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### Social enterprises as a response to employment policy failure

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#### Introduction<sup>1</sup>

To understand the phenomenon of social enterprises, it is necessary to look back in history since these initiatives are often the product of evolutionary development of old organisational forms. Although the scope of this chapter is confined to the more recent steps taken within civil society generally, it is noteworthy that during the twentieth century some forms of social enterprises have arisen in matters that hitherto were confined to the family. Examples include the services devoted to the handicapped or, more recently, to persons with newer social problems such as those related to drugs and AIDS. Historically, the church has been vigorously engaged in traditional activities to alleviate poverty – an international example of this being *Caritas*. More recently, lay initiatives have taken over from religious action, especially with regard to the handicapped. The parents' associations of handicapped children organised and created the first special work centres and the first residences in the 1960s and 1970s. Later, in the 1980s, with the emergence of the welfare state in Spain, these private initiatives were reinforced by public sector initiatives. But the consistent historical pattern is that in the first stage, private initiatives, both religious and lay, predominate. Then, at a later stage, public initiatives take responsibility and make the activities developed by the social private sector more professional, or start to finance them on a more regular basis.

This process is interlinked with the evolution of welfare expenditures between 1975 and 1997. In 1975, public spending in Spain represented 25 per cent of GDP, while the average across the countries of the European Union exceeded 40 per cent. This shortfall in public funds encouraged the development of social enterprises in the fields of health, social services, education, culture and leisure, often under the legal form of associations and foundations. By 1997, public spending represented 43 per cent of GDP. During the period of strong growth in public spending, the government often opted to contract out the management of the public services. This option encouraged the rapid growth of the third sector in Spain, in the form of associations and foundations, as management arms of public authorities in the provision of personal public services. In 1995, there were 226,658 associations and foundations in operation. They employed

500,000 persons (4.5 per cent of the employed population). They also mobilised 4 million volunteers, and their budget was about 16,828.3 million Euro (4.5 per cent of GDP).<sup>2</sup> Among the new organisations developed during the last twenty years, the work-integration social enterprises are particularly innovative and entrepreneurial, especially in terms of the services supplied.

### **1 The Spanish labour-market context: a brief overview**

Before tackling the specific subject of this chapter, it is necessary to highlight some general aspects of the Spanish economic system and, especially, of the labour market. The industrial crisis of the 1970s and the subsequent financial crisis of the state deepened the problems linked to the then-prevailing entrepreneurial development model and to the state. Two negative consequences followed: the insufficient demand for labour coming from traditional enterprises – which may be described as market failure – and the insufficient capacity of the state to respond to the growing demand for personal services of value to the community – state failure. These two failures forced civil society to invent new answers – among which were social enterprises – to meet unsatisfied social demands.

In Spain, the industrial crisis of the early 1970s coincided with the political process of transition to democracy. Whilst GDP had grown during the 1960s by a cumulative 7 per cent per annum, this figure was down to just 1.6 per cent for the period from the mid 1970s to the mid 1980s. This spectacular downturn in economic growth was accompanied by runaway inflation. Inflation reached a high point of 24.5 per cent in 1977, while average inflation for the period 1975–1985 was 15.6 per cent.

Employment was hit especially hard. Spain recorded a net loss of 2.13 million jobs between 1975 and 1985, i.e. a decrease of 16.5 per cent in employment. By 1997, the number of jobs in Spain had returned to the levels recorded in 1977, but with the active population having grown by 3 million during that twenty-year period, the unemployment rate in 1998 reached 18 per cent. In 1999, the level of unemployment went down to 15.4 per cent. Nowadays, employment in Spain is increasing very fast.

In the 1970s, unemployed workers or those employees in danger of losing their jobs on account of company closures, initiated jointly owned enterprises under two different legal formulas: the traditional form of workers' co-operative and the employee-owned company. Both workers' co-operatives and employee-owned companies aim at creating and sustaining employment. The main difference between the two forms lies in their legal definition, insofar as the co-operative is an association of persons, while the employee-owned company is an equity business in which the majority of the share capital belongs to the workers. Until 1986, the legal form of the employee-owned company was better suited to the workers' needs than the co-operative form because if a co-operative was closed down, its workers were not entitled to unemployment benefit. This caused

many unemployed workers and workers in danger of losing their jobs to prefer the employee-owned company form. When the law on co-operatives eventually changed in 1986, employee-owned companies already constituted a strong movement, which gained official recognition that same year with the passing of the first law on employee-owned companies. This development helps to account for the co-existence of two distinct legal forms of worker-managed enterprises, both considering themselves as part of the social economy in Spain.

