

EXECUTIVE SUMMARY OF THE RESEARCH

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The new report on social enterprise¹ produced by Iris Network in collaboration with Unioncamere (the Italian network of chambers of commerce) analyses a period rich in contradictions for the sector of businesses that produce goods of collective interest while pursuing objectives with a high “social impact”. On the one hand, social entrepreneurial activity – including in its more consolidated forms, like social cooperation – is suffering from the effects of the systemic crisis that has gripped the country and which is worsening due to a lack of policies in favour of these businesses, above all at a national level, as is clear from the state of the relevant legislation (Law 118/05). On the other hand, in local contexts and at an international level (especially European), social enterprise has reached a high level of visibility and interest among institutional, economic and financial groups. The fact that the European Commission, in its recent “Social Business Initiative”, states that it wants to position social enterprise at the centre of the ecosystem of social innovation and the economy is perhaps the most significant indicator of this recent development. A system of wider and more diversified interests multiplies opportunities and inevitably brings consolidated models into question. The current discourse around social enterprise requires a theoretical conceptual revision and the construction of new databases. The Iris Network Report contributes to this debate, providing updated data and new interpretations thanks to the consultation of institutional sources and most of all the realization of a survey in the field. This document summarizes its key results.

¹ Venturi P., Zandonai F. (ed.), *L'impresa sociale in Italia. Pluralità dei modelli e contributo alla ripresa. Rapporto Iris Network*, edizioni altreconomia, Milan, 2012.

Social enterprise in Italy: The general framework²

The quantification of social entrepreneurial activity in Italy by number of businesses, employees, turnover, beneficiaries of services and other similar parameters represents an important analytical step because it allows us to measure the phenomenon's fundamental aspects and at the same time to understand the main trends that challenge interpretative models and regulatory frameworks. To carry out this type of analysis it is necessary to make a series of approximations and to consult various sources. Firstly, the data banks regarding social enterprises that have been formally constituted in accordance with the current legislation must be consulted. Secondly, it is also possible to focus on certain areas within which social enterprises might already be active, even if they are not formally recognized, or within which new expressions of this entrepreneurial model can develop.

The central nucleus is made up of social enterprises that have conformed to the most recent regulations on the subject (Law 118/05 and subsequent decrees). The law does not recognize a new legal entity, but introduces, on the basis of general defining elements, some characteristics applicable to any private legal business structure (not only of non-profit origin, but also of a commercial nature). These characteristics concern the aims of the enterprise which the law describes as objectives of "general interest"; the sectors of intervention, meaning that a social enterprise is a business that produces goods of "social utility", which in practice corresponds to a relatively wide range of sectors like culture, education, social tourism, etc., joining the list of classic social welfare and educational services and economic activities for the integration of disadvantaged people into employment; the governance system, which should provide for "forms of involvement" (formulated differently in the applicable decrees); the distribution of business profits, which is not allowed, including indirectly; and accounting methods for the entrepreneurial activity, with the obligation to produce not only a financial report but also a social report.

² This paragraph is drawn from the contents of the report's introductory chapter, by Carlo Borzaga.

The geography of social enterprise in Italy

	Type	Number	Year	Source
<i>Social enterprises</i>	Constituted in accordance with Law 118/05 and registered in Section L	365	2011	Unioncamere - Infocamere
	Other businesses with the phrase "social enterprise" in their business name	404	2011	Business Register - Infocamere
	Social cooperatives constituted in accordance with Law 381/91	11,808	2011	Unioncamere - Infocamere
<i>Social enterprise potential</i>	Non-profit organizations that are not social cooperatives	22,468	2011	Economic and Administrative Index (REA) - Infocamere
	For-profit businesses operating in the sectors of activity specified by Law 118/05	85,445	2009	Statistical Register of Active Enterprises (ASIA) - Istat

Data processing by Iris Network based on indicated sources

The number of organizations that have taken on these characteristics is still quite limited and is equal to 365 enterprises, a total that is actually lower than other surveys carried out in the past, such as the one published, among other places, in the first edition of the Iris Network Report, which counted around 700 units. This decrease can be attributed to the slowness of the activation procedures for the special "Section L" of business registers in which enterprises of this type must be recorded. It is no coincidence to find a rather significant number of organizations - around 400 units - using the phrase "social enterprise" in their business name. We can conjecture that many of these are early social enterprises that are formed in accordance with the new regulations but have not yet registered in Section L, probably because it was not yet active when they were founded and is still currently undergoing constant updating.

