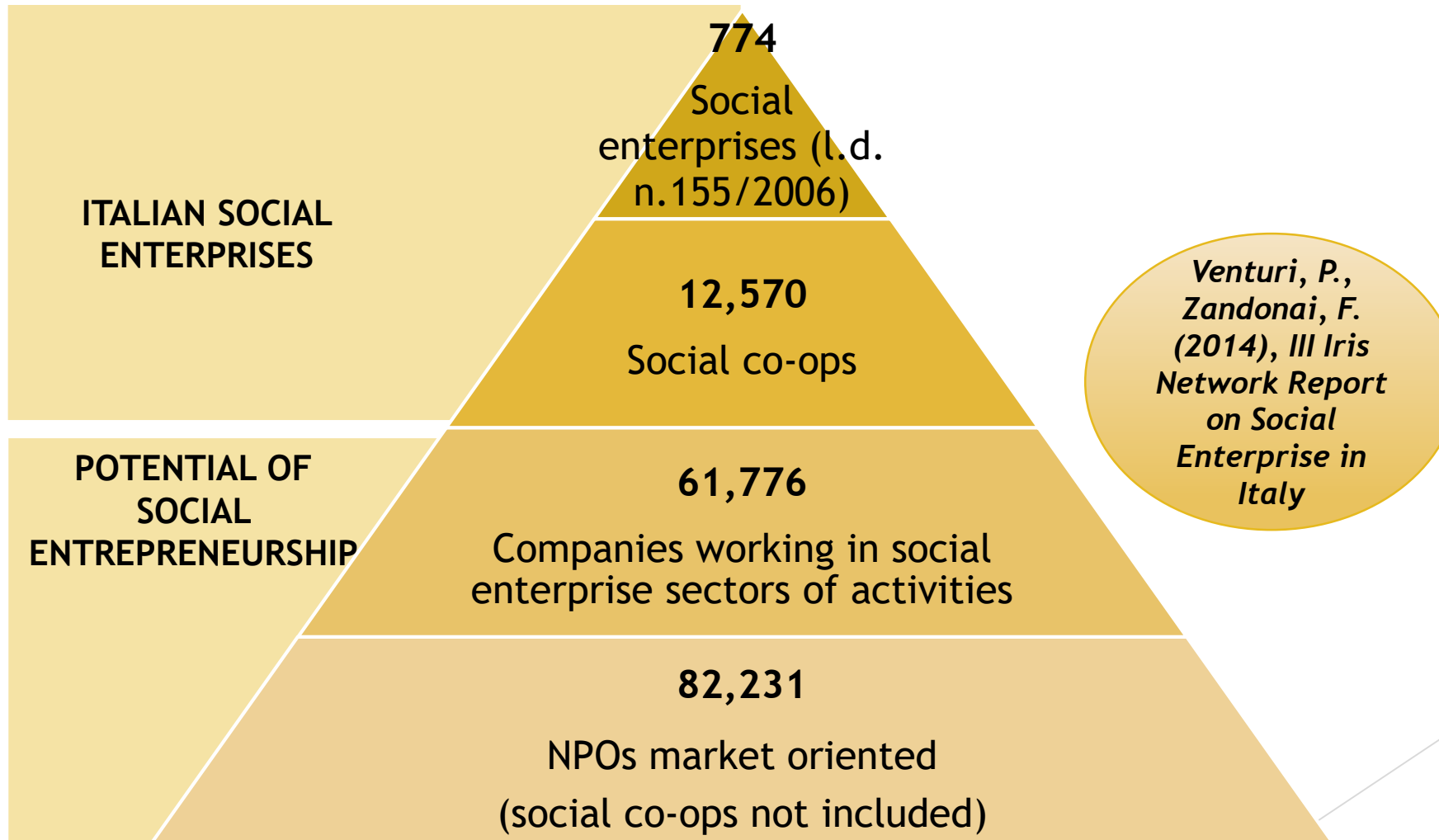
A-TYPE

→ The management of health, social-care and
educational services;

B-TYPE

→ The development of many different activities - agriculture,
industrial, commercial or services -
work integration for people with disabilities.

Social Enterprise in Italy (4)

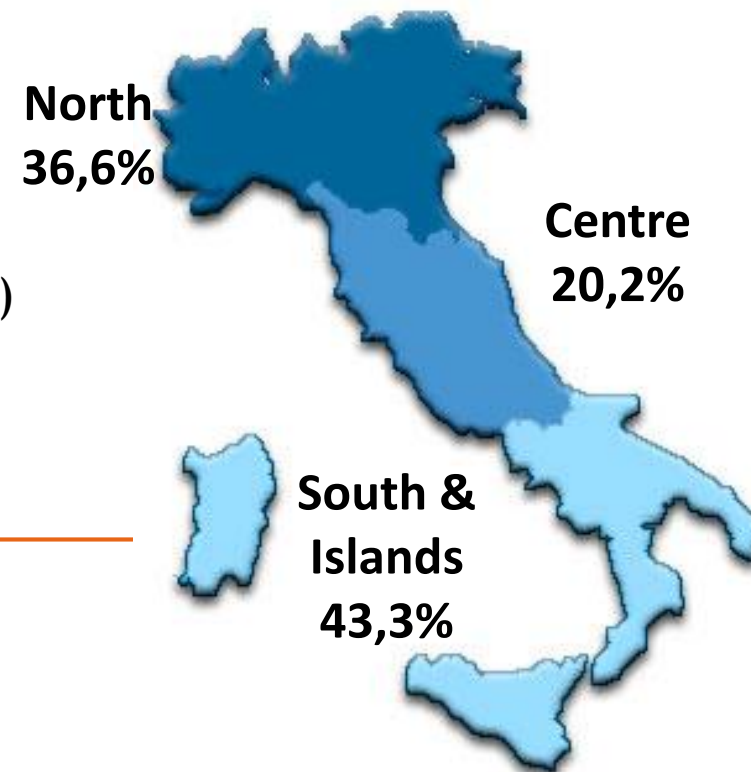


Source: Iris Network, Aiccon and Euricse on Unioncamere, Inps and Istat data (2013)

Social Enterprise in Italy (5)

- **Legal form:** social co-ops (33%) and limited liability companies (28%)
- **Main activity sectors:** health, healthcare, education (58%)
- 60% are *start-up*
- **Workers:** 29,000
- **Volunteers:** 2,700
- **Main user category:** citizens and families (79%)
- **Beneficiaries:** 229,000
- **Value of production :** 314,000,000 €

Social enterprises
(l.d. n. 155/2006)



Source: Iris Network (2014)

Social Enterprise in Italy (6)

Social co-operatives

- **Workers:** 513.052
 - ✓ 30,500 disadvantaged people
 - ✓ 75% women and 28% under 35
 - ✓ 63% permanent workers
- **Volunteers:** 42,400
- **Beneficiaries:** 5,000,000
- **Value of production:** 10.1 billion €

Social Enterprises and innovation paths. The born of Hybrid 2.0

Goal: pursuing a **social mission** through a **commercial activity**

Italian solution: **social co-operation** as part of the **civil economy** paradigm (Bruni, Zamagni, 2004)

Italian social co-operation includes
the main features of hybrid organisations.