In the last quarter of 1999, there were 22,331 workers' co-operatives in operation, employing 241,719 workers, and 9,080 employee-owned companies providing 73,526 jobs.<sup>3</sup> In total, a group of 31,411 jointly owned enterprises have created 315,245 jobs at a time when traditional enterprises have been shedding jobs. These are enterprises whose role is to provide their members with employment. They are mainly small enterprises, based on relations of mutual trust between their members and on a horizontal organisational structure, which makes it possible to practise economic democracy. Business decisions are taken according to the overriding objective of maintaining employment.

Although they appeared in the same period as workers' co-operatives and employee-owned companies, work-integration enterprises differ from these in that they are not a form of mutual-help organisation, initiated by the unemployed or by workers threatened with unemployment. Work-integration enterprises aim at employing those who are systematically excluded from the labour market – persons with physical or mental disabilities or the socially excluded. Promoters of these initiatives are not the users themselves; they are usually relatives of the users, in the case of enterprises aimed at persons with disabilities, or the parochial community or neighbours, in the case of enterprises aimed at the socially excluded. Usually, work-integration enterprises choose the association or the foundation legal form, rather than the co-operative or the employee-owned company form.

### **2 The focus of the analysis**

The present section focuses on social enterprises active in the field of social integration through employment of persons systematically excluded from the ordinary labour market. In other words, this kind of social enterprise tries to reduce the failures of the labour market that the state fails to solve with its bureaucratic and standardised approach.

Two main categories should be distinguished within the group of persons systematically excluded from the ordinary labour market: these are persons with disabilities and the socially excluded. The former include people with physical or mental handicaps. The latter include young persons who have failed at school, young persons with a criminal record, single mothers, migrants – in short, the long-term unemployed with negligible or zero levels of employability.

Social enterprises active in the social integration of persons with disabilities can benefit from the job creation measures for workers with disabilities set out in Royal Decree 145/1983, which governs selective employment and measures to

promote the employment of people with disabilities. It provides incentives for the hiring of disabled workers in the form of subsidies for each contract concluded, significant rebates on the social security charges, subsidies for the adaptation of workplaces, and the granting of resources for personal safety and vocational training. The Royal Decree 145/1983 also governs employment workshops, the aim of which is the integration into the labour market of all those persons with a disability. They are production units with an average of 150 workers. In some areas, they are currently the enterprises with the largest workforce or those that have created most jobs over the last twenty years.

By contrast, there are still very few traditional enterprises employing disadvantaged workers. The *Report on the Situation of Persons with Disabilities and Proposals for Getting them Back to Work* of the Economic and Social Council (*CES, Consejo Económico y Social*) recognised that 'the number of registered contracts making use of job-creation procedures shows that enterprises have not taken up this incentive-based way of providing access to employment' (*CES* 1995: 96). This suggests that for the most part, social enterprises involved in the employment-led integration of persons with disabilities have been virtually the only employers of disabled people and the only users of the measures intended to promote the employment of persons with a disability. An interesting development among these enterprises is the establishment of 'enterprise groups', which is dealt with later on.

On the other hand, social enterprises involved in the integration of socially excluded persons are more recent and smaller in scale, with lower production capacities, a lower level of professionalism and a greater number of voluntary workers. They did not receive any extra resources for providing jobs for the socially excluded until 2000. The Law 55/1999 allows companies and non-profit-making bodies who offer contracts to unemployed workers in a situation of social exclusion to receive 60 per cent subsidies on their social security insurance payment in the first twenty-four months of the work contract.

These enterprises appeared at the beginning of the 1980s. Their main promoter was the Catholic church, through *Caritas*, but little by little, small projects initiated by parochial communities and by neighbourhood associations have also been developing, independently of *Caritas*. Although the whole movement still retains a strong religious influence, it may become more secular in the coming years, as enterprises that are active in the field of work integration of persons with social disabilities may, with the advent of Law 55/1999, develop a stronger entrepreneurship movement. Twenty-two initiatives operating in the field of social exclusion were analysed by CIES (1998, 1999). Without receiving any institutional support or reductions in social security contributions, these schemes had taken on, in 1997 and 1998 respectively, 401 and 540 persons who otherwise would have little chance of finding employment.

