

# Social Enterprise in Europe: Governance Models.

## *An analysis of social enterprises governance models through a comparative study of the legislation of eleven countries.*

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### Abstract:

Social Enterprise is increasingly becoming a pressing area of study in European faculties, and likewise, a broad range of literature has been produced on the various, relating arguments.

One of the aspects least focused upon, however, regards the issue of governance; which is a fundamental aspect when defining a type of governing system that could lead to an improvement in the efficiency and effectiveness of social enterprises. The need to combine both social and economic aims in the decision making process also emphasizes the importance of stakeholder participation.

Furthermore, seeing as how social enterprises work in an environment of high public involvement, whether it be with public entities or with the community as a whole, issues such as business administration and activity supervision, come to be of high importance. The production of social utility goods and/or services is directed toward a plurality of local actors, which are to be furthermore guaranteed a high level of accountability and transparency.

This paper explores governance through an in-depth analysis and comparison of the legislation of eleven countries on social enterprise or social cooperatives (Belgium, Finland, France, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Spain, and United Kingdom).

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## 1. Defining social enterprise.

“Social Enterprise” is a broad term used to define economic activities aimed at the achievement of social and collective goals by means of an entrepreneurial organizational structure and system. These systems can furthermore use the legal forms usually used by the private sector and are also highly involved in providing services to the Public Administration, mainly in the field of disadvantaged people integration. In other words, we can say that social enterprises are mainly private organizations that manage social utility services in an entrepreneurial way and respond to collective needs. They 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 these social aims (Borzaga and Defourny, 2001).

In the European context, we can distinguish 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 the promotion of citizen and local government participation in managing activities.

A deep study of the organizations operating in these fields reveals the following: a large variety of initiatives and legal forms, differing ways to manage activities and enterprise organization, different levels of autonomy and involvement of the stakeholders.

The two concepts, social enterprise and social entrepreneurship, despite their seeming similarities, have different meanings. The former refers to a more European concept of Social Economy’s, or the Third Sector’s, collective organizations. These organizations work to achieve social goals by means of an entrepreneurial activity that is first started as a community project or by a collective action (Defourny, 2001). The latter, on the other hand, is more related to the Non-Profit, Anglo-American context, and considers 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”<sup>4</sup>; one who “recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture”<sup>5</sup> in order to create something for the community or for the disadvantaged people by his own means, with an innovative spirit, and with a direct involvement in the business. Thus, it is thereby evident that there are different “schools of thought” that run

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<sup>4</sup> Gary McPherson, Executive Director of the Canadian Centre for Social Entrepreneurship, July 12, 2002.

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

<sup>5</sup> Wikipedia.

behind these two different concepts: the European idea and the American idea. The European concept is primarily based on the EMES definition<sup>6</sup>, in which social and economic principles are defined by an “ideal-type” which depicts an enterprise that performs an economic activity (characterised by an economic risk and the presence of employees) with the aim to achieve a general interest (i.e. the conditions of life of a target group or the community); also present is a great sense of participation and involvement of different stakeholders, the presence of a non-profit distribution constraint (even if limited), and a decision-making process not based on the capital ownership. The American concept, on the other hand, places its stress on the single entrepreneur<sup>7</sup> who achieves social goals by the means of a business subject to the normal rules of the market; in this case the innovation brought by the entrepreneur is one of the ways to 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 last ten years.

The main differences in these two concepts lie in the organizational form that the enterprise can adopt and the involvement of the different categories of stakeholders and institutions. Moreover, there is an ongoing debate on the economic and financial aspect, particularly on the earned income strategies that foster this kind of business, 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 brought on by two different ways of thinking in the USA. First, we have the “*social enterprise school of thought*”, which is more focused on the concept of an entrepreneur reaching a social purpose through an organisation, following 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 or 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 broad understanding of the concept, particularly in regards to the development of a legislative framework. As a result, only common elements can be found in the organizations of the European context: such as the private nature of these institutions, the presence of paid workers, the need to face the market and perform an entrepreneurial activity, and of most importance the continuous trend to foster studies and research projects aimed at understanding how this new kind of business could lead to an improvement of the life 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. In the following table, these three different types are reported

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<sup>6</sup> For a broader description of the EMES criteria, see Borzaga C. Defourny J., “The Emergence of Social Enterprise”, Routledge, London 2001, Intro.