The other type is represented by the social cooperative, the most popular and consolidated legal and organizational model for social enterprises in Italy and Europe, introduced thanks to the approval of Law 381/91 two decades ago. Even though very few social cooperatives have taken on the characteristics provided for in Law 118/05 (43 out of 365 registered in Section L, equal to just over 10%), it is the legal form that best represents the characteristics referred to by the legislator in the most recent regulations and therefore they can be considered social enterprises to all intents and purposes. The large number of social cooperatives - over 11,000 units - highlights this model's clear

leadership role in the whole sector, which as a result appears strongly influenced by its constituent characteristics, namely: orientation towards aims that go beyond the interests of the business owners to address a local community and/or specific, often vulnerable social groups; the identification of sectors of activity within which meritorious goods or services are produced; the presence of restraints on the distribution of profits generated by the economic activity and their allocation to support the entrepreneurial project; and the possibility of involving different stakeholders (workers, volunteers, users of the services) within the business structure, and, more generally, in the production activities.

If we look beyond the regulatory confines to organizations that are similar to social enterprises, inevitably a more fragmented picture emerges. However, it is indispensable to also look at phenomena that are currently latent, as they are able to generate elements of innovation that demand the adaptation of the theoretical, regulatory and policy framework.

A first important area of social entrepreneurial activity is represented by the non-profit organizations that are neither social cooperatives nor legally designated social enterprises. An initial survey of Chamber of Commerce archives, looking at registered non-profit subjects for which, given the nature of the source, we can assume to be organizations with social aims and an orientation towards production, reveals a population of just over 22,000 units. These are primarily association-type subjects (71%) followed by moral and religious bodies and foundations.

The extent of the potential for social entrepreneurial activity does not concern only the non-profit sphere. As previously mentioned, the law recognizes the possibility of taking on the status of social enterprise for businesses with legal structures of commercial origin, as long as they adopt very precise characteristics in terms of mission, activity sector, governance structure and accountability systems. In this case, the selected variable for defining an area of for-profit businesses potentially oriented towards social entrepreneurship is operation in sectors identified by the regulations as fields within which it is possible to produce and exchange goods and services of "social utility" while pursuing objectives of "general interest". The result of this exploratory survey carried out on ISTAT data banks is a little over 85,000 units (excluding sole traders); a fairly limited percentage, equal to 5.5%, of all the businesses of the same type operating in Italy in the indicated year.

Structural characteristics and impact³

As part of the work for the Iris Network Report, a sample survey was carried out to obtain more information about the constitutive elements and performance of enterprises that work within the non-profit field and which, even though they have not acquired official legal status, still have the essential characteristics for being considered social enterprises. The sample was extracted from a population of around 13,000 non-profit productive organizations (social cooperatives and other not-for-profit entities) involved in the Chamber of Commerces' Excelsior project. The project's aim is to measure the employment trends in certain key sectors of the Italian economy, including the social enterprise sector.

In terms of absolute numbers, social enterprises still represent a small fraction of Italian businesses in general, but the relative share reaches 3% of the private nonfarm economy in terms of employed workers, given their significant average size. In fact, on the basis of the information from the Excelsior study, it is estimated that at the end of 2010 around 383,000 workers were employed in social enterprises, with an average annual increase of 5.0% compared to 2008. The share working in services is by far the highest (96% of the total), with health and social welfare services alone accounting for 69% of employment (almost 266,000 employees, 24,000 more than in 2008).