The evolutionary processes of social co-operation are not the answer to the need of passing obstacles/restrictions or taking advantages of new opportunities, however they lead to the **innovation in social value creation models** → **GENERATIVE INNOVATION**

The **cooperative origin** has generated many experiences
of “new generation” hybridization (*Hybrid 2.0*).



INCLUSIVE INSTITUTIONS FOR A SOCIAL CHANGE

that are able to keep alive a plural market and to pursue at the same time
SOCIAL VALUE AND ECONOMIC VALUE

Social Enterprises and innovation paths.

The born of Hybrid 2.0 (2)

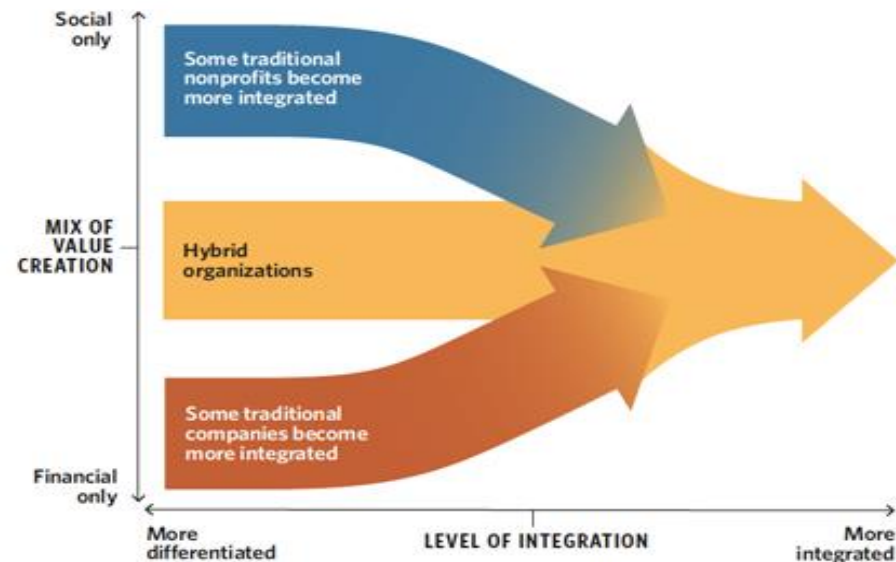
Hybrid organisations are entities with a **social mission**, as a non-profit organisation, but at the same time they produce an **income with a commercial activity** to pursue their mission, like a profit enterprise.



[Haigh & Hoffman 2012]

New combinations of entrepreneurial activities that are characterized by innovative elements to obtaining a big impact in term of social change.

The Hybridization Movement



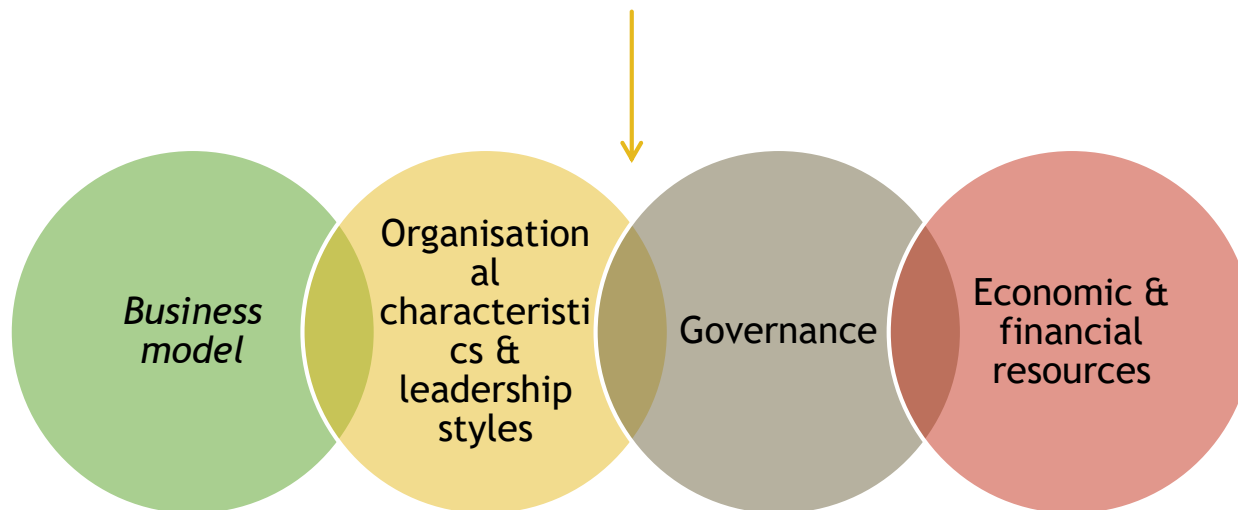
Battilana, J., Lee, M., Walker, J. & Dorsey, C. (2012)

Social Enterprises and innovation paths.

The born of Hybrid 2.0 (3)

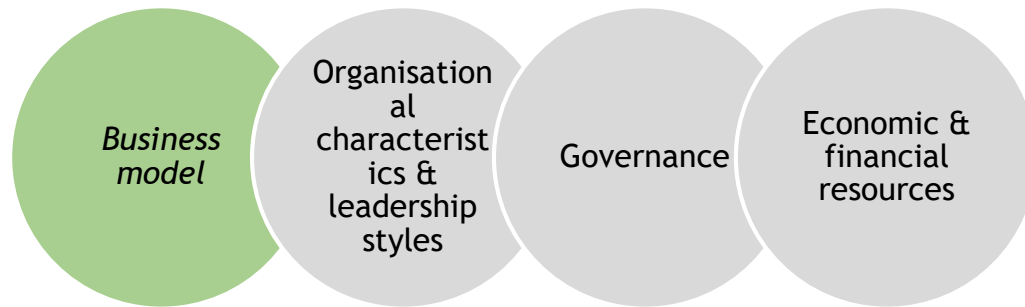
Distinctive elements of hybrid organizations

Hybrid organisations are responsible for «a **systemic innovation**: a set of interconnected innovations mutually influenced (Mulgan & Leadbeater, 2013), where benefits can only result from their joint action which creates additional and complementary innovations (Chesbrough & Teece, 1996) and that requires significant adjustments inside the entrepreneurial system in which they fit (Maula et al., 2006)».