<sup>7</sup> 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).

with an outlook of the differences of some distinctive features, such as: motivation, objectives, market ties, and profit distribution:

	<i>Pure Philanthropic</i>	<i>Hybrid</i>	<i>Pure Commercial</i>
<b>Motives</b>	Appeal to goodwill	Mixed motives	Appeal to self-interest
<b>Methods</b>	Mission-driven	Balance of mission and market	Market-driven
<b>Goals</b>	Social Value creation	Social and economic value creation	Economic value creation
<b>Destination of income / profit</b>	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

Table 1: Spectrum of practitioners<sup>8</sup>

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

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

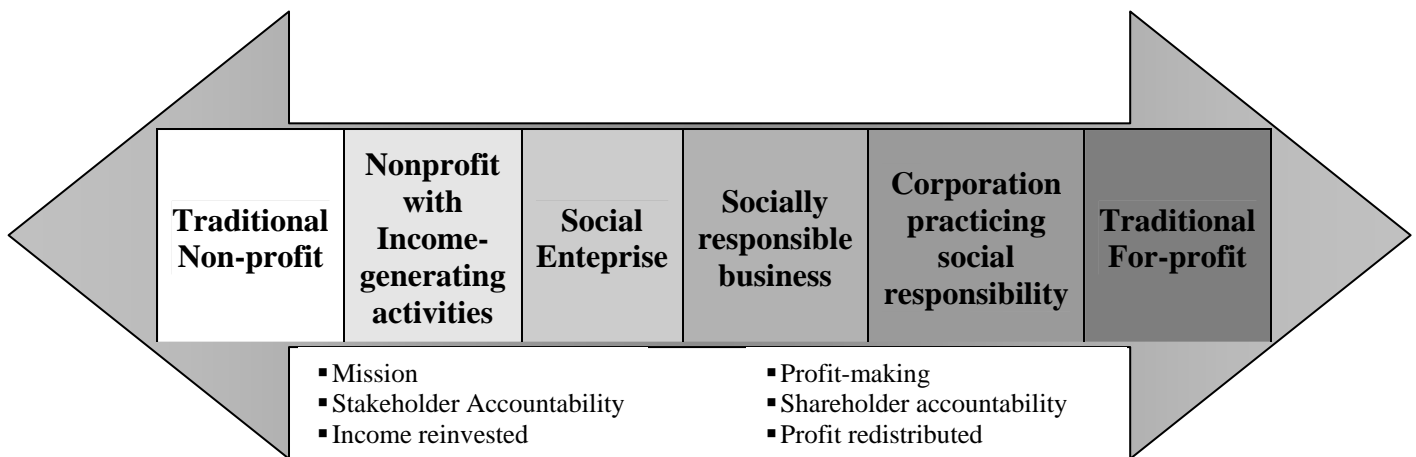


Fig 1: The Hybrid Spectrum of enterprises<sup>9</sup>.

These different types adopt 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 (the price for the goods or services they produce is often paid by donors or public entities and not

<sup>8</sup> Alter K. (2007) as adapted from Dees G.J. (2001) and Etchart and Davis (1999).

<sup>9</sup> Alter K. (2007) as adapted from Etchart and Davis (1999).

directly from the users); on the right side, we have enterprises whose first objective is to create economic value for the shareholders, sometimes with a look at the social implications of their activities (the production or provision of good or services is market-driven). We have to keep in mind that social value can mean different things if related to the activity sector and to the mission of the organization: it could be used to protect the environment, or human rights, or to create job opportunities for disadvantaged people.

Taking a look at the central type of social enterprise, in the Anglo-Saxon context, it 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:

- **Enterprise Orientation** - They are directly involved in producing goods or providing 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. 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 participation by stakeholder groups (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 (this 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 be realizing social programs contrary to the mission; as a trading arm of a non-profit, the social enterprise could be the way to have earned-income generating activities to finance social activities or to cover the organization’s costs.

