

18 The social enterprise

Towards a theoretical socio-economic approach

Jean-Louis Laville and Marthe Nyssens

Introduction

The phenomenon of social enterprises is the latest development in the evolution of the social economy which began in the nineteenth century and incorporated organisations such as co-operatives, mutual benefit societies and associations. In Europe, the term 'social economy' is identified with the so-called third sector, the latter being the term also most frequently employed at international level. In other words, the third sector does not comprise non-profit organisations alone; it also includes all organisations in which the material interest of capital investors is subject to limits, and in which creating a common patrimony is given priority over a return on individual investment. But comparing social enterprises to traditional third-sector organisations also reveals some differences. In contrast to traditional co-operatives, for example, social enterprises are initiated by groups of citizens who seek to provide an expanded range of services and more openness toward the local community. Compared to mutual benefit societies or traditional associations, social enterprises place a higher value on their independence and on economic risk-taking related to an ongoing activity.

Consequently, it can be said that the generic term 'social enterprise' does not represent a conceptual break with institutions of the social economy but, rather, a new dynamic within the third sector¹ as well as a reorientation and broadening of its possible forms. Moreover, the emergence of social enterprises suggests questions about the socio-economic development of our societies, and sheds light on the possibility of establishing economic solidarity within modern democracies.² The social enterprise appears to be at a crossroads; it is a form of enterprise which is different from private for-profit and public enterprises. While its logic is different from that of the traditional private enterprise – to the extent that its power is not based on the ownership of capital – the social enterprise nevertheless develops market activities. Due to its independence, the social enterprise is also different from the public corporation, in spite of the fact that it frequently benefits from public subsidies.

Numerous authors have drawn attention to the fact that there is *de facto* a number of socio-economic principles and types of organisational logic. Some analysts approach economic organisation using a tripolar model.³ In this essay,

we too will use a tripolar analytical grid of socio-economic activities in order to clarify the dynamics of the social enterprise. But while there is nowadays widespread reference in the literature to these three poles, their characteristics remain loosely defined and vary from author to author. In order to define them more precisely, we will analyse, in turn, three aspects of socio-economic organisation.

First, we will analyse the structure of ownership, which determines the objectives of the enterprise. For social enterprises which are not in the sole hands of investors, various forms of ownership are possible (section 1). Second, following Evers in the preceding chapter, we identify the forms of social capital associated with social enterprises. If social capital is present in every type of enterprise, the kind and form of mobilisation of social capital appear, however, as specific in social enterprises (section 2). Following these two parts, which are focused on internal relations, we examine the types of economic relations between social enterprises and their environment (section 3). We describe the various ways of distribution of economic goods and services – exchange, redistribution and reciprocity relations – in order to analyse how social enterprises combine them. As we will see, a characteristic of social enterprises is that part of their resources come from a social capital based on *reciprocal relations* developed in the *public sphere*. The analysis shows a wide spectrum of social enterprises. However, this chapter does not analyse each possible configuration with its benefits and its failures; it rather tries to explore some key dimensions in order to understand the rationale of social enterprises. Methodologically, it uses a comprehensive approach, starting from the national case studies gathered in this book and building on the two former theoretical contributions to propose an 'ideal type' of the social enterprise having a multiple stakeholder ownership and multiple goal structure, combining various types of economic relations. As expressed by Weber who introduced this concept, 'an ideal type is obtained by emphasising unilaterally one or more standpoints and by linking together numerous isolated phenomena ... arranged according to the previous, unilaterally chosen viewpoints in order to form a homogeneous framework of thought' (Weber 1918: 719). This framework of thought is not an exact representation of reality, but emphasises certain features for the purposes of research. The ideal type is not the same as reality; it is a means of gaining knowledge by defining hypotheses more accurately and by characterising phenomena.

1 Social enterprises: ownership, factors of production and objectives

In this section, we analyse how the structure of the ownership of an enterprise influences its objectives. The group of persons holding the right of ownership determines the objectives of the enterprise. Indeed, as Razeto (1988) notes, those who hold the propriety have the power to align the objectives of the enterprise with their own interests. He suggests employing the expression 'dominant factor' to designate this group who, he emphasises, subjects all factors of production to

its own objectives. In short, the ultimate aims of an enterprise depend on the type of ownership at hand.

Third-sector organisations belong to stakeholders other than investors

In neo-classical theory, the standard model of the enterprise is one in which ownership rights are held by investors. In such a model, the objective of the enterprise amounts to profit maximisation, i.e. to the accumulation of finance capital. The labour factor is subordinate to this logic of accumulation. Analyses of third-sector enterprises – which differ both from private firms and public corporations – question the rather monolithic vision of ownership and entrepreneurial logic typifying the standard model, which none the less retains its pervasive influence in economic theory.