Looking instead at a longer period of time, the employment dynamic in social enterprises between 2003 and 2010 showed an increase of over 70%, much higher than the increase in all Italian businesses (up by around 10%). Also in this case, presumably a significant part of this increase is due to the gradual registration in the Business Register of social enterprises that existed before 2003 but have not yet registered themselves. We are talking in particular about large businesses within which a significant part of the employment generated by the whole sector is concentrated.

At a sectorial level, during the period under consideration there was a much higher than average trend in health and welfare, which further expanded its significant majority, rising from 64% to account for 69% of total employees in the sector. From a size perspective, the greatest employment increases concerned the biggest companies, in other words

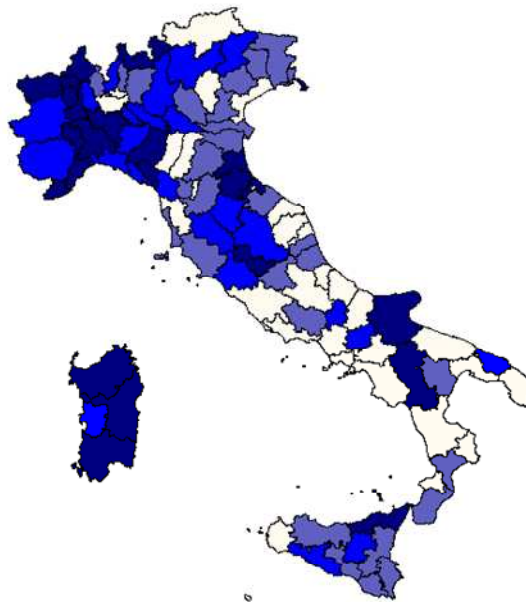
³ This paragraph is drawn from the contents of the chapter in the report written by Chiara Carini and Domenico Mauriello.

businesses with at least 50 employees (+96% compared to 2003). A stronger increase was seen in the Northwest (+82%) despite smaller growth in the number of enterprises.

The number of jobs estimated for 2010 corresponds to a not-insignificant share (3.3%) of the total number of jobs at a national level, excluding agriculture and the public sector. This share is higher in services, where employees of social enterprises represent 5.5% of the sector's total. The importance of social enterprises, however, is particularly evident with reference to social and health care and education activities. Within these subcategories, the segment represents 58% (social and health care) and 33% (education) of the total employees in the private sector in these two fields. Within these fields, social enterprises support and are integrated with the work of the public sector.

Looking in greater detail, this map shows how out of the total employed workers, the share of those employed by social enterprises at the end of 2010 is higher in Piedmont, Liguria, parts of Lombardy and Emilia-Romagna, Tuscany, Umbria and Sardinia.

Percentage share of employees in social enterprises out of total employees on 31/12/2010



Source: Unioncamere – Ministry of Labour, Excelsior information system, 2011

On the basis of the data from the Iris Network-Unioncamere study, it is estimated that one out of every two social enterprises has voluntary workers (54.8%). This fact has

already been recorded in the course of other surveys, though they were only carried out on social cooperatives, and it shows a certain persistence of volunteers in the Italian social entrepreneurial field or at least a significant part of it. The distribution of voluntary workers by geographic area highlights the greater number of subjects who offer voluntary work in social enterprises in northern regions (around 39,500 volunteers, 55.9% of the total) especially when compared to the southern and island regions (around 9,100, 12.9%). An analysis by activity sector shows that half of the volunteers (49%) offer their time for activities in the social welfare and health care sector, 28.1% volunteer for enterprises that aim to integrate the disadvantaged through employment and another 19.9% dedicate themselves to education activities.

Still looking at the estimates of the Iris Network-Unioncamere survey, it emerged that around 5 million users took advantage of services offered by social enterprises in 2010. Out of these, 60.6% used social welfare and health services and specifically 26.6% benefitted from social welfare services alone. When compared to the number of social enterprises active in this sector, this figure highlights the large size of such organizations. Among the remaining sectors, the educational sector is also important (around 780,000 beneficiaries, 15.5% of the total) and services aimed at integrating disadvantaged subjects into employment (around 956,000 users, 19.1%). Over 2 million users, equal to 48% of the total, used services from social enterprises operating in northern regions, while 32.5% used the services in central regions and 19.5% in southern and island regions. Among the different types of beneficiaries, the most prominent are children and adolescents (the principal beneficiaries of the activities of 31.6% of enterprises), families (22.8%), the physically and mentally handicapped (19.2%) and the elderly (13.2%). Observing in particular the main beneficiaries of the two most widespread sectors of activity, it is clear that educational activities are primarily intended for children and adolescents (73.9% of cases) and only marginally for adults and families (17%), while physically and mentally disabled people and the elderly are the primary targets of social welfare or health care activities.