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

### *1.1. 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 intend entrepreneurship, which is focused on a democratic participation of stakeholders and the creation of an environment where workers matter more than capital. Social Enterprise takes part in Social Economy, which has been increasingly awarded with the attention of the European Commission (e.g. the establishment of the European Economic and Social Committee, and the recent Toia’s report to the European Parliament) and of single countries (the UK and Italy are representative in this sense).

The development of a market economy in the last century and a growing liberalization and globalization of the market have 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, often in an entrepreneurial way, and the attention given to these organizations has 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 in 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 (in reference 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 fit their social mission to an economic activity. As a result, legislators of many countries have been involved in 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 a market approach. In some countries, we now have the presence of laws regulating a cooperative form of Social Enterprise, while in others new ways have been explored that try to broaden 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.

## 2. Institutional Structures and governance in social enterprises.

In this second paragraph we will explore the numerous forms of governance models of 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 subject and aims, and the governing bodies that manage the correlations between stakeholder, inputs and rewards in a long period equilibrium”<sup>10</sup>.

We will compare and contrast all procedures linked to governing rights and the decision-making process with that of corporate governance. Given that, we must think about 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”<sup>11</sup>, 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.

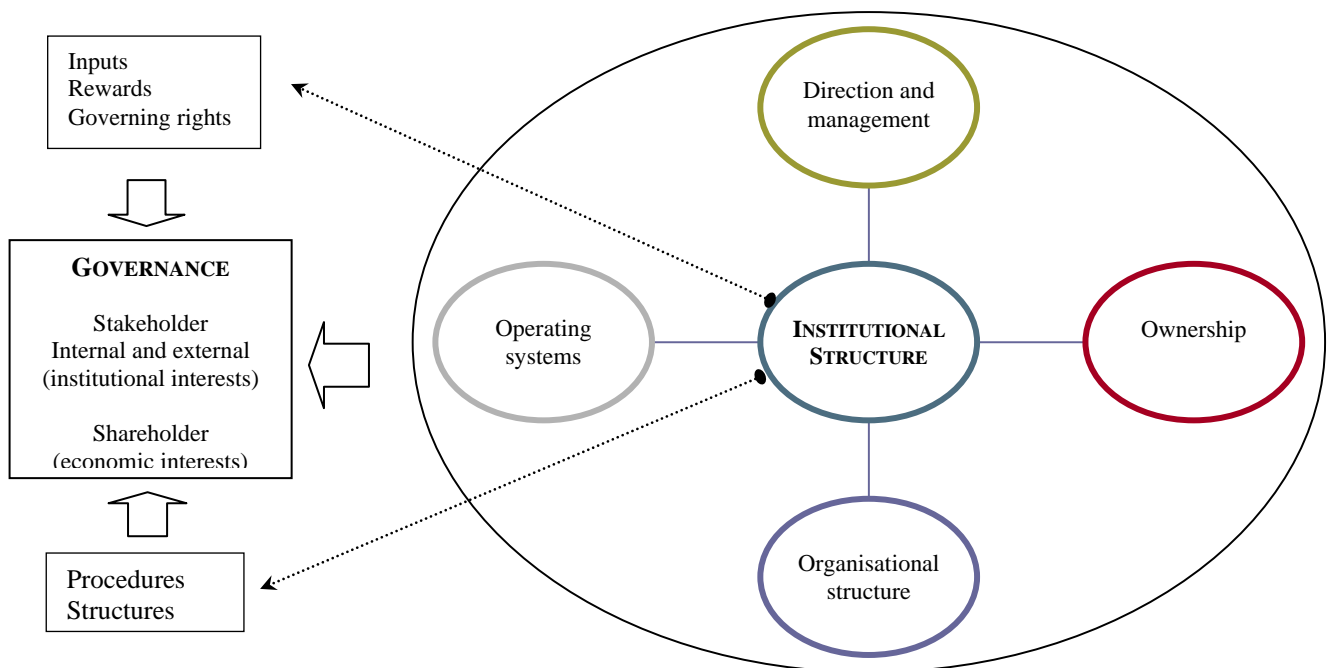


Figure 2: Governance and institutional structure of the firm (our elaboration).