Indeed, such analyses demonstrate *the diversity of ownership forms*, i.e. the diversity of persons who can hold property rights and determine the objectives of the enterprise. For example, the literature on self-management has examined enterprises organised by workers, and analysis of the co-operative firm has shown the existence of enterprises owned by consumers or suppliers. The aims of an enterprise depend on the structure of its ownership, i.e. on the stakeholders⁴ with ownership rights. In contrast to the situation in capitalist enterprises, third-sector owners are not the investors and therefore their objectives are different from the accumulation of capital. In a third-sector organisation, if investors are owners, they are not the only ones. There are potentially as many forms of property rights as there are stakeholder categories: workers, consumers, benefactors, investors, and others (Hansmann 1996; Gui 1991).

One of the goals of social enterprises is to serve the community⁵

Unlike capitalist enterprises, third-sector organisations are not motivated primarily by financial interests that subordinate the act of entrepreneurship to the probability of a rapid return on investment. Unlike public sector corporations, third-sector organisations are not dependent on the type of collective interest whose standards must be established by the mechanisms of representative democracy. And unlike some third-sector organisations which limit their activities to pursuing members' private interests alone – as in the case of many workers or agricultural co-operatives – social enterprises incorporate a goal of service to the community.

Serving the community may be defined as explicitly enhancing collective externalities and equity issues. Externalities arise when the actions of certain agents have an impact – be it positive or negative – on the well-being of other agents not regulated by the price system. Externalities are collective in nature when they concern the community as a whole, for example when they involve social cohesion, public health or local development. Here, collective benefits are

not simply induced by economic activity but are, rather, a dimension claimed by those who promote and actually undertake the activity. The pursuit of collective benefits associated with the goods or services produced constitutes one of the incentives and explains the commitment of the individuals who create the social enterprise. If in private for-profit enterprises, as Callon (1999) says, 'the positive externalities discourage the private investments by socialising the benefits', in social enterprises the positive externalities are among the reasons why stakeholders join a collective action to create economic activity.

If we take the example of social enterprises that help previously excluded workers enter the labour force, one notices that their primary aim is not to accumulate or to distribute profits. The stakeholders are motivated by a shared opposition to pervasive long-term unemployment combined with a determination to act locally for a common objective, namely social integration. Taking the example of social enterprises in the personal service sector, we observe a concern about social justice in relation to access to the services provided and a desire to promote benefits for the community as a whole, particularly when it comes to social cohesion and education.

Does the goal of community service require a particular form of ownership?

Clearly, analysis of social enterprises does not reveal a single model of ownership. Nevertheless, some of their structural characteristics reflect the element of community service.

Firstly, as we have already stated, third-sector enterprises – and therefore social enterprises – tend to promote collective benefits as they are managed by stakeholders who are not only investors. While investors focus on the return on capital, owners of third-sector enterprises promote other types of goals such as the return on work accomplished, the quality of goods produced or the accessibility of the services provided. This does not mean that third-sector enterprises always incorporate the goal of service to the community, but we may assume that they place greater emphasis on such a dimension than traditional enterprises. Some authors note that this goal of service to the community is a characteristic of non-profit organisations. For example, Preston (1993) points out that it is non-profit organisations' concern for social externalities which makes them distinguishable from for-profit organisations.

Secondly – and this is the characteristic most frequently raised in the literature – the non-profit nature of such organisations, i.e. the fact that 'residual control rights' and 'residual income rights' are held by different groups, is pointed out. Indeed, micro-economic analyses, in particular those relating to new institutional economics (Milgrom and Roberts 1992), distinguish between two forms of ownership rights: firstly, 'rights of residual control', meaning ultimate decision-making power,⁶ and secondly, 'rights of residual income', which refers to the income obtained by a 'residual claimant', i.e. obtained by virtue of the right to appropriate the net income of an enterprise once all expenses have

been paid. Most often these rights are tied up. Analysis of third-sector organisations, particularly associations, demonstrates that these property rights are indeed divisible. On the basis of the distinction between these two kinds of property rights, Gui (1991) puts forward the concepts of 'dominant category', i.e. the category made up of individuals who maintain ultimate control, and of 'beneficiary category' i.e. the category formed by those who obtain the residual benefits. When the two categories merge, the organisation involved is said to be one of 'mutual interest'. If these rights are held by different groups, the organisation is said to be one of 'general interest'. The new institutional economics shows how linking residual control and income rights is an extremely powerful incentive. Nonetheless, analyses of associations demonstrate that such rights may also be held by two different groups. In the case of social enterprises, the separation of rights is a recognition of the primacy of community service over members' financial interests. Fixing limits to profit distribution constitutes an attenuated form of this recognition.

Thirdly, certain recent analyses that rely on the concept of 'multiple stakeholder enterprises' have suggested that it might be possible for the very group that owns the enterprise to be heterogeneous.⁷ For example, the owners of Italian social co-operatives may be users, volunteers or salaried workers. The creation of multi-stakeholder enterprises provides a way of giving appropriate recognition to collective benefits. By mobilising many different types of agents – workers, users and volunteers – they reveal the actual collective aspect of the benefits, an aspect that too often remains concealed. When volunteers join an enterprise of this type, their objectives exclude personal financial gain and may be associated with the pursuit of collective benefits.⁸ This specificity of social enterprises doesn't mean that investor-managed enterprises never take collective externalities into account. Indeed, investor-managed enterprises do recognise collective externalities. But it is also clear that the objective of obtaining a return on capital does not constitute an incentive to recognising these externalities, even if other factors (such as general awareness and pressure from consumers and government) may promote such recognition.