Although these are two different types of social enterprise, it has been decided to examine them together for two reasons. Firstly, because it is felt that social enterprises employing people with disabilities will act as a point of reference in relation to the entrepreneurial future of social enterprises working in the field of social exclusion. Secondly, because there is the possibility that with the

recognition of social exclusion by the Spanish government, social enterprises that are currently involved with people with disabilities only would extend the profile of their users. In other words, their objective would be the integration through employment of any person, irrespective of his/her profile and of the legal recognition of the disability.

### 3 Methodology and sample

There are no records or statistical information available on social enterprises active in the field of social integration of persons who otherwise would have little chance of finding employment. Thus, the following two approaches were adopted:

- interviews were conducted with the general managers of ten enterprises employing persons with disabilities or the socially excluded;
- twenty-two enterprises, members of the *Asociación Española de Recuperadores de la Economía Social y Solidaria (AERESS)*,<sup>4</sup> took part in a survey carried out in 1997 and 1998. Information was collected about employees, income and funding sources, expenditure, investment, the economic value of the productive capacity and the productive activity.

Six of the general managers interviewed worked to integrate persons with disabilities. Among the enterprises from which they come is the *Asociación Atzegui - Grupo Gureak*. This is the most important organisation in the field of social integration through employment of persons with disabilities in Guipuzcoa (Basque Country). To achieve its work-integration goals, the *Asociación Atzegui* (parents' association, founded in 1972) developed an enterprise called *Talleres Gureak* (Gureak Workshops) in 1982, which comprises fourteen employment centres; it also created eight other enterprises which are legal entities in their own right. *Talleres Gureak* is a joint stock company; the other eight enterprises are limited liability companies. Atzegui parents' association is the main stakeholder in these enterprises. In 1997, they provided 2,008 jobs, of which only 174 were for persons who did not have disabilities. Another example is the *Asociación AMICA* (founded in 1984), which, in 1990, established *SOEMCA*, a limited company, whose capital is wholly owned by the *Asociación AMICA*. It is the leader in the field of social insertion through employment of persons with disabilities in Cantabria. It started up in the industrial laundry sector. Its customers are hospitals, hotels and restaurants. In 1997 *AMICA* had a total of 571 members and *SOEMCA* had 163 workers with contracts of employment.

The other four general managers who were interviewed came from enterprises in the field of work integration for the socially excluded. The *Fundación Engrunes-Cooperativas Miques* (established in 1982) operates in Catalonia with trading activities based on the selective collection of urban waste, construction, rehabilitation of buildings and sale of second-hand products. The *Fundación Deixalles* (1986) operates in the Balearic Islands, and its activities focus on the

selective collection of solid urban waste, its sorting, recovery and subsequent sale. The *Trapeiros de Emaus San Sebastian* (founded in 1980) operates in the Basque Country; its activities focus on sales of second-hand products and it provides services to the socially excluded such as accommodation, healthcare and clothing, work guidance, training and acclimatisation to work, career guidance and workplace integration. The *Trapeiros de Emaus Nafarroa*, in the autonomous community of Navarra, is also involved in trading based on the selective collection of solid urban waste.

These last four enterprises did not benefit from institutional recognition until year 2000. They are members of *AERESS*, and belong to the group of 22 work-integration enterprises which took part in the survey, conducted in 1997 and 1998, which constitutes the second source of information (besides the interviews) used for the purpose of the present study. The study focused on innovative behaviour that could inject a new energy into integration enterprises. This presentation therefore concentrates on the most outstanding aspects and obstacles or difficulties facing the leading integration enterprises in Spain today.

#### 4 The specific nature of leading enterprises in social integration

##### *The promoters*

All social enterprises that were involved in the interviews and survey are bottom-up initiatives. The social groups promoting a work-integration organisation differ according to the target group of people who are to be integrated into the labour market. If the target group is made up of persons with disabilities, the promoters are associations of parents and relatives. If the group to be integrated is the socially excluded, the promoters are usually Christian communities and neighbourhood associations.

The prevailing legal form is the association. In the disabilities sector, parents' associations have developed significantly from the 1970s onwards. The associations engaged in the field of social exclusion began to appear in the 1980s, when Spanish society became aware of the social consequences of structural unemployment. The decision to opt for the association is generally taken not so much on account of its significance as a non-profit and democratic structure, but because this is the form that involves the lowest formal establishment and running costs.

It is important to stress that in all the projects that have made the leap to efficiency-based, market-orientated entrepreneurial business, the key factor has been the presence of a leader. The leaders have introduced an entrepreneurial culture to their organisations. The economic and social results achieved by these enterprise groups cannot be explained without taking into account the vital role played by these social entrepreneurs. A large majority of the latter has had prior business experience in the traditional private sector. They are able to apply and adjust the techniques of enterprise management and the strategies of private sector firms to the mission of the social enterprise.