Low (2006) enhances two kinds of governance models for UK’s social enterprise (in particular he refers to Community Interest Companies): the for-profit stewardship model and the non-profit democratic one. He defines the Board of Directors as the locus of the organizational governance, where critical decisions take place autonomously but with a look to the stakeholders’ objectives; their participation in the process is guaranteed through the Annual General Meeting (AGM).

<sup>10</sup> Airoldi, Brunetti e Coda, 2005.

<sup>11</sup> Airoldi, Brunetti e Coda, 1994.

The models are presented in this table:

<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

*Tabella 2: Modelli di governance per l'impresa sociale (Low 2006).*

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 Italian ongoing debate 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 rests 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 study<sup>12</sup> on a panel of UK's 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 limited 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 improved<sup>13</sup>.

<sup>12</sup> Spear, Cornforth and Aiken (2007).

<sup>13</sup> Brunello (2006), Fazzi (2007), Cesarini e Locatelli (2007).



The EMES Research Network definition provides some indication about governance, which are:

- 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.

Hereinafter, the governance elements found in some European legal framework will be considered and compared in order to present a critical view of the European governance model of social enterprises.

### 3. 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 (Borzaga and Defourny 2001, CECOP 2006), has brought us to get eleven countries that regulate this kind of business. The legislation analysed is divided into two main categories of laws:

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

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

- the “cooperative model”, with social enterprises treated as cooperatives with social aims;
- the “company model”, derived from the for-profit model and declined within a social object and a limited profit distribution;
- the “open form model”, defined by the law on the basis of the social purpose, without considering the legal form.<sup>14</sup>

As to this, the analysis of the legislative framework has to be started with a definition of the object and aim of the laws.

#### 3.1 *Object of the laws and social aim.*

Referring 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 Enterprises<sup>15</sup>; the entrepreneurial organization is the main feature to distinguish such kind of business from other kind of work integration initiatives. See Borzaga and Defourny 2001, Nyssens 2006), and those which relate to limited fields of activity such as development cooperation, education, advocacy, environmental protection and so on.

The countries regulating a framework only for WISE are: Finland, Poland, Greece and Lithuania, even if some differences could be advised. In particular, in Finland the Article 1 of the Act on Social Enterprise identifies the two categories of disadvantaged to be considered: disabled people and long-term unemployed. The Article 3 provides subsidies for those enterprises which insert at least 30% of disadvantaged. In Poland the worker cooperative has to be launched by unemployed and disadvantaged people as defined by the Act on Social Employment (2003): homeless, alcoholic and drug addicts after completion of a therapy in a medical institution, mentally ill people, former prisoners and refugees. The purpose of this law is to set-up

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<sup>14</sup> Cafaggi and Iamiceli (2008).

<sup>15</sup> Many laws are referred to European Commission Regulation EC No. 2204/2002 in order to define the disadvantaged.

businesses established by disadvantaged members with the economic support of the Employment Fund. In Greece, the Social Cooperative of Limited Responsibility is an operative unit of the Department of Mental Care, owned by different stakeholders which are both normal and disadvantaged people. Last, in Lithuania the 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 they have to represent at least 40% of total workers and be not less than 4 (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 the work integration is considered a social activity for itself and leaves freedom of choice about the sector in which could be started the business. This means that an enterprise employing a percentage of disadvantaged people on total workers (this may vary regarding to 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 result interesting to deepen those laws providing a limited list of sectors in which the activity has to be performed. In Italy the Article 2 limits the social utility activity to a list of categories (excluded work integration as stated above) and so is in Spain even if in this law there are no list but only field (such as healthcare, social services and education). In Portugal the list is given referring to the target groups. These differences may result in limitations for 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 in the attempt to bring social changes in the local community or benefits for a general interest purpose. In particular in Belgium the social finality is not defined by the law, but have to be provided 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, which is a document necessary to start the business, containing a cost-benefit analysis and the impact of the business on the community (CIC Regulations 2005). In France, the activity have 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 the association, foundation (regulated by the Association and Foundation Law of 2002), and religious entity: the aim is to establish organization aimed at bringing social benefit to the beneficiaries.