According to Sabel (1996), many local partnerships provoke tensions because there is a contradiction between the general mobilisation of the resources required to ensure the success of each project and the distribution of the fruits of this mobilisation among the few individuals who own the enterprise or will have the opportunity to be employed by it. Social enterprises have a distinctive ability to reduce such tensions: the shared ownership by the various categories of stakeholders in the social enterprise, the limits imposed by statutes that regulate the distribution of surpluses and the creation of a common patrimony constitute possible ways to guarantee, at least partially, that the achievements of the enterprise will not be reduced to private interests alone. This, therefore, enhances trust when building up a social enterprise. By contrast, because ownership is heterogeneous in multiple stakeholder enterprises, the question of governance arises in the context of heterogeneous viewpoints and interests. The converse of the innovative behaviour of social enterprises is an unsteadiness generated by the

diversity of stakeholders. This sometimes facilitates the development of a charismatic leadership and the progressive establishment of a single stakeholder ownership that eliminates the original heterogeneity.

2 Social enterprises and social capital

Coleman and Putnam were among the first to use the term 'social capital' in the sociological literature. Coleman defines it as 'the set resources that inhere in family relations and in community social organisation and that are useful for the cognitive or social development of a child or young person' (Coleman 1990: 300), thereby situating it within the realm of personal development. According to Putnam (1993a), who associates social capital with organisational operations, it includes features of social organisations, such as networks, norms and trust, that facilitate co-ordination and co-operation with mutual benefit.

The concept of social capital is now widespread in the literature. Although it remains somewhat vague, it nevertheless allows us to demonstrate the economic role of resources that can not be reduced to financial, physical or human capital. Razeto's distinction between an economic resource and a factor of production is illuminating in this context. Economic resources are all resources that potentially contribute to economic activity. A resource turns into a factor of production when it becomes a concrete part of a production process. For example, individuals seeking work constitute, among other things, an economic resource. When they are engaged by an enterprise, they acquire the status of factor of production. Social capital also constitutes a resource that may be mobilised to a greater or lesser degree within a production process so as to improve its performance. But it is also an end in itself because, as Evers labelled it in his text, it is a 'civic' capital contributing to a democratisation process. Social capital is present in groups, networks and the local social fabric. Inasmuch as it is – at least partly – indivisible and thus cannot be appropriated by any single individual, social capital constitutes a local (quasi) public good.

Social capital reduces transaction costs

Putnam's definition of social capital may be linked with the concept of transaction costs, which plays a key role in the new institutional economics concerned with modes of organisation that minimise transaction costs (co-ordination and motivation costs) among stakeholders. Motivation costs vary with the incentives introduced, within a context of imperfect information, to facilitate co-operation among stakeholders and encourage them to avoid opportunistic behaviour. Indeed, socio-economic organisations face numerous uncertainties and therefore motivation costs. How can users ensure quality service from providers they do not know? How can donors put trust in the way their contributions are used? How can the state maintain control over services when subsidising and delegating them? How can managers of personal service enterprises guard against opportunistic behaviour on the part of their employees?⁹

When faced with these types of uncertainties, mobilised social capital diminishes the transaction costs between external stakeholders (consumers, donors, public authorities) and the enterprise. Social capital can also contribute to improving the productivity of the labour factor through the development of co-operative behaviour. Razeto even ponders the existence of a new factor of production that co-exists with capital and labour, the 'C' factor, which he defines as 'the formation of a group facilitating co-ordination and co-operation so as to improve the efficiency of an economic organisation' (Razeto 1988: 46). His formulation suggests that, to different degrees, social capital is present and reduces transaction costs in every type of enterprise.

By mobilising social capital, the social enterprise is very likely to reduce its transaction costs, especially those that are associated with the lack of trust. As a matter of fact, even though outside parties may view the non-profit status itself as a sign of trust (Hansmann 1996), it is becoming increasingly clear that this status alone is insufficient in building relationships of trust (Ortmann and Schlesinger 1997). The absence of the profit motive does not prevent managers of associations from pursuing objectives – other than explicit profit – that do not necessarily coincide with the interests of the beneficiaries. For example, some associations have tolerated excessive remuneration of managers or the commandeering of the collective objectives by small groups who have the power to make the association stray from its original objectives. But sustainable forms of social capital – often present in social enterprises – can thwart the emergence of such phenomena by establishing trust, thereby lessening the incentive to behave opportunistically.

Social capital reduces production costs

The integration of users and volunteers into the social enterprise and the recourse to gifts and donations are all practices associated with the mobilisation and the development of social capital. Serving the community facilitates the integration of volunteers and users, and access to various gifts. When the dimension of serving the community is present, it becomes possible to create a social support network whose composition may vary but whose members share a sensitivity to a problem considered pressing and requiring action. The incentive to give an impulse to an economic activity comes from a shared perception by various stakeholders that an appropriate response to a problem they have identified is lacking. Thus, the entrepreneur taking the risk in the project does not act alone but, rather, as a catalyst relying on a group of individuals, each of whom is making a voluntary commitment (Laville and Gardin 1996).