##### *The productive choice*

Social enterprises were created with the explicit objective of integrating into the ordinary labour market persons who are systematically excluded from it. To achieve this objective, social enterprises have to develop an enterprise culture radically different from that of business organisations. They might choose the same activity and they might be competing in the same market, but the reasons for choosing this activity and this market will be different. In the decision taken by social entrepreneurs, the interests of the user – the person with disabilities – take precedence, whilst in the decision taken by the leader of a conventional enterprise, the overriding criterion is the return on capital invested.

This same analysis can be applied to the production process that each of these enterprises chooses. Social enterprises working with disabled people use labour-intensive production processes in order to fulfil their role. On the other hand, a conventional enterprise uses a more capital-intensive production process. The result is higher productivity per worker in the conventional enterprise. However, the total production costs are not necessarily higher in a social enterprise than in an ordinary enterprise because of a completely different wage structure and capital costs. Moreover, social enterprises generate positive externalities and increase social capital by strengthening civic cohesion where they operate.

##### *The organisational form: enterprise groups*

The enterprise group is the most usual form adopted in Spain by work-integration social enterprises aiming to provide integrated services, such as training, employment and accommodation. Within the enterprise group, the legal form of each enterprise depends on the productive activity being carried out. The constituent group enterprise carrying out activities that can be defined as a public service (such as healthcare or residential care for persons with disabilities) usually takes the legal form of a non-profit body, i.e. association or foundation. On the other hand, the group enterprise responsible for those activities that are carried out in the conventional market alongside traditional businesses most often takes on a legal form appropriate to a capitalist company, i.e. joint-stock company (*sociedad anónima*), limited company (*sociedad limitada*), or employee-owned company (*sociedad laboral*). In a few cases, the form of co-operative society (*sociedad cooperativa*) is chosen. The association remains the main or sole shareholder of the enterprises it promotes. In some cases, the association becomes a foundation, while in others the associative form is retained.

The source of finance partly determines the legal form that the enterprise group uses for the organisation providing the service. Also, the legal form is considered as a way to communicate information to the public. The form an organisation chooses will thus vary according to its main customer and to the message it wants to give to external entities. If the main customer for a particular service to be supplied is a public agency, the legal form chosen will very probably be that of a non-profit organisation. If funding stems mainly from the market, as is the case with initiatives involved in job creation and labour-market integration,

the legal form chosen will be the form usually preferred by the commercial sector, because of the organisation's desire to be considered as able to compete with commercial enterprises. A specific feature of the work-integration social enterprises surveyed is that a single entity or enterprise group is responsible for co-ordinating the provision of the range of services needed by any one user, thus increasing levels of efficiency and utility compared with those which would exist if different suppliers, with perhaps different entrepreneurial cultures, provided the various services.

### ***The evolution from long-term enterprises to 'bridging' enterprises***

One current topic of discussion in Spain is whether the most appropriate enterprises for people with low levels of employability are those providing transitional jobs, so-called 'bridging' enterprises, or those enterprises which typically provide employment to a person with disability throughout his/her working life. And to complicate matters further, the behaviour of work-integration social enterprises for persons with disabilities differs from that of enterprises for the socially excluded.

#### *Enterprises employing workers with disabilities*

Until very recently, the employment workshops (RD 145/1983) preferred to regard themselves as 'long-term' enterprises. This perspective has resulted in contracts of employment being of indefinite duration. However – and this is a novel feature in this sector – in some sheltered employment workshops, the managers are beginning to regard the enterprise as a tool for training and apprenticeship, and merely as an intermediary step after which its beneficiaries will be able to move into the open labour market. They feel that the insertion into the open market marks a further stage of improvement and adjustment for the individual. The result of this approach is that, in enterprises that think in this way, short-term contracts of employment are preferred. The beneficiary knows that his/her job is temporary, i.e. it is a transitional period that will end with his/her absorption into the open labour market.

These employment workshops, which their managers see as bridging enterprises for persons with disabilities, have a department acting as an employment agency. The professionals working in this department fulfil two mutually complementary roles. One role consists of contacting conventional enterprises, explaining the tax advantages of hiring a person with a disability, giving support during the initial stages of work integration, and guaranteeing that the individual can return to the special employment workshop if he/she is not happy in their new job. The other role consists of training the person with a disability and providing the professional and psychological skills that will ease the individual's integration into the wider labour market. According to these associations and employment workshops,

the logistical support that the employment agency provides makes it possible to integrate a greater number of people with better contracts than if this support did not exist.