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

	<b>WISE</b>	<b>List of sector</b>	<b>Target Groups</b>
<i>Belgio</i>			
<i>Finlandia</i>	X		Disadvantaged CE 2204/2002
<i>Francia</i>			Activities directed toward external users
<i>Grecia</i>	X		Mentally ill people
<i>Italia</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>Lettonia</i>			
<i>Lituania</i>	X		Disadvantaged as defined by the Article 4
<i>Polonia</i>	X		Cooperatives established by unemployed and/or disadvantaged people (listed by the law and the Act on Social Emp)
<i>Portogallo</i>		X (list of activities)	List of beneficiaries
<i>Regno Unito</i>			Community interest test
<i>Spagna</i>	X (any kind of activity)	X (list of sector as provided by the Art. 106 of the Cooperative Code)	

Table 2: Aim and objectives of the laws (our elaboration).

### 3.2 Stakeholder, members and voting rights.

In this paragraph we will refer to all that categories of subjects identified as members (which are shareholders) or stakeholders<sup>16</sup> of an organization. In social enterprise governance, the relationship with the stakeholders is important and have a foundation in the relational approach between internal and external participants. The multi-stakeholder feature of social enterprises (a long studied issues in the Italian field of social cooperatives. See Borzaga, Fiorentini e Maticena 1996, Travaglini 1997 and Fazzi 2008) has been studied for years in Europe, and many authors have given their contribution to establish such an approach (Borzaga and Defourny 2001, Campi, Defourny and Gregoire in Nyssens 2006, Spear Cornforth and Aiken 2007). This approach need a pro-active approach in the decision-making process, not an easy end to reach in a dynamic context in which decision have to be taken quickly and in a market characterised by a

<sup>16</sup> 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.

personalization of the services. The trade-off between stakeholder engagement and quickness of the decision-making process is one of the challenge of social enterprises involved in the local community and in the construction of a local governance system.

As to 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 above). In Italy, the Article 1 provide that those organization limiting the supply of social utility goods or services only toward members, couldn't obtain the status of social enterprise; in this laws 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 (Artt. 12 and 14). In France it is clearly said that the activities of the SCIC have to be directed toward external beneficiaries of a local community.

Regarding the membership, different are the indications that could be read in the laws. In Greece, the social cooperative 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 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 became members at most one year after their appointment. In Poland an 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 owning skills necessary for the development of the cooperative working in private and public entities, and NGO (if provided by the Statute); furthermore, this cooperative could not have less than 5 and more than 50 members (this rule do not apply if this are 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 could be represented trough a General Council.

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

The volunteers are dealt with in different ways: in Spain voluntary members can be foreseen by the Statute and participate to the board meeting but without voting rights. In the Italian law, the Article 14 provides that voluntary worker could be present in the limit of a 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 at 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 these are related to the share, in the second one the rule is “one head, one vote”: in both cases, only member 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 the democratic participation, as highlighted even from 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. In the opinion of Margado (2004) these smaller group could be a tool to guarantee an higher involvement of members to the activities and decision-making of the cooperative.

### *3.3 Composition of governing bodies*

Social enterprise has a complex organisational structure, and often it is not clearly defined who has the power and responsibility to take the strategic decision, or which are the tasks assigned to the operative structures. The legislative indication about the boards and governing and control bodies are not always so well-defined and present different models, even if this is due, as mentioned above, to the necessary adaptation to the Codes regulating companies in each country. Particular issue can be found in some laws.

In Italy, if it is chosen the public company form the General Assembly appoints the Board of Director (different direction systems are provided by law) and an external body for account auditing is necessary (there are some exemptions); if it is chosen the limited liability company form, managers are appointed directly by the members; moreover, for-profit companies or public administrations can't manage or own a social enterprise, or 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 director is appointed by the members/shareholders, and control is given to every member and to a Regulator, depending on the need of each CIC. In Latvia, the law on Association and Foundation rules the duty of the administrative bodies (the Executive Board). Considering the cooperative model, in Portugal there is a board of directors appointed by the effective members and a supervisory board; a General Council, with consultative functions, and composed by both effective and honorary members, can be established. In Spain a governing council is requested in order to manage the cooperative: if provided, voluntary members can participate to the Board without voting rights; this could bring an 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. In the Polish law a supervisory board is mandatory for that cooperatives having more than 15 members; otherwise the control is given directly to the members.