Even the salaried workers may contribute to the creation of voluntary work, to the extent that they can opt for less remuneration than they would have received in other organisations, obtaining instead certain non-monetary benefits from their productive contribution.¹⁰ Mobilisation of such resources would not be possible without social capital. Nonetheless, the benefits should not mask the risks involved: volunteer work may end up as endured volunteer work if, due to a lack of funds, the salaried workers do not obtain the common law status and

collective rights (in terms of social protection for example) to which they feel they are entitled.

Social capital is an end in itself

While the mobilisation of social capital is important in every production process, the underlying objectives may vary considerably from one situation to another. In enterprises controlled by shareholders, social capital improves the productivity of the production factors and hence the return on financial capital. Here, owners employ social capital to further their financial interests. In social enterprises, social capital crystallises around projects that incorporate a dimension of community service.

In this context, the distinction made by Gui (1995) between the intrinsic and instrumental benefits of social capital is relevant. He links the concept of social capital to that of relational goods, defined as 'intangible capital assets that inhere in enduring interpersonal relationships'. He stresses that relational goods may be valued either as an instrument or as an end in itself. He shows how the development of social capital depends, positively, on the degree to which people value its *intrinsic* benefits. In social enterprises, we can hypothesise that the accumulation of social capital, being part of the collective project, is valued as an end in itself. As Evers points out in his contribution, this is why the social enterprise not only mobilises social capital but also reproduces it.

Indeed, the development of a collective project is closely tied to the mobilisation of social capital. Through their voluntary involvement, participants cultivate a sense of belonging to a community, either by reinforcing an inherited kinship (such as family or ethnicity) or by developing with other individuals a project in which 'their civic identity motivates them to act' (Evers 1997: 54). The interpersonal encounter goes beyond instrumentality or strategy and creates opportunities for greater mutual understanding through 'belonging to a group in which the members are aware that they share a common destiny' (Defourny, Favreau and Laville 1998: 31), as de Tocqueville and Touraine have observed.¹¹ Such an approach places the emphasis on the associative forces within the social enterprise. Research conducted on organisations in the social economy has shown that they often emerge through a process that transcends private interests while drawing strength from a mutual understanding that has a positive influence on economic performance.

Historically, the mobilisation of social capital in the third sector or in the social economy has occurred when there were social linkages uniting the members of a homogeneous category. This historical constant has not been confirmed, however, by every type of contemporary social enterprise, with recent research demonstrating 'a very low degree of homogeneity among founding groups' (Defourny, Favreau and Laville 1998: 330), in multiple stakeholder enterprises, for example. In such cases, the project is based less on a common identity than on a shared belief that certain issues cannot be resolved through existing institutions.

Social enterprises promote social capital as a factor of democratisation

Clarification of the process through which individuals, brought together by a particular problem, succeed in designing an economic activity, implies linking the economic and political dimensions of the social enterprise. Economic analysis and political sociology represent different disciplines of research but they have to be combined in order to capture the specificity of social capital in social enterprises. Social enterprises promote a special kind of social capital because they allow citizens to intervene in everyday life problems. So, to understand the existence of social enterprises, it is necessary to introduce the political concept of 'public space' or 'public sphere', defined by authors like Habermas and Giddens.

Social enterprises demonstrate their ability to be economically innovative when they constitute 'intermediary areas' (Evers 1995), mobilising social capital by transferring it from the private to the public sphere. The public sphere can be defined according to Habermas as:

a realm of our social life in which something approaching public opinion can be formed. Access is guaranteed to all citizens. ... Citizens behave as a public body when they confer in an unrestricted fashion – that is, with the guarantee of freedom of assembly and association and the freedom to express and publish their opinions – about matters of general interest.

(Habermas 1974: 49)

Consequently, the public sphere differs from the private sphere. In the public sphere, members of the same political community employ rational arguments in order to collaborate in opinion-making. This normative dimension of the public sphere refers to an empirical reality particularly regarding autonomous public spheres that serve as forums for free debate and the airing of controversy (Habermas 1992). These public spheres, open for local discussions between different stakeholders, act as autonomous public spaces (Calhoun 1992) and allow for direct expression by people to develop a shared understanding of the common public good. They can be regarded as developing reflexivity in civil society by problematising aspects of social relations that were previously undiscussed except by a few experts (Giddens 1994). As they emerge, social enterprises, like other forms of association are 'a dimension of the public space in civil societies' (Evers 1995: 159), and they create, on the basis of proximity, autonomous public spheres in civil society. By placing citizens in a situation different from the one conferred upon them as consumers or as recipients of assistance, these spheres allow them to organise activities that they judge relevant to the problem they are facing. Such spheres are organised on the basis of interpersonal relations and from the very start form part of the 'concrete sphere of inter-subjectivity'¹² characterised by certain cultural codes, and they invent productions of goods and services by collective action. The differences with household, informal and underground economies comes primarily from the opening up of these 'public proximity spheres'. They question the role of the

private sphere, 'open up spaces for public dialogue and force into the discursive domain aspects of social conduct that previously went undiscussed, or were "settled" by traditional practices' (Giddens 1994: 120).