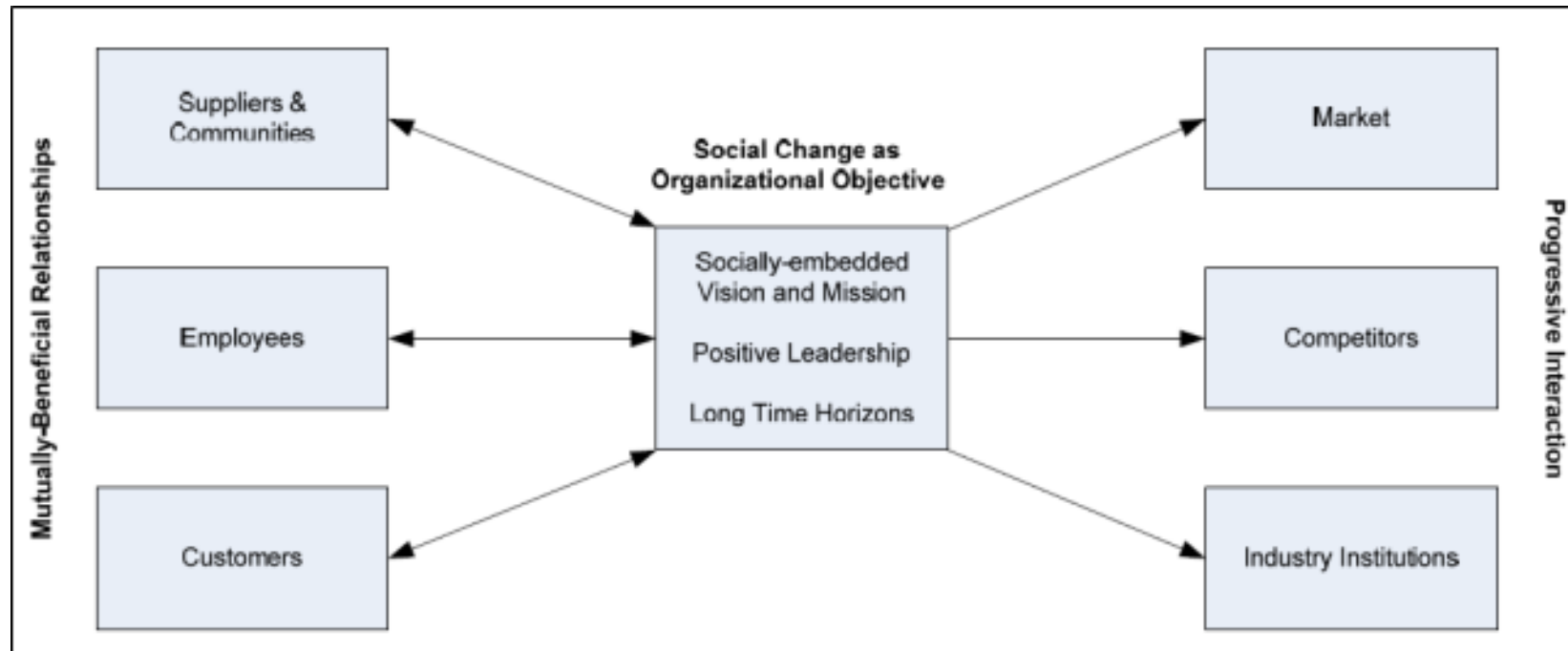


Social Enterprises and innovation paths.

The born of Hybrid 2.0 (4)