#### 4. *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 emerging of social enterprises has brought scholars to face the analysis of governance system in a different way, increasingly considering the shareholders as not the only group of people which have interest in the business, but even different actors bringing 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 the democratic participation and an higher involvement of different groups of workers, beneficiaries, funders, and so on, that are all participants to the effectiveness and efficiency of the business. Thus, the need to develop local governance systems in which the local actors, public entities and civil society could bring their instances in social enterprises, is a further challenge to deal with.

The democratic model of governance (and so the principle “one head, one vote”) seems to be the more adaptable 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 in 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 could be involved in the decision-making process and in governing bodies; a further development of empirical researches could brought to a broader knowledge about innovative solutions in this sense.

Last but not least, the need to legitimate social enterprises and to make them more recognisable in the economic system of each country is a further step that have to be made; however, this step needs the legislator and civil society to cooperate in order to guarantee the right tools to control the activities of such kind of enterprises, in order to avoid the appearance of misleading social enterprises.

The comparative analysis of the European models of social enterprise has highlighted this variety of governance models, but brings together some questions on the main features of a social enterprise. In particular it has to be deeply studied how the multi-stakeholdership could be put into practice regarding:

- the dependence of social enterprises from governance and other characteristics;
- the governance specificities in work integration social enterprises;
- the presence of primary or necessary member groups (workers or beneficiaries);
- the presence of both members and other stakeholder (in particular beneficiaries) in the general assembly;
- an higher involvement and presence of stakeholders in the board or supervisory committee;
- the trustees model and 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 control to be guaranteed by these;
- the involvement of local actors different from public entities;
- the inclusion of both economic and social or ideal aims of the participants.

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



## Appendix 1: Law on Social Enterprise

	<b>Social Enterprise Law 155/2006 (Italy)</b>	<b>Social Enterprise Law (Latvia)</b>	<b>Social Enterprise Act 1351/2003 (Finland)</b>	<b>Social Enterprise Law 1/6/2004 (Lithuania)</b>	<b>Social Finality Company Reform of Companies' Code 13/4/1995 (Belgium)</b>	<b>Community Interest Company Regulations 2005 Companies Act 2004/2006 (UK)</b>
<b>Activity</b>	Organizations performing an entrepreneurial activity of production of social benefit goods and services. The 70% of total income must be reached through this main activity.		Production of goods and services on a commercial principle	Small or medium-sized enterprise (Law on SME). The income from not-supporting activities must count at most for 20% of total income	Production and selling of goods and/or services.	Production and selling of goods and/or services.
<b>Mission</b>	Social benefit activities (a list of sectors is provided) pursuing general interest goals.	The aim is to create social benefit.	Work integration	Development of employees' working and social skills and social integration	Social finality must be qualified in the Articles of the company.	Social finality directed toward a community or general interest purpose.
<b>Work</b>	Minimum amount of paid work (max 50% of voluntary workers) If there's work integration, disadvantaged workers have to be at least the 30% of the total.	Presence of voluntary and paid workers in case of an association; the former have to draw up an agreement with the organization suggesting time and tasks of the job.	At least the 30% of the total workers have to be disadvantaged people (disabled or long-term unemployed)	At least 40% of employees classified as target groups and at least 4 of such employees. Particular conditions for disabled persons' social enterprises		
<b>Legal forms and Governance system</b>	Private organizations. Control and direction depending on legal form: If public company, board and general assembly & supervisory committee If limited liability company: managers are appointed by the general assembly.	The forms admitted are: Association Foundation (Association and Foundation Law) Religious entities. An executive committee and other governing bodies have to be established if provided by the articles.	It depends by the legal form assumed (provided forms are that of corporation, foundation or other registered trader)	Any registered legal person or any legal form; it is a status that could be given in respect to the laws provision.	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 case of a worker shareholder (5%). Strict constraints in terms of sanctions and control by the courts.	The company legal form can be: company limited by shares (CLS) or by guarantee (CLG – "one member, one vote" rule). The CIC Regulator supervises governance decisions and monitor the boards (helped by members). Board of directors appointed by members only.
<b>Members and stakeholder involvement</b>	Involvement of customers and workers have to be provided in the Articles or in the internal regulation. Through information, consultation and participation persons can influence the decision-making process. Organizations whose activities are directed only toward members are excluded.	Association: General meeting as main force, and presence of a board. Foundation: Board or stewardship given to other bodies.	Membership is not mandatory, the focus is on the contracts law and the relations with the public administration (subsidies are provided)		Workers appointed as staff members can become members at most after one year from their appointment. The statute have to provide procedures allowing each employee to participate in the governance.	A community interest test is requested in order to become a CIC and to verify previously the purposes of the company. The community is one of the major stakeholder. Beneficiaries may represent a section of a community.
<b>Accountability</b>	A social balance sheet is mandatory and the main information are provided by the law.			Every four months and at the end of the year a report on the use of subsidies.	A social balance sheet is required annually.	An annual community interest report is requested, providing indicators on stakeholders' involvement.
<b>Profit distribution</b>	No direct or indirect profit distribution allowed to shareholders or managers. There's the possibility to assume the form of Public Company (with shares).	Not allowed at all	No limit, but mission respect .		Limited (dividends with a cap). A profit allocation policy in accordance with the social finality purpose.	Asset-lock rule. A limited profit distribution can be provided (cap on dividend – CLS – and remuneration of debt/equity).