Social enterprises in the area of personal services illustrate this particularly well. Social enterprises in the service sector facilitate equity of access and are responsive to user demands. For example, the first task of organisations providing home-care services is to maintain family equilibrium. Here, professional intervention alleviates certain tensions by getting the elderly and their families involved in defining the contours of the home assistance. The three-pronged relationship that brings together the association, its users and its salaried workers not only gives families an active role but also enables them to step back and evaluate the situation collectively. It is the role played by users – or by other stakeholders acting in their name – which proves decisive in putting together a proposal to establish a social enterprise, whether on their own initiative, by associating with entrepreneurs, or through the intervention of professionals who, due to their constant involvement in the delivery of services, know about unsatisfied demand (Ben-Ner and Van Hooymissen 1991). Beyond institutional affiliation, personal involvement is critical, for it is the connections made between usually separate systems and types of logic that shifts the focus of problems, allowing them to be approached differently and revealing their hidden potential.

The autonomous nature of the public proximity sphere is decisive, and is even more important than the inter-institutional partnership. The essential goal is to transcend functional logic and to approach services from the standpoint of users' 'actual experience' – to use again Habermas' term – aided by the mobilisation of social capital. Social enterprises have a triple foundation: people's daily practices, the symbolic exchanges and relations which provide the everyday framework of community life and the aspirations, values and desires of the people who use them. It is by taking into account this multi-faceted reality in the public sphere that supply and demand can adjust. The distinctiveness of these services from a user's perspective is that they tend to be actively involved in service design. Services, therefore, do not merely reflect either the use of 'top-down' market research or public planning technologies. That is why projects can overcome a major obstacle to growth in relational services which involve entering into a user's private life. The obstacle is the incompleteness of the information provided – not merely the fact that the information available is asymmetric – which causes users to feel insecure. By creating local public spheres they help make a relationship of trust possible. By paying attention to the way they convey information, projects can help users overcome their fear of seeing caregivers intrude into their private lives. They can then formalise very heterogeneous demands while developing the supply of services (Laville and Nyssens 2000).

Society is affected in that the mobilisation of social capital by social enterprises in their emergent phase has external as well as internal consequences. This has been demonstrated in the area of personal services and in other areas. As mentioned in the first section, the pursuit of collective benefits by social enterprises is part of the entrepreneurial initiative. A sociological perspective helps to

explain by which process it becomes possible: these collective benefits are socially constructed in public proximity spheres, which consist of 'spheres of socialisation and individuation allowing individuals to integrate into society' (Eme 1994: 217). Through their actions, social enterprises promote social bonds of a democratic nature. By expanding social networks based on the principles of voluntary involvement, legal autonomy and the equality of members, they attract groups who might otherwise be deprived of such bonds.

Social enterprises mobilise and reproduce a specific form of social capital

One of the difficulties raised by the notion of social capital is its polysemy. As noted above, Coleman's definition refers to the social skills practised by families and to the social networks to which individuals belong, while Putnam's definition refers to the functioning of organisations and networks. These two generic definitions differ stylistically but involve identical limitations through idealising communities by masking the relationships of domination and dependency sometimes present there. They also have another point in common insofar as they identify the development of social capital with collective interests, without noting that social capital may also be used to benefit private interests (Paci 1999; Bianco and Eve 1999).

The characteristics described above allow us to define the specificity of the social capital associated with social enterprises. To show that social enterprises mobilise social capital concretely by creating public proximity spheres means clarifying what type of social capital is involved. We are not dealing here with social capital that is family-centred, or with social capital based on interpersonal relations in the private sphere. Social capital, as we are treating it here, is located in the public domain. It is also different from the use of social capital in the reinforcement of local particularism, clientelist power, secrecy or opacity. The social capital we are dealing with in social enterprises can be identified with civic capital.

If these enterprises have the capacity to generate such social capital, it is because they are based on formal rules involving free commitment and equality among members. As a result, and as distinguished from capital-reliant corporations, they do not accept unequal relations in which the power held is proportional to the investment made or in which the labour contribution is subordinate to the financial contribution.

Another of the ambiguities associated with the concept of social capital stems from its origin. Most analyses take the existence of social capital as a given and proceed to focus on its mobilisation. This explains their deterministic vision of development in which areas endowed with social capital automatically build up their socio-economic capacities, while areas lacking it are locked into a state of underdevelopment and social anomie. There is a circularity in this argument because the social capital increase would only be possible where it already exists. However, we can go beyond this simplified schema and show how civic capital is mobilised and structured in practice.