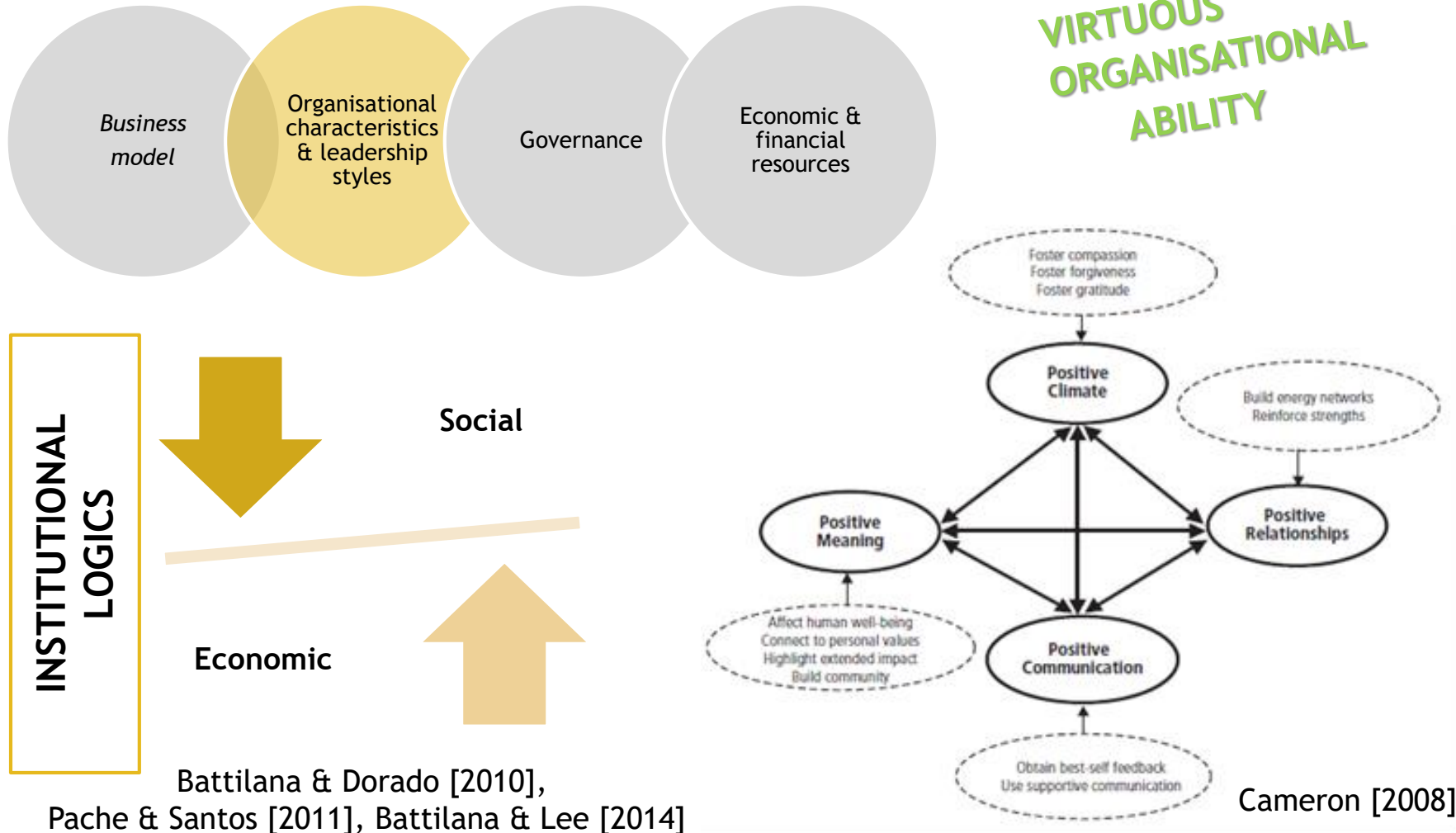


MARKETS
SUPPLY CHAIN
PARTNERSHIP



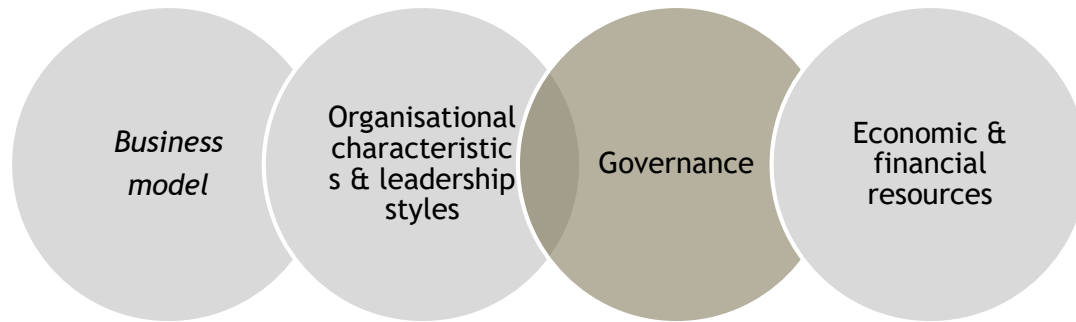
Social Enterprises and innovation paths.

The born of Hybrid 2.0 (5)



Social Enterprises and innovation paths.

The born of Hybrid 2.0 (6)



The **multistakeholder governance** of hybrid organisations is **strictly connected** to their **organisational identity**.



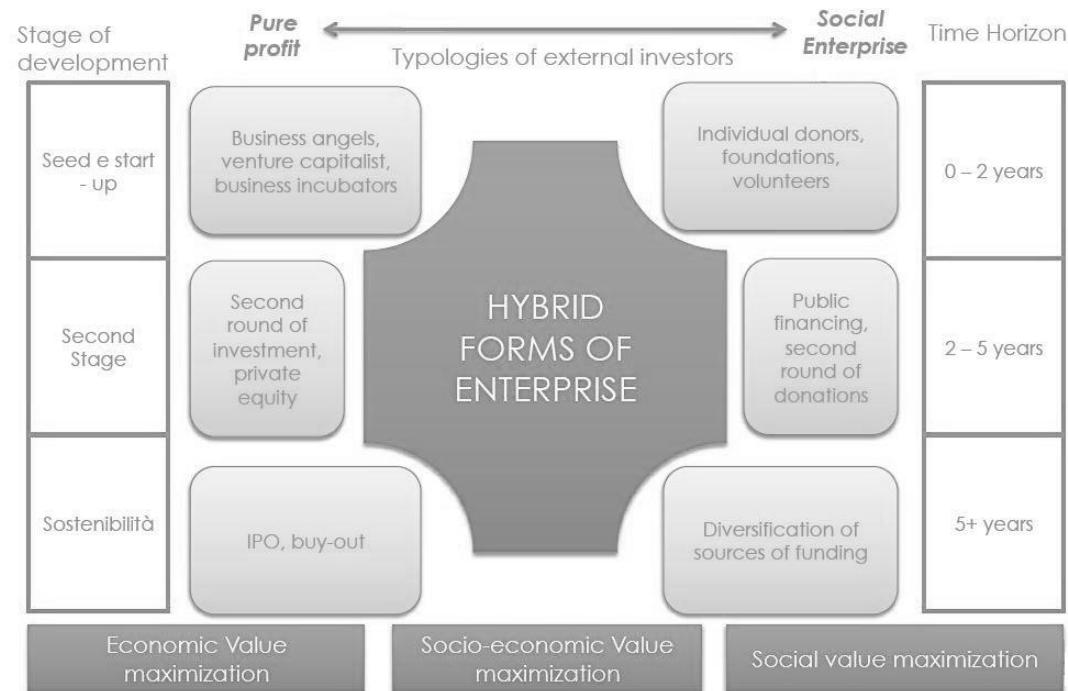
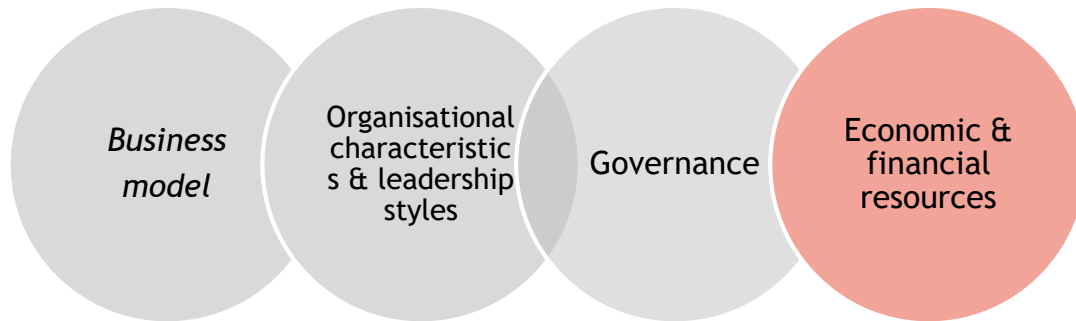
Multi-level (Cornforth & Spear, 2010) or **network** (Anheier, 2011; Andersson, 2012) **governance**: complex governance models able to guarantee the ability in combining governance traditional features with non-profit ones. This is true also among relationships with the management (e.g. accountability models, subsidies linked to the performance, management of informational flows, and so on).



COLLECTIVE ENTREPRENEURSHIP

Social Enterprises and innovation paths.