## Appendix 2: Law on Social Cooperatives

	<b>General Interest Cooperative Law 2001-624 (France)</b>	<b>Social Initiative Cooperative Law 27/1999, Art. 106 (Spain)</b>	<b>Social Solidarity Cooperative Law 22/12/1998 (Portugal)</b>	<b>Social Cooperative Law 27/04/2006 (Poland)</b>	<b>Social cooperative of Limited Responsibility Law 2716/99 (Greece)</b>
<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>	5 years approval must be given by the Departmental Prefect. Possibility of 20% of shares owned by local public bodies, if provided by 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</i>	Worker must be included as primary stakeholder by law.	It's possible to have any activity 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, with a regard to Portuguese population.	Social and/or professional re-integration of their members.	Socio-economic inclusion and professional integration of individuals with psychosocial problems
<i>Legal forms and Governance system</i>	If Sarl (limited liability company): managers designated by the general assembly; If Sa (joint-stock company): board and supervisory committee "One member, one vote", but possibility to form colleges of members which can have from 10% to 50% of votes. Provision of cooperative non-voting certificates for a financial contribution.	A governing council is requested. If provided, voluntary members can participate to the board without voting rights	Distinction between effective (beneficiaries and workers) and honorary members: the former may be part of the governing body and have right to vote. Board of directors and supervisory board have to be provided.	80% members have to be unemployed and disadvantaged. The other 20% can be found between people who has skills that are lacking in the coop. In coop with more than 15 members there is a supervisory board; otherwise members direct control.	Two kind of shares: one compulsory, equal and indivisible for all the members, and one optional
<i>Members and stakeholder involvement</i>	At least three categories of members, being mandatory workers and users. Activities opened to third parties.	Public entities can be members, depending on the statutory clauses, voluntary members can be accepted.	Provision of a General Council composed by representatives for both effective and honorary members.	Minimum 5 and maximum 50 members. NGOs can be member too if provided by the Articles.	Members: min 35% (and number of 15) patients; max 45% workers in the psychiatric hospitals and 20% private and institutions.
<i>Accountability</i>			A social balance is mandatory in case of more than 100 members.	Separate accounting concerning the statutory activities.	
<i>Profit distribution</i>	The 50% of the profit must go to indivisible reserve, then a limited profit distribution is allowed (not including public subsidies in calculating the interests).	Not allowed at all; 100% of surpluses go to reserve.	Not allowed at all: all the surpluses go to institutional activity.	Not allowed. In case of liquidation, 20% of the residual can be divided among members.	

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