#### *Enterprises employing the socially excluded*

Social enterprises targeting the socially excluded have always set themselves up from the outset as transitional enterprises, never as 'long-term' enterprises. They know that they should not turn themselves into repositories of persons with a low level of employability. They are sensitive to avoiding the ghetto phenomenon and are well aware that the real integration of these persons into society will occur when they find a job and stability in the open market. However, such enterprises do not yet have a department functioning as an employment agency, as in some special employment workshops.

There are two reasons for this situation. First, they lack the financial resources for setting up such a department. It has to be remembered that the institutional recognition of enterprises active in the field of integration of the social excluded came only in January 2000. In the near future, as this institutional recognition increases, it may allow the creation of structures and services such as those which enterprises active in the field of social integration of persons with disabilities already have. The second reason – more important because of its innovative character – is that integration into the ordinary labour market is achieved on the basis of productive activities that give the individual the opportunity to come into contact with ordinary enterprises. Enterprises which employ the socially excluded co-operate with traditional enterprises for the execution of the work, and this co-operation makes it easier, whenever the ordinary enterprise needs a worker, for the integration enterprise to 'lend' it one of its workers. In the case of a person with a criminal record, the issue is his curriculum vitae, not his level of productivity. The integration enterprise offers him a contract of employment and the opportunity to be in contact with conventional businesses. These are two key factors that should make it easier for the individual to secure a job in the ordinary labour market.

#### ***Resources mobilised***

As to the resources available for social enterprises, one can distinguish between:

- monetary resources derived from:
  - public authorities,
  - the market (sales of services),
  - private donations, in money or in kind;
- volunteering.

*The role of public and market resources*

As far as resources coming from public authorities and from the market are concerned, in 1997, enterprises engaged in the activity of work integration of persons with disabilities had average sales of 300 million pesetas (1,803,036 Euro). The most successful enterprises reached more than 1,000 million pesetas of sales (6,010,121 Euro). The survey and interviews revealed that sales in the market represented 70 per cent of turnover and that subsidies relative to total sales have dropped progressively over the last three years of operation.

Enterprises active in the field of work integration of socially excluded persons invoiced an average of 150 million pesetas (901,518 Euro), with some projects recording twice this amount. CIES (1999) shows that in a total of twenty-two sample sets of accounts for the 1997 and 1998 financial years, the private market provided 45 per cent of income of which retail accounted for 35 per cent, and wholesale for 10 per cent. The public market represented 32 per cent of income. If we add together the public and private markets, we have 77 per cent of income coming from market-related activities. Of the remainder, subsidies represented 18 per cent of income, whilst private donations accounted for 5 per cent. Staff costs in those enterprises qualifying under Royal Decree 145/83<sup>5</sup> represent around 35 per cent of the total production costs. In enterprises employing the socially excluded, this figure was 74 per cent before Law 55/1999 was passed.

In the period 1997 to 1998, the group of twenty-two enterprises – all members of the *AERESS* Group – which took part in the survey, paid 448 million pesetas (2,692,534 Euro) in the form of social security contributions for their workers. These enterprises received, for the integration task they performed, subsidies amounting to 400 million pesetas (2,404,048 Euro). The difference, 48 million pesetas (288,486 Euro), represents the net income to the public sector. Consequently, it can be said that integration enterprises for the socially excluded generated a net income for the public authorities.

Such enterprises have solicited exemption from social security contributions for their users. The reasons put forward to justify this demand include the fact that they are labour intensive with a low-skilled workforce, that they employ workers with health problems, and that, consequently, they have a very low level of productivity. Furthermore, the leaders of work-integration enterprises consider that the fact of being market-oriented has a therapeutic effect on their workers. Their claim for institutional recognition is not motivated by a wish to obtain higher subsidies. They simply want to get tax exemptions, justified by the fact that they produce positive externalities through their commercial activity. In Spain Law 55/1999 is a first step in the process of institutional recognition of integration enterprises targeted at the socially excluded.

*The role of donations and volunteers and their impact on the organisation*

A distinction can be made between three different types of donations: in cash, in kind and in time. Donations in cash are not very significant. In 1998 around 5 per cent of the income of enterprises for the socially excluded came from dona-

tions (CIES 1999), and donations did not figure at all in the income of enterprises active in the field of disabilities. Donations in kind are more important, particularly donations of second-hand clothes and other goods in enterprises for the socially excluded that are active in economic activities relating to the collection of solid urban waste.