The born of Hybrid 2.0 (7)



Social enterprises and finance (1)

Danish Technological Institute (2016),
Promoting social enterprise financing - Discussion paper

According to Burkett (2010), social enterprises need:

- **The right type of capital** (grant, loan, equity, etc.)
- **At the right time** (suitable for the lifecycle phase where the social enterprise currently is)
- **For the right purpose** (e.g. not keeping a bad business afloat through donations)
- **For the right impact** (ensuring that the capital provided is the most suitable for promoting the desired social and/or financial impact)
- **For the right returns** (ensuring that the returns are not so high that they choke the ability of the enterprise to generate social impact, and not so low that they do not instil incentives)

Grant
capital

Equity
capital

Hybrid
capital
(i.e. social
impact bonds)

Debt
capital

Mezzanine
capital

Social enterprises and finance (2)

Opinion of the European Economic and Social Committee on
Building a financial ecosystem for social enterprises

(September 16th, 2015)

The creation of a financial ecosystem for SEEs relies on establishing a **multi-stakeholder approach** bringing together resources (both monetary and non-monetary) and instruments.

It is fundamental that the financial support is developed from a **lifecycle approach**. Specific instruments and supportive policy frameworks must be designed for each development stage: *pre-start-up, start-up/pilot stage, consolidation and growth, meeting the specific needs at each stage*.

Particular attention should be given to **hybrid forms** of financing, which are seen as being more suitable for social enterprises as they combine elements that **evaluate the common good with financial incentives**. The hybrid capital combines a **grant** component (public grants, philanthropic funds, donations) with **equity** and **debt/risk-sharing** instruments. Financing instruments of a hybrid capital nature include recoverable grants, forgivable loans, convertible grants and revenue share agreements. Hybrid capital often involves **close interplay between public and private capital** and a **common policy objective** but also **co-dependence balancing interests** between stakeholders.

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Social enterprises and finance (4)

Bouchard, M., Rousselière, D. (2015)

Do Hybrid Organizational Forms of Social Economy have a Greater Chance of Surviving? An Examination of the Case of Montreal

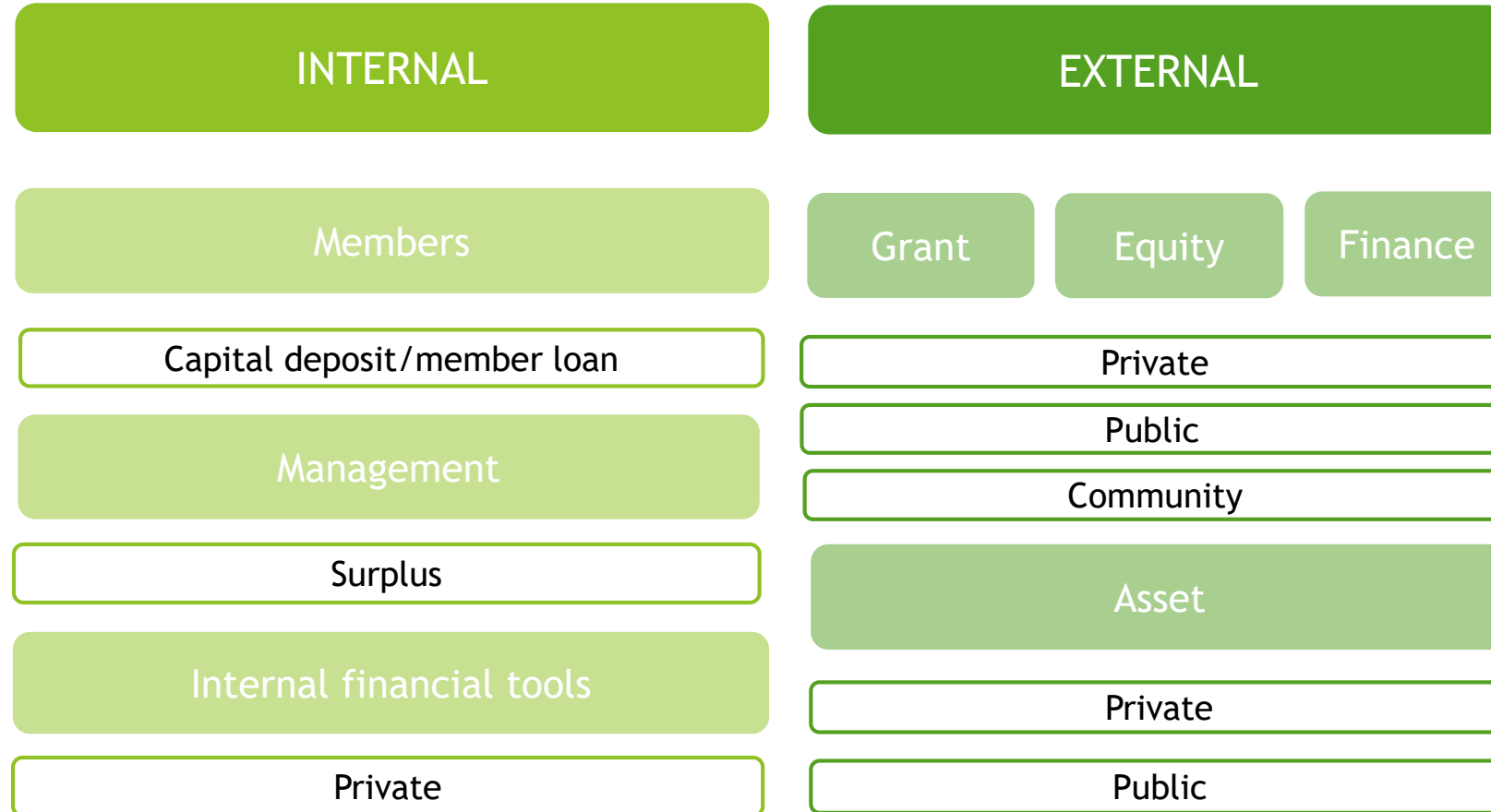
Sample of 990 organisations:

1. Social economy of volunteers: 33.2% (associations) → based on volunteers
2. Professional social economy: 31.6% (large associations) → significant number of employees and volunteers
3. Social market economy: 11.9% → large share of resources from the market and a large number of employees
4. Emerging and **hybrid social economy**: 23.3% → small organisations that are financed by a mix of resources

Hybrid forms (those that do not depend on a single source of public or private financing and that mix employee and volunteer resources) have a 5.9% chance of dissolving, which significantly differentiates them from the others (8.5%).