In areas where social capital is densest and already affects the structure of public life, the social enterprise is in a position to convert part of it into a factor of production. In this way, the social enterprise facilitates the proliferation of civic capital. But even in areas where social capital is underdeveloped, the possibility of the creation of social enterprises should not be precluded. While the obstacles encountered may be numerous, the social enterprise's vision of serving the community can generate initiatives. The improvement of community daily life becomes the common reference determining the economic collective action and the transfer to the public sphere of the social capital previously confined to the private sphere. By such a process, they can contribute to 'the construction of social capital in circumstances – like those of the Italian south – where it has been missing historically' (Harris and De Renzio 1997: 923). A transposition of this sort, though difficult to achieve in an unpropitious environment, may none the less play a role in endogenous development – so long as it is reinforced by appropriate public intervention that carefully monitors local forces and provides them with long-term support. A policy of supporting social enterprises may in this way provide an alternative strategy to investing in major infrastructure projects and, in spite of obstacles, help areas previously seen as deprived of social capital take a more democratic path to development.

In short, the economic and political aspects of social enterprises are inseparable. Stated in economic terms, one of the driving force behind collective involvement in social enterprises is the pursuit of collective benefits associated with the goods or services produced. Clearly, analysis of social enterprises does not give rise to a single model of ownership; the only characteristic they all share, as far as ownership is concerned, is that they are managed by stakeholders other than investors. Nevertheless, some structural characteristics could reflect their dimension of community service. These characteristics include, among others, the non-profit constraint or the limits to surplus distribution and the development of multiple stakeholder forms of ownership. The pursuit of collective benefits allows specific forms of mobilisation of social capital such as involvement of volunteers, donations and development of local partnerships. Stated in political terms, the common affiliation spurring people on to collective action is connecting with a sense of common belonging to the political community that explains the involvement in autonomous public spheres emerging around a common good.

3 Social enterprises and economic relations

Just as enterprises are able to mobilise various economic resources and forms of ownership, so too are they able to activate the various means for distributing goods and services. At least this is the hypothesis formulated by theorists who defend the substantive approach to economics. They propose an extensive concept of economics in which all actions derive from people's dependence on fellow humans and nature. This contrasts with the formal, more restrictive

approach which views economics in terms of rational choices of maximisation applied under conditions of scarcity. By following Polanyi's formulation of the substantive approach, the economy may be conceived as a plural economy¹³ mixing in different socio-political contexts the economic principles of reciprocity, market and redistribution (Polanyi 1997).

The market principle refers to the matching of supply and demand for goods and services with a view to exchange, facilitated by a price-setting mechanism. The relationship between buyer and seller is established on a contractual basis. The market principle does not assume that agents will immerse themselves in social relationships, since these are 'viewed nowadays by western culture as being separate from institutions with a conventional or strictly economic vocation' (Maucourant, Servet and Tiran 1998: 15). Thus, in contrast to the two economic principles noted below, the market principle is not necessarily embedded in the social system.

Redistribution is the principle by which production is handed over to a central authority whose responsibility it is to divide it up. This presupposes establishing rules for taxation and redistribution. A *de facto* relationship is thereby established over time between a tax-setting central authority and other agents who are subject to it. Redistribution may take the form of benefits in cash or in kind. Redistribution is private when it originates with a private institution, that is, with a corporate entity whose managers have the authority to use a percentage of freed-up surpluses for the purposes of donations or sponsorships. One of the ways to channel this surplus is through private foundations. However, redistribution is primarily public. The modern form of public redistribution, which is sustained by compulsory deductions and is the source of allowances attesting to social rights, was organised around the welfare state.

The principle of reciprocity describes a specific type of circulation of goods and services among groups or individuals. It has meaning only when used to express a particular social linkage among stakeholders. Reciprocity is an authentic principle of economic activity based on the idea that the gift or donation is a basic social fact. But reciprocity has a paradoxical dimension, since groups or individuals receiving gifts are expected to exercise their 'free will' by giving counter-gifts. In practice, while those receiving gifts are encouraged to reciprocate, they are not subject to any external pressures to do so, the decision being theirs alone. Consequently, gift-giving is not synonymous with altruism or giving something away for nothing but is, rather, a complex mix of selflessness and self-interest. The cycle of reciprocity differs from market exchange since it involves human relationships which involve a desire for recognition and power, and from redistributive exchange because it is not imposed by a central authority. One form of reciprocity is that which is exercised within the basic family unit, which Polanyi called the household administration.

Throughout history, various combinations of these three basic principles have arisen. The specific combination reflected by the contemporary economy may be divided into three poles:

- *The market economy.* Here, the market has the prime responsibility for the circulation of goods and services. This should not be taken to mean that the market economy is the product of the market alone but it gives priority to the market and a subordinate role to non-market and non-monetary relations.
- *The non-market economy.* This is an economy in which the prime responsibility for the circulation of goods and services falls within the jurisdiction of the welfare state. Here, the public sector, which is subject to rules enacted by a public authority which, in its turn, is subject to democratic control, redistributes resources.
- *The non-monetary economy.* This is an economy in which the circulation of goods and services depends primarily on reciprocity. Although it is true that a certain number of reciprocal relationships adopt monetised forms (such as donations), it is really within the non-monetary economy that one observes the main effects of reciprocity – in the form of self-production and in the household economy.