Donations in time have a number of possible features, such as availability of volunteers, extra working hours not being paid for, and lower wages. The main donation is the time that the managers set aside to take part in the various bodies that make up the political/administrative structures of the entity. Employers responsible for managing the enterprise group do so free of charge. As regards the voluntary resources mobilised by these social enterprises, it should be noted that the more precarious the economic situation of the enterprise, the greater the level of voluntary resources it uses. As and when the enterprise manages to carve out a space for itself in the market and becomes professional, the importance of these voluntary resources decreases and is eventually reduced to the participation of the employers or partners in the enterprise's decision-making structures.

Another dimension of the voluntary nature of this work is the low salaries paid to the leaders and managers of the initiatives. This form of voluntary work is common in enterprises for the socially excluded. One result of this is a narrow wage range. Cases have been recorded of enterprises in which the ratio between the salaries of a worker and his or her general manager is 1:1.5; i.e. the most senior manager earns 50 per cent more than the most recently recruited person who has suffered social exclusion. The fact that enterprises involved in the integration of persons with social disabilities can do the work they are doing is because of this form of voluntary involvement of their leaders and managers.

In the special employment workshops (RD 145/83), there are no volunteers in the technical/productive structure. Moreover, the wage levels of the professionals working there are higher than in the case of those working in enterprises for the socially excluded.

To sum up, voluntary resources are mobilised in all enterprises active in the field of work integration. These voluntary resources commonly take the form of donations in time. However, it should be noted that the greater the institutional recognition, the more the presence of volunteers is reduced. When they were first set up, all the entrepreneurial integration schemes recorded high levels of voluntary work. This then gradually decreased as and when institutional recognition enabled the enterprises to achieve their social objectives by using the productive resources available in the commercial field and by replacing the resources used in the non-trading or voluntary field by subsidies. This replacement is regarded as positive, and reflects the taking on of responsibilities by civil society at large.

*The representation structures of social enterprises*

Theoretically, social enterprises are entrepreneurial initiatives that are intended to be part of the third sector or the social economy. In fact, the associations,

foundations and enterprises that are engaged in the field of disabilities, with the exception of the National Organisation of Spanish Blind People (*Organización Nacional de los Ciegos Españoles*), do not take part in the representative structures of the social economy in Spain. Neither are they regarded as belonging to the social economy, nor have they been concerned to create a common front with all the bodies and organisations which provide services to communities of interest.

Since the mid 1970s, with the development of a welfare state in Spain, and the necessity for public contracting for the provision and management of services, public authorities have promoted vertical organisations for each target group. As a result, each target group – the physically or the mentally disabled, the deaf, drug addicts, abused women, etc. – is, although to a varying extent, organised in a representation structure of its own. For their day-to-day running, these representative structures depend mainly on public subsidies, not on the contributions of their members. Consequently, their members see them more as top-down ‘drivers’ than as bottom-up communication channels.

The leaders of these representative structures have not considered it necessary to create horizontal links among themselves. The result is that, unlike the situation with representative organisations for more conventional enterprises, the representative organisations for the different lobbying groups work without any kind of horizontal co-ordination. It has also to be stressed that the different groups of organisations that work in the field of disabilities, drug addiction or poverty do not see themselves as part of the third sector or the social economy – or perhaps, do not regard such a reference as useful. Of course, the situation might change, as funding for representative organisations changes and may be reduced.

Moreover, it is even possible to find examples of leading social enterprises that are members of traditional enterprise organisations. This is because they identify more with the dynamic of such entities, and above all for reasons of symbolism and external communication. They want to be considered as normal, everyday businesses that can relate to their conventional counterparts because this is the most effective mechanism for integration into the ordinary market. Other social enterprises have created small structures with local friendly enterprises with which they can exchange views and jointly negotiate with the regional authorities. The large majority of these social enterprises have opted to create genuine private enterprise groups, enabling them to reach a sufficient size and therefore have the capacity to establish direct dialogue with the competent public authorities in the sectors in which they operate.

Work-integration enterprises for persons who are socially excluded are more willing to be identified with the social economy. However, social economy leaders nowadays do not accept work-integration enterprises as members of their political representation structures. The ‘old’ social economy representatives have a defensive attitude. As a result, in 1998, work-integration enterprises active in the field of social exclusion set up a third-degree representative structure or confederation whose members are district federations. This organisation is called the

‘Federation of Integration Enterprises’ (*FEDEI, Federación de Empresas de Inserción*). Its founding members include *Caritas*, *AERESS*, *Traperos de Emaus España*, the ‘Madrid Association of Integration Enterprises’ (*Asociación Madrileña de Empresas de Inserción*) and the Catalan Social and Solidarity-based Association of Recovery Companies (*ACERESS, Asociación Catalana de Empresas Recuperadoras de la Economía Social y Solidaria*). The *FEDEI* groups together the principal and longest-standing bodies working for the integration of the socially excluded.