Social enterprises and finance (5)

Social enterprises need fundings from different types of sources:



AICCON (2016)

Italian social enterprises and finance (1)



UBI  comunità

UBI BANCA OBSERVATORY

on FINANCE & THIRD SECTOR

2011
I ed.
Social co-
operatives

2012
II ed.
Social co-ops &
Associations

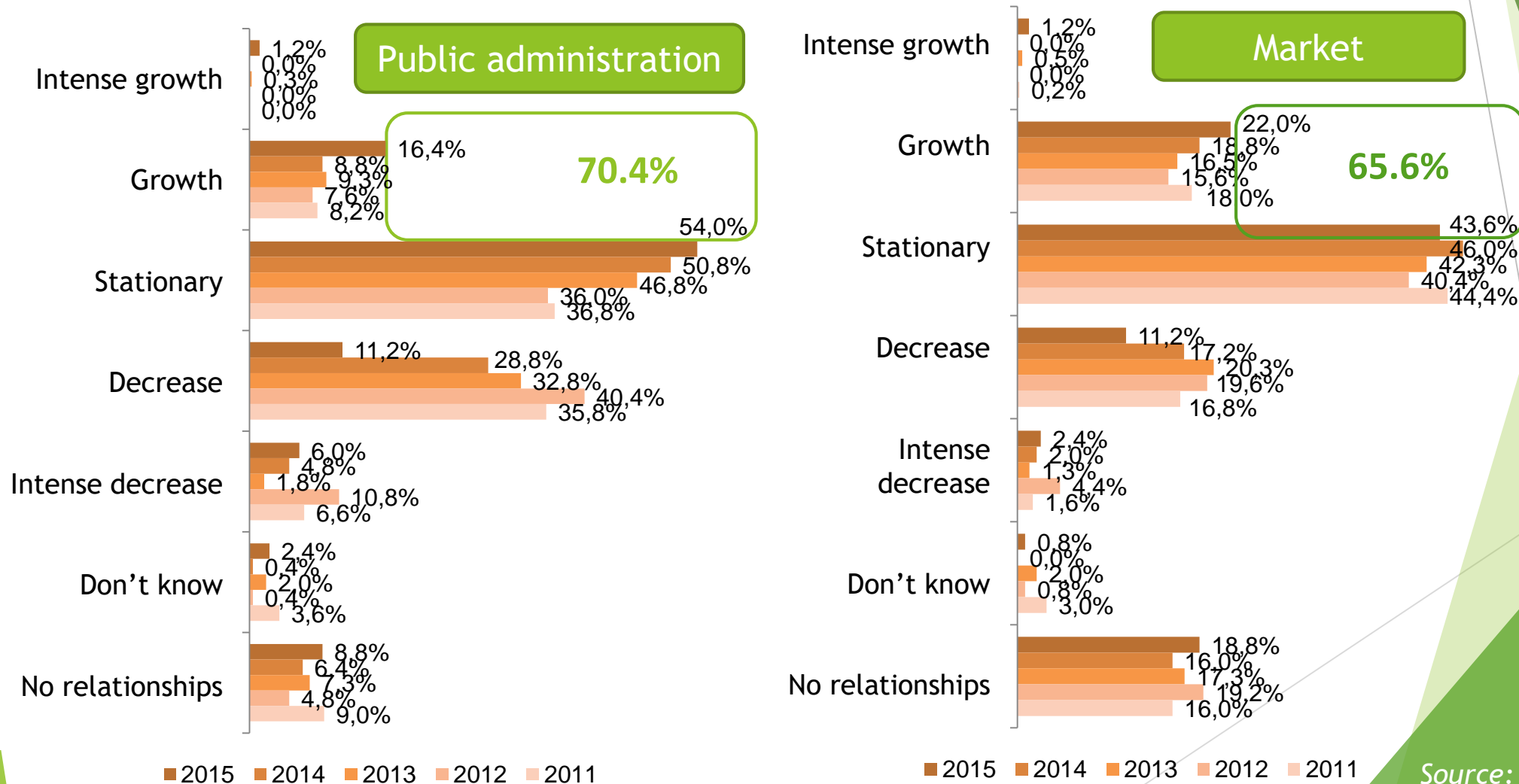
2013
III ed.
Social co-ops &
Foundations

2014
IV ed.
Social co-ops &
Social
Enterprises

2015
V ed.
Social co-ops &
Hybrid
Organisations

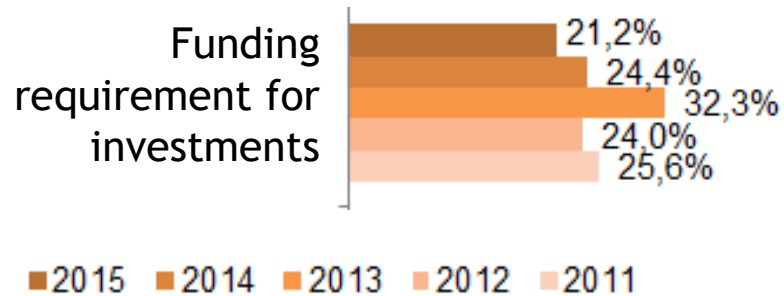
Italian social enterprises and finance (2)

Social Co-operatives | Income prevision (2011-2015)

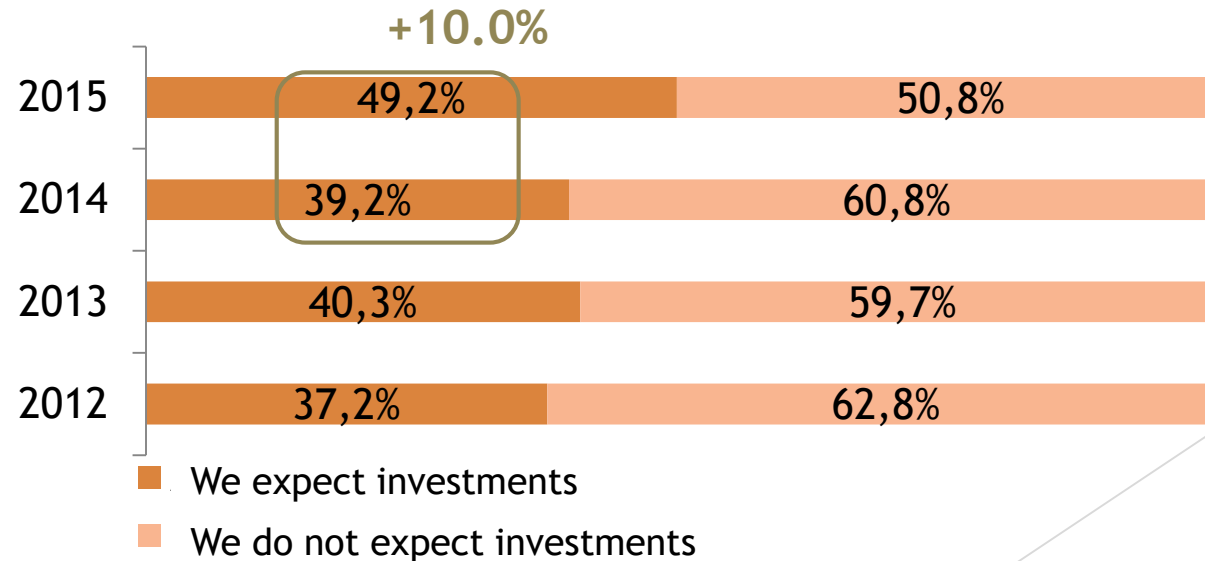


Italian social enterprises and finance (3)