When it comes to the economic results, the survey shows that 53.4% of the organizations that regularly carried out an economic activity during 2010 recorded a value of production of less than 250,000 euros, while 71.8% had a value of production of less than 500,000 euros and just 12.5% had a value greater than 1 million euros. An analysis of geographic distribution reveals that the southern and island regions have a greater incidence of smaller social enterprises: 66.3% of the enterprises (compared to 55.1% in Central Italy and 44.2% in Northern Italy) produced a value inferior to 250,000

euros and just 7.9% exceeded 1 million euros (compared to 17.8% of organizations located in northern regions). Looking at the data by sector of activity, we can see that it is above all social enterprises active in the education and services sectors that recorded the greatest percentage of small enterprises, with a value of production less than 250,000 euros (respectively 58.7% and 61.4% of the enterprises active in the two sectors). In contrast, the health and social welfare sector shows the greatest concentration of enterprises with a value produced greater than 1 million euros (15.1%).

Overall, the majority of social enterprises closed the business year with a non-negative result: one in three businesses (34.2%) closed 2010 having broken even, while 40.3% recorded a profit. It is mostly social enterprises operating in the education sector that show the biggest problems in reaching a positive operating result. Just 28.6% of the organizations achieved a profit in 2010, against 37.7% who effectively broke even and 33.8% who closed the year with a loss. In the health and social welfare sector, meanwhile, only 22.9% closed the year negatively, while 43.5% had a positive operating result. Finally, we can see that organizations active in the industrial sector, primarily businesses that integrate disadvantaged people into employment, showed the best performances in 2010, with 59.8% showing a profit at the end of the year, plus 12.1% effectively breaking even.

From the collected data, a link emerges between the size of the business (in terms of value of production) and the achievement of a positive financial result: in fact, we can note that among the smallest enterprises (with a value of production below 500,000 euros), 38.6% recorded a broad balancing of the budget (compared to 23% of the enterprises with a value of production greater than 500,000 euros) and 29% recorded a loss (compared to 16.4%).

Lastly, for the year 2010, 82% of the enterprises believed their assets were adequate for future growth, while 3.1% believed they were more than adequate. Judgements about the adequacy of the assets as regards future growth were broadly conditioned by their adequacy for ordinary activities in 2010: 94.1% of businesses that considered their assets adequate for their ordinary activities also considered them adequate for future growth, and, conversely, those who negatively judged their assets in 2010 also believed that they were insufficient to cope with the growth of the business (80.5%). Finally we can see that assets were believed to be insufficient for future growth especially for social enterprises in the southern and island regions (21.1% compared to 14.6% of enterprises in Central Italy and 10.9% of those in Northern Italy).

The business model⁴

The study carried out in collaboration with Unioncamere provided various ideas about the functioning of these enterprises, particularly concerning the mechanisms for generating social value and economic impact. The intention was to identify ways of getting out of the current critical phase, thanks to the proposal of a development model within which social enterprise occupies a central position, as is desired by the social enterprises themselves and by important policy-makers, especially at a European level.