In short, there is no general representative organisation bringing together all enterprises with social objectives in Spain, and there is no single forum for representatives of social enterprises. There are various organisations which channel and support the interests of these initiatives and of their managers, but these lack co-ordination among themselves.

## 5 Risks for social enterprises

There is a risk that enterprises active in the field of social integration through work may abandon their role as bridging enterprises and become long-term enterprises. The risk remains even in enterprises whose leaders or promoters clearly understand that the organisations they are managing must be transitional or bridging enterprises for the user. There are various factors that help to explain this. One factor, external to the enterprise, is the difficulty currently faced by integration enterprise users when trying to find employment in the ordinary labour market, due to their social profile. Factors internal to the enterprise include, *inter alia*, the fact that integration enterprises provide the user with an employment contract in order to give his activity more recognition, and in so doing, they create vague expectations of permanence, even though the contract is temporary. The risk of the enterprise becoming long term for the user increases if this user participates in the decision-making structures of the enterprise. One is thus presented with the irony that the greater the internal democracy in an enterprise, the greater the risk that the enterprise will become long term for the user.

Another reason why this may happen is related to the internal management of human resources. There is, in fact, a contradiction between the role of the enterprise and the immediate production needs of workshop managers. The role of the enterprise is to integrate its workforce with improved qualifications into the labour market. This leads to a continuous loss of human resources which workshop managers may try to prevent because of its effects on productivity – particularly in the case of a social enterprise whose productive activity depends on its competitiveness in the open market.

One of the major risks work-integration enterprises have to face originates in their own leaders. The purpose of an integration enterprise is to resolve or at least relieve the problem of social exclusion. But many leaders have difficulties in associating this purpose with the concept of enterprise. As a matter of fact, very few leaders consider the enterprise as an instrument that, if properly used, can help them achieve their social objectives. The social or religious environment

from which leaders come, combined with the negative image of enterprise which prevails in Spain, result in a feeling of aversion towards the concept of enterprise. They thus have a contradiction to resolve insofar as they do not want their organisations to be considered as enterprises because enterprise is associated with exploitation. At the same time, they must develop a productive activity that can be sold on the market if they want to systematically contract persons excluded from the labour market. There is thus an urgent need to develop a discourse that would promote the positive aspects of enterprise and help in broadening the understanding that it can be used to achieve social purposes. However, the concept of enterprise has gained legitimacy in recent years, and where the leaders are young people who did not experience the decade of the 1970s, they are more open to this type of discourse and to the need for professionalisation and training. Still, there is a need for new leaders in the field of work-integration enterprises. They must be persons who have already discovered that the enterprise, if well managed, produces positive externalities and reinforces social cohesion.

## 6 Interaction with public policies

Social initiatives in the field of disability were being taken prior to the establishment of the welfare state in Spain. When the welfare state was set up, family associations had already created special schools, employment centres and residential accommodation for their relatives. With the development of the welfare state, family associations achieved institutional recognition for the disabilities of their relatives and managed to transform the services they had set up into public services. Consequently, there was a transfer of control from the private sector to the public sector, which included the integration of the special education schools into the public school network. For employment and residential services, an intermediate formula was chosen in that the state financed the employment or residential place but the parents' association continued to act as owners and managers. It is true that in the early days of the welfare state, public authorities invested in new residential accommodation, but in many cases, the preferred route was that of co-operation between the public sector and the organisations of civil society.

In the case of initiatives for work integration of the socially excluded, the partnership between the public sector and the third sector is just beginning to develop and it is still very early to forecast the level of collaboration that public authorities and social enterprises may reach in order to achieve official recognition. An example of lack of collaboration is to be found in regard to public contracts dealing with selective collection of solid waste in large cities. This is an economic activity, which was rediscovered by enterprises for work integration in the 1980s as an economic activity that was well suited to the capacities and skills of persons with social problems. In those years, this was an activity of very little market importance. The major conventional solid waste disposal companies scorned this potential market, and allowed enterprises for work integration to

develop. But during the 1990s, social and cultural developments have increased environmental awareness, and the selective collection of solid waste has turned into a large and attractive market for local authorities and traditional businesses. As a consequence, work-integration enterprises lost this market largely because local authorities preferred to give contracts to established companies, since they proposed to mechanise the process. The result is that selective solid waste disposal is now mainly carried out mechanically. In short, when it came to awarding contracts, local officials did not take into account the other added value which social enterprises working in the environmental field provide i.e. the integration of hard-to-place persons.