Social Co-operatives | Investments (2011-2015)

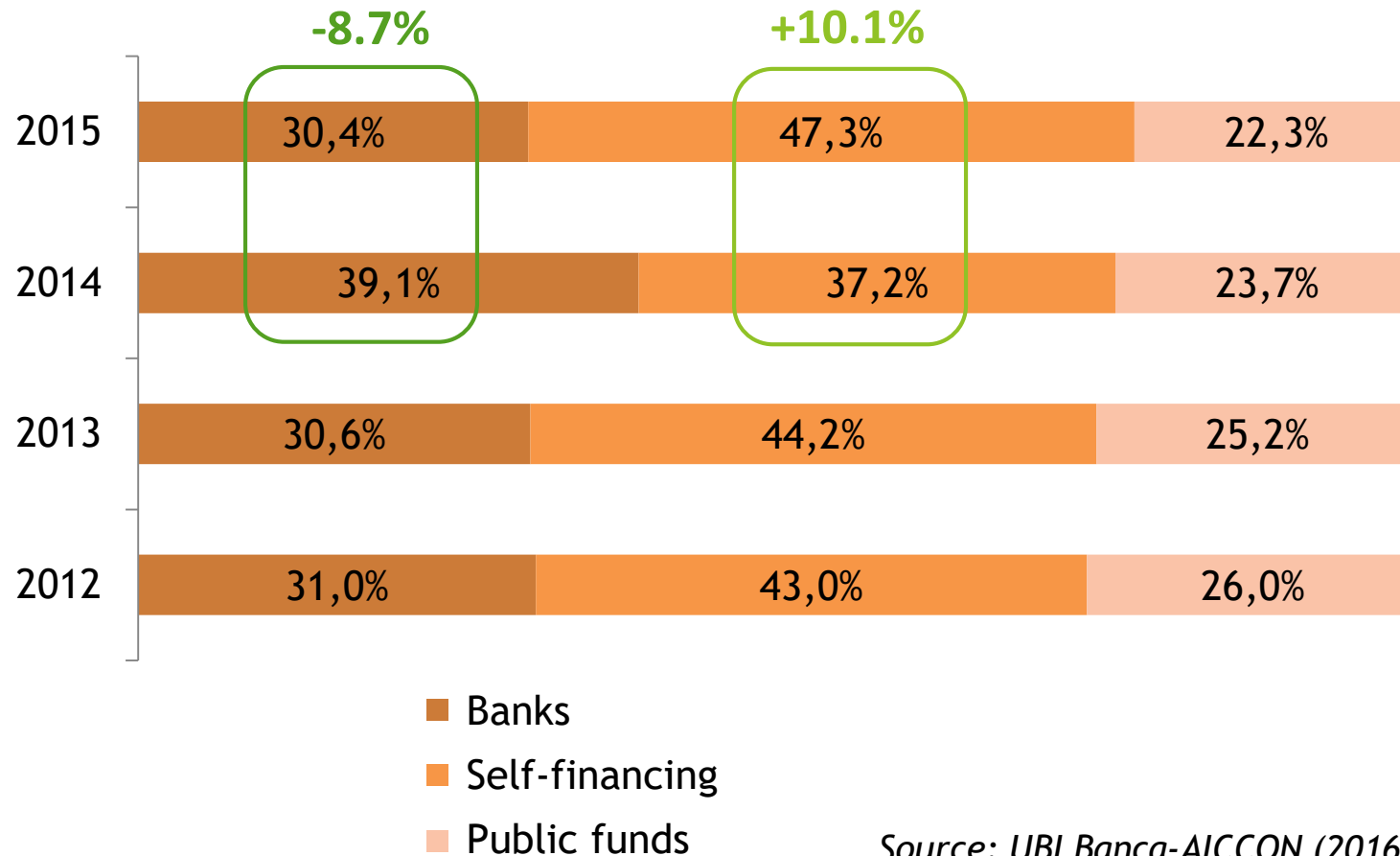


Social Co-operatives | Expectation on investments in short term (2012-2015)



Italian social enterprises and finance (4)