The first check of the effectiveness of the social enterprise business model comes from the part of the survey that explored the propensity towards investment and innovation. Certain interesting suggestions emerge from the data: investing is not a generalized choice because it concerns just under half the social enterprises (45%). On the other hand, among those that invest, a significant percentage (40%) exceed 10,000 euros a year. Not a huge figure, but it should be put into context, given that from a financial point of view these are small and tiny businesses (just over half do not have a turnover higher than 250,000 euros). Another significant aspect concerns the origin of the resources used for investment: in the majority of cases the investment is self-funded (68%). The “self-generated” nature of investments is also confirmed in the field of innovation. Around a third of the social enterprises introduced an innovation during 2010 and the majority of these focused on improving the efficiency of productive processes and internal organization (19%). This is a different choice compared to small and medium for-profit enterprises, which instead tend to concentrate on product innovation, even though the available data do not allow direct comparisons. The survey therefore confirms the ambivalent nature of the innovation implemented by social enterprises: on the one hand it is the result of a strategy careful not to “bite off more than one can chew”, investing the business’s own resources into internal improvement projects. But on the other hand it is a type of innovation that still does not seem able to “scale up” the various organizational experiments and solutions put into action in recent years, transforming them into real plans oriented at realizing system changes. This is all within a framework which, in Italy

⁴ The last two sections of the executive summary are drawn from the contents of the chapter of the report by Paolo Venturi and Flaviano Zandonai and the position paper for the 10th edition of the workshop on social enterprise produced by the same authors.

as well as elsewhere, is gradually filling with financial subjects who want to invest, in different forms and ways, in the growth of social entrepreneurship.

A second series of measures that emerged from the survey concerns the relationship of social enterprises with the main stakeholders. This familiar aspect has for some time been identified as a real competitive advantage for these businesses. The involvement of certain key stakeholders fulfils their mission, but more profoundly it also concerns their functioning. The engagement of workers, volunteers, service users and local communities can in fact represent an important condition for the effectiveness of the interventions, to the extent that these respond to objectives of authentic “collective interest”. On the other hand, the depth of the relationships with these same subjects is connected to the sustainability of the entrepreneurial project, as it allows access to a wider spectrum of resources. From this point of view, the research data reveal a situation with different levels of advancement: a barely embryonic relationship with the beneficiaries of the services (only 15% of social enterprises practice some kind of involvement), in an era when the support of users, in their capacity as co-producers, is considered the primary objective of innovative enterprises in a broader sense. The relationship with workers is more developed (practiced by 70%), confirming the worker-led approach of social enterprises, which is increasingly put into practice through models other than the traditional participation in company governance. Finally, the community vocation of social enterprises is represented in a structured and permanent form. Many of the social enterprises (around 50%) realize activities in favour of their local communities, not only through their standard supply of services, but also by using the medium of cultural production and events of a recreational nature. Social accounting plays a rather limited role in this picture. The tool of the social report is very common among social enterprises (70% produce one) but it generally has a minimal circulation radius (only 6% distribute it to the users of their services).

A confirmation and a partial surprise emerge from the data concerning the activities and markets of social enterprises. The confirmation concerns the marked orientation towards specialization, thanks to the identification of “core” activities that generate the majority of economic resources (and presumably the social impact). For almost half the social enterprises, in fact, their main activity generates the entirety of their economic resources. The surprise concerns the breakdown of clients. The majority of social enterprises have public bodies as their main client (45%) while for a quite significant share (38%), their main clients are individuals and families. How can we interpret this data? A response comes from the expected trends in turnover for the year following the survey year, 2011.

An expectation of stability quite clearly dominates (72%), which can be interpreted by assuming on the one hand the continuation of the model of resiliency based on the search for greater internal efficiency and on the other a potentially dangerous feeling of waiting in regards to possible changes, including structural changes, to the commercial circles in which social enterprises have operated up to now. Thus we can see a reemergence of interest in the figure of the social entrepreneur, called on to guide the development of these organizations. The survey provides an indication of general conformation along the individual/collective axis. From this point of view, a model of collective entrepreneurship prevails, characterized by a common glue of values shared by different subjects (68%). Alongside what can be defined - at least in Italy - as the archetype of the social entrepreneur, we can also see emerging in a non-residual and strongly growing way the figure of the individual entrepreneur (18%), until now mostly found in other contexts, such as the English-speaking world.