## 7 Future perspectives and conclusions

Social enterprises engaged in the field of work integration are business organisations with a social objective, namely, the integration of groups of persons who are systematically excluded from the traditional labour market. In Spain, the leaders of work-integration enterprises who have achieved the best results from their social action are those who understand that the social integration of a person of working age is very often achieved through his/her integration in the ordinary labour market. These leaders are persons who have designed and created enterprises meant to serve such persons. They have noted the therapeutic effect of the execution of a labour contract between the enterprise and the user. They have also noted that if they manage their operation as if it were an ordinary enterprise, open to market competition, their results in their integration activities are better. In fact, these leaders have become entrepreneurs in order to be able to develop their social objectives with greater efficiency. But it has to be emphasised that social leaders of this kind are still very scarce due to the deeply rooted belief that enterprise and social action are somehow incompatible. Even in this sector, concepts of charity from another time still prevail, and although the present work focuses on innovative behaviours on the part of integration enterprises, it has to be remembered that, in this field like in any other, conservative behaviours are still predominant.

As shown by Thake and Zadek (1997), creative and energetic leaders play a vital role in job creation in society. However, our society does not often acknowledge that role, and does not recognise the qualities and the contributions that these leaders make. Very rarely are their efforts supported. On the contrary, institutions often work against them. This is the situation in which social enterprises and their leaders find themselves in Spain. They have no name, and no status. There is no economic information that endorses their successes. They are not part of a single collectivity, and they do not identify with the conventional social economy. They work in isolation, acting as troubleshooters throughout society. Social enterprises have closer relations with their foreign than with their domestic counterparts. Indeed, European initiatives have played a key role for these enterprises and their leaders. They have made it possible to set up cross-border forums through which key ideas on



organisational forms and working methodologies can be exchanged. They have contributed – and this is important – towards the raising of awareness of these experiments in Spain.

Spain is a country which is 'democratically young', with a small and only recently developed social services sector. This sector is expected to progressively increase its presence in society as the country's wealth increases. However, its development must adjust to new schemes. The sharing of responsibilities between conventional enterprises and the state has to be redefined and both have to evolve. On the one hand, enterprises must not only be competitive and produce wealth and employment; they must also be open to new entrepreneurial approaches that create more social cohesion. On the other hand, the state must reconsider its role as direct manager of services when these have had unsatisfying results in the fight against the negative effects of unbalanced economic development. Public authorities and society at large must discover that the promotion and consolidation of social enterprises may be an instrument to solve state and market failures. Of course, it is true too that the civil support to social enterprises will be determined by their legitimacy. In this respect, the legal form is not the most important element. What is important is the trust of citizens in these enterprises. In order to achieve this trust, the adoption of a multi-stakeholder structure seems to be of particular importance. Enterprises that solicit institutional support and a favourable tax regime must be able to take into account all those who are involved in one way or another in their activity. Moreover, it is important that enterprises are easily evaluated, and for this reason clear accounting practices are necessary and social audit schemes might be useful. Finally, it has to be stressed that there is still a long way to go before the potential of social enterprises is fully recognised. If it remains undiscovered, an opportunity to advance social well-being will be lost.

## Notes

- 1 This study has been granted financial support from the I+D National Plan of the Science and Technology Inter-ministerial Committee of the Spanish Government (SEC97-1309).
- 2 Fundación Banco Bilbao Vizcaya, *Proyecto Comparativo del Sector no Lucrativo. España, El País*, 4 de noviembre de 1998.
- 3 Ministry of Labour and Social Security, Companies registered for Social Security, third quarter of 1999.
- 4 *AERESS* is a federation which represents twenty-two businesses devoted to the integration, through employment, of persons with negligible or zero employability. The main trading activity of *AERESS* enterprises is concentrated on the selective collection of solid urban waste (paper, glass, clothing, tins and cans, bulky items and batteries), its sorting, recovery and subsequent sale. In 1998, twenty-two enterprises were providing employment to 540 persons who, through their work, achieved a turnover in excess of 1,500 million pesetas (9,015,182 Euro).
- 5 As already mentioned, this decree governs selective employment and measures to promote the employment of people with disabilities.

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