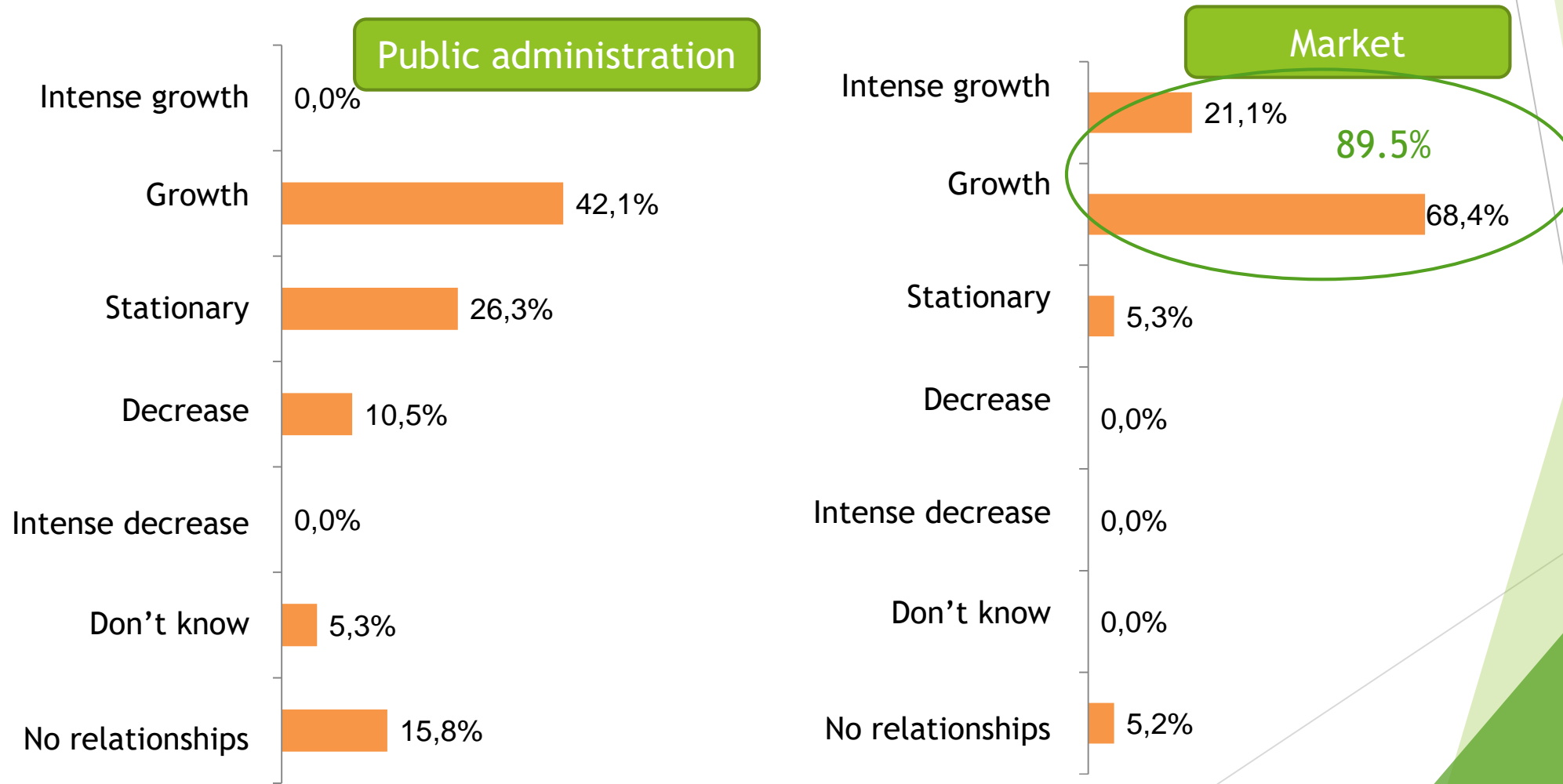
Social Co-operatives | Sources used in covering investments in short term (2012-2015)



Source: UBI Banca-AICCON (2016)

Italian social enterprises and finance (5)

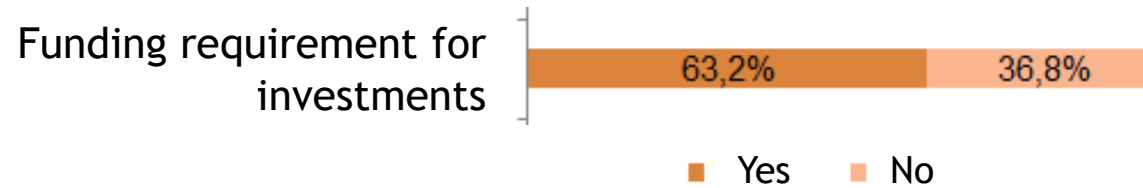
Hybrid organisations | Income prevision (2015)



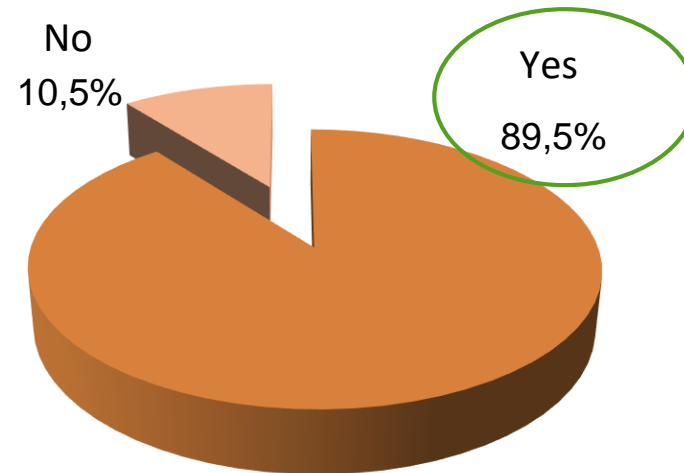
Source: UBI Banca-AICCON (2016)

Italian social enterprises and finance (6)

Hybrid organisations | Investments (2015)

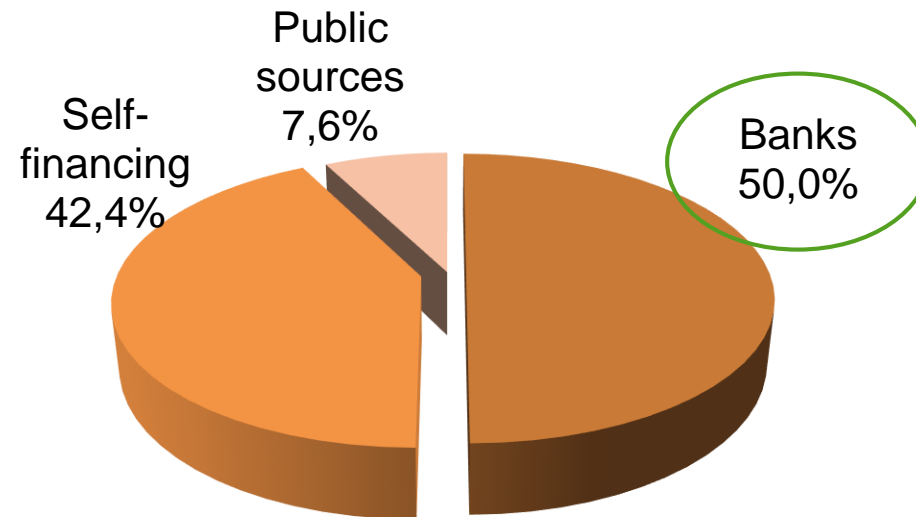


Hybrid organisations | Expectation on investments in short term (2015)



Italian social enterprises and finance (7)

**Hybrid organisations | Sources used in covering investments in short term
(2015)**



Conclusions

- ▶ Hybrid business models (i.e. innovative startups with social goal, benefit corporations) fit with higher levels of «openness» in social enterprises
- ▶ Implication in requirements of finance (hybrid and traditional forms)
- ▶ Financial tools and institutions are strategic key elements to support social enterprises as hybrid organisations
- ▶ Italian reform of the Third sector, social enterprise and universal voluntary service (Law No. 106/2016) supports new forms of *governance* (public administration and for profit enterprises included) and *finance* (i.e. crowdfunding, social impact finance, etc.) for social enterprises.

Thank you for your attention!

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