Five million users, 380,000 employees, 50,000 volunteers, 10 billion euros of turnover: these are the figures behind social entrepreneurial activity driven by the historic model of social cooperation, while new models still struggle to emerge in a structured and convincing way, partly because of the lack of success of the new regulations so far. But beyond the possible developments, perhaps what it makes most sense to highlight are the variables that modulate the trends described in the previous paragraphs. The survey very clearly brings some of them to light: size, because alongside the mass of small organizations, the absorption capacity of the "big players" is growing (especially in terms of employment and economic wealth, though also investment and innovation); the activity sector, highlighting beyond social services and work integration, the role, to date not fully investigated, of social enterprises that work in the field of education; and finally the last variable, the age of companies, as it is not the pioneers and the start-ups that are making the biggest impression, but rather the social enterprises that sprung up "in the middle period" (for the social cooperatives, those founded on the back of the approval of Law 381 in 1991). These are the ones who seem to have a more significant amount of resources (economic and cultural, in a broad sense) to invest in a new phase of development.

A new season of policies

It is possible to extrapolate useful indications for a new agenda of policies in favour of social enterprise from the Iris Network Report. The objective of this agenda is to liberate the potential of entrepreneurial activity with social aims that exists in both the non-profit sphere and the vaster group of business organizations that are actually already working in this way or could be interested in doing so. In this way social entrepreneurial activity could reach the critical mass necessary to break the monopoly exercised by state institutions and the market on economy and society, providing answers to new models of consumption and social protection. These are initiatives, mostly local, that take on the two huge legacies of the global crisis: a growing number of unsatisfied needs and qualified human capital (mostly young people) in search of employment. However, “anti-crisis” measures are also urgently needed to support the social enterprises that are struggling with radical modifications of their business model, for example in the field of production of welfare services.

Currently it is still the European outlook that is guiding this new season of policy making. The measures contained in the Communication of the Social Business Initiative Commission in fact concern the mobilization of both public and private resources, to be invested in the growth of an ecosystem of social enterprises able to locate themselves at the centre of the economic landscape by virtue of the social impact of the activities carried out, and, more specifically, as a privileged “vehicle” of social innovation. The 2014-2020 structural funds and the construction of private social investment funds represent, in this sense, two important levers able to make available a significant mass of economic resources, which must be allocated in a targeted way, considering the sector in all its breadth and internal segmentation. But beyond the finances, it is necessary to reinforce a wider body of initiatives and services in support of these enterprises, to increase their visibility, improve their efficiency and measure their efficacy.

In this framework, social enterprise information systems can play an important role, including helping to encourage and allocate investments. Aggregated data, impact indicators, sentiment analyses, case histories, entrepreneurial biographies, etc. are crucial sources of information for reconstructing both a sense of unity and the different subcategories of a sector which, still today, tends to be confused with others or colonized because of the growing attractiveness of everything that, for various reasons, is defined as “social”.

Finally we come to regulatory issues. In their current state, the Italian regulations have been able to catalyse only a small part of a much vaster propensity towards social entrepreneurship. Certainly this is due to some limitations in the wording of the law - in particular the absolute ban on distributing profits, including indirectly - but also the absence of informational policies, administrative support services and real interest from the government and social partners. It should in any case be taken into consideration that this measure is slow to be assimilated because it introduces a paradigm shift in how to do business in our country, allowing social enterprise initiatives to be started from a range of very different legal forms (and their relative traditions, cultures and incentives). In this phase of Italian politics it is not simple (and perhaps not even advisable) to change the law, even though only a few adjustments are needed: the designation of all non-profit, productive subjects as social enterprises, also giving all organizations that meet these criteria official non-profit status (*Onlus*); the liberalization of activity sectors, introducing a test administered by a special authority or the chambers of commerce that measures the actual social orientation of the enterprise; the introduction of price-controlled forms of return on invested capital; and a guarantee of the indivisibility and inalienability of assets, which in the case of sale, transformation or closure should be allocated to social uses similar to those set down in the social enterprise's mission. Having suitable regulations at this time could represent an extra opportunity for tackling the main challenge of social enterprise, which consists in "scaling up" this entrepreneurial category from the periphery to the centre of the economic and social system.