The social enterprise and the three economic poles

As it was mentioned above, a social enterprise crystallises around a project providing services to the community, thanks to its ability to mobilise social capital. The mobilisation of social capital is based on reciprocal relations developed in the public sphere. Therefore, the origins of social enterprises are supported by 'norms of reciprocity and networks of civic engagement' (Putnam 1993b: 171). After its starting phase, the social enterprise is strengthened by its long-term capacity to link in various ways, depending on each organisation, the three poles of the economy. According to a plural conceptualisation of the economy and to an ideal type methodology, it is possible to argue that the capacity to sustain a social enterprise in accordance with its initial logic presupposes its ability to *continuously hybridise the three poles of the economy so as to serve the project*. Social enterprises combine the various resources coming from these three poles. Though social enterprises specialise in mobilising donations and volunteers, they can make use of market relations by selling their services and/or use redistributive relations by applying to governments to finance their services. This does not mean that social enterprises mix an equal amount of market, non-market and non-monetary resources; it only means that hybridisation provides a consolidation strategy for social enterprises whose identity has already been formed. A complementarity between a social enterprise's monetary and non-monetary relations guarantees the autonomy of its services – an autonomy based on multiple linkages – and its economic viability. Hybridisation not only means relying on three types of economic relations mobilised over a long period, it also means balancing these economic relations through negotiations among the partners in a manner consistent with the goals of the project. As such, it contrasts with the approach taken in previous periods, when it was possible to finance the goal of social utility primarily through redistribution.

Hybridisation also means that the three economies are working together rather than in isolation from each other. This helps explain the creation of collective benefits. For example, the role played by redistributive and reciprocal relations may be explained by the dimension of community service. In other words, the presence of collective benefits renders market-based financing inefficient. Market mechanisms can never internalise collective externalities or issues of equity; state intervention is then justifiable. But the intrinsically standardised nature of government action and its dependence on the politically instituted process mean that it is limited in its ability to identify evolving demands and respond to them in new ways. Theorists of non-profit organisations point out that since such organisations are in closer touch with new social demands and are more autonomous, they play a special role in social innovation by responding quickly to such demands (Salamon 1987). The social enterprise's volunteers and donations are thus in a position to introduce innovations. Nonetheless, associations have intrinsic limitations, such as having to mobilise resources on a volunteer basis, something state funding can help overcome. Salamon calls this limitation 'the philanthropic shortfall'. Other limitations include the trend to support specific groups or causes ('philanthropic particularism') and the fact that certain individuals are in a position to determine which services will be provided since they are the source of the funds ('philanthropic paternalism'). The sustainability and future growth of social enterprises are linked to recognition by government-funding sources that social enterprises make a distinctive contribution to the community in terms of services that other forms of enterprise fail to provide.

At issue here is the manner in which the social enterprise is distinguished from other enterprises. It is not simply the development of new combinations of private and public funding which characterises it. It is the mobilisation of social capital, through reciprocal relationships, around a project whose aim integrates a dimension of service to the community, which is the hallmark of the social enterprise at its inception. This dimension of service to the community enables the social enterprise to create an environment supportive of reciprocal relations (in the form of voluntary involvement) and to control certain costs. With a view to hybridising, in various ways, the three economic poles, social enterprises seek to use each of these types of relations consistent with the logic of their projects. Moreover, this hybridisation is developed in the public sphere, which is of primary importance when it comes to mobilising or generating social capital.

Hybridisation as a resistance to institutional isomorphism

Finally, the credibility and the durability of social enterprises derive from their ability to be constantly rooted in the context of a civil and solidarity-based economy; in other words, to be relevant, their economic activity has to remain embedded in solidarity and in the principles of justice and equality. Initiative and solidarity are reconciled since individuals are uniting voluntarily to under-

take joint action that creates economic activity and jobs, while simultaneously forging a new social solidarity and reinforcing social cohesion.

Experience with initiatives in the social economy has shown that if, over time, the distinctive features which characterise this 'third force' are downplayed, the initiatives tend to drift toward institutional isomorphism.¹⁴ Some co-operatives have gradually come to resemble other forms of enterprise in the market economy.¹⁵ Similarly, certain mutual benefit societies, through their integration into the social welfare system, have turned into virtual copies of organisations in the public administration. To a significant degree, this trajectory has reflected a reorientation of their initial mission.

While the role of social enterprises in discovering social demands and in introducing innovative practices must be acknowledged, government take-over of funding might suggest that the reciprocal relations stemming from the mobilisation of social capital can disappear with time. To avoid such an evolution, the production of collective externalities associated with the delivery of certain services can be taken into account by the introduction of new forms of redistributive policies from which all enterprises can benefit in the more competitive context. Through active policies, all enterprises can be encouraged to reintegrate workers casualised by the labour market.

Nevertheless, even when governments provide funding for the production of collective benefits, experience shows that civic engagement and mobilisation of reciprocal resources remain central to the creation of certain collective benefits. Social enterprises, by mobilising volunteers and social networks, have a specific ability to strengthen social capital. In the same way, if stakeholders (volunteers, users and workers) get involved, this can create a capital of solid trust, so important to certain services. It is a way to contain the opportunistic behaviours that are likely to arise because the manner in which social enterprises are managed makes them vulnerable to the uncertainties of the market economy, and because their interaction with public policy may make them dependent on funding from redistribution.

Conclusions

The theoretical approach we have proposed here, like that advanced by neo-institutional economics,¹⁶ takes analysis of existing economic institutions as a starting point. At the same time, it goes beyond functionalism which, based on criteria of efficiency related to the reduction of transaction costs, views existing institutions as the only possible ones. So as to avoid naturalising or 'absolutising' existing institutions¹⁷ in such analyses, one must understand their origin, which in turn calls for sociological, historical and legal analysis.¹⁸

Clearly, analysis of social enterprises does not give rise to a single model of ownership but it highlights the fact that they are managed by stakeholders other than investors. Social enterprises take as their starting point the mobilisation of social capital around a project whose objectives include a dimension of community service. Some structural characteristics could reflect this dimension of

community service as the non-profit constraint or the limits to surplus distribution and the development of multiple stakeholder forms of ownership. The pursuit of collective benefits also allows specific forms of mobilisation of social capital such as involvement of volunteers, donations and development of local partnership. In other words, economic projects emerge from relations of reciprocity in the public sphere. Project stakeholders get involved because they believe that by creating collective benefits for other actors or for society as a whole they help democratise economic relations. One of the driving forces behind their common commitment derives from their desire for collective benefits. The social or civic entrepreneurship intrinsic to social enterprises is characterised as much by this trait as by a claim for managerial independence which might keep them away from government or shareholder property.

Beyond the consumer subsidies and quasi-markets through which a part of them and other types of enterprises could obtain funds, the fate of social enterprises depends on their capacity to secure their financing from redistribution to assure the production of collective benefits. Their trajectory is interdependent with public policies. For this reason, the question of the future of social enterprises remains wide open. The process by which they are institutionalised seeks to make them increasingly autonomous by avoiding dependence on one source alone and by enabling them to comply with the objectives of the initial projects. But in order to do this they must confront the issue of sustaining social capital, and reconcile this with the mobilisation of funds obtained via the revenues coming from the redistribution and the acquisition of consistent market financing. In short, the tension between institutional isomorphism and autonomy based on tripolar economic hybridisation is a characteristic of social enterprises.

Notes

- 1 See the introduction to this book.
- 2 On such a perspective of solidarity-based economy, see Laville (1994).
- 3 For example, Mauss, Perroux and Polanyi, to cite only a few. This kind of tripolar analysis has in recent years been taken up again in works on the civil and solidarity-based economy, and attests to the existence of a variety of possible socio-economic principles (see Laville 1994). For a 'welfare pluralism' and a 'plural economy' analysis, see Laville *et al.* (2000); Pestoff (1998) also discusses tripolar analysis in reference to social security; even the World Bank, in its 1997 Annual Report, takes note of tripolar organisational forms (World Bank 1997: 116, French version).
- 4 By stakeholder, we mean 'any individual or group who has a direct interest in ensuring that the enterprise conducts profitable and sustainable activities' (Milgrom and Roberts 1992: 790).
- 5 See the contribution of Evers in this volume about the multiple goals of social enterprises (Chapter 17).
- 6 This may come down to electing individuals to manage the enterprise.
- 7 Borzaga and Mitton (1997); Pestoff (1998). It should be noted that, to be more precise, we should speak of multiple stakeholder ownership enterprises.
- 8 This argument is close to the one put forward by Ben-Ner and Van Hoomissen (1991). This article emphasises the importance of representation by stakeholder beneficiaries in organisations producing non-rival goods and hence also in those concerned with collective benefits.

- 9 This is a central idea of the contribution by Bacchiega and Borzaga in this volume (Chapter 16).
- 10 On this point, see Bacchiega and Borzaga in this volume (Chapter 16).
- 11 De Tocqueville (1991); Touraine (1973).
- 12 As expressed by Godbout and Caillé (1992).
- 13 OECD 1996.
- 14 On the notion of institutional isomorphism, see Di Maggio and Powell (1993); Enjolras (1996); Kramer (2000).
- 15 That said, it should be noted that they generated discussion within the producer co-operative movement, leading to the adoption of the following text at its Lille Congress of October 1997: 'The co-operative movement will work toward a specific status along the lines of Italian social co-operatives, reflecting a new spirit of partnership among users, volunteers and waged workers' [Translation].
- 16 As typified by Williamson (1975). For a review on these theories in the field of NPO, see Bacchiega and Borzaga in this volume.
- 17 According to the term employed by Barber (1995).
- 18 For a critical view of neo-institutional economics developing this argument, see Granovetter (1985).

Bibliography

- AGLIETTA, M. (1976) *Régulation et crises du capitalisme. L'expérience des États-Unis*, Calmann-Lévy, Paris.
- BARBER, B. (1995) 'All Economies Are Embedded: The Career of a Concept, and Beyond', *Social Research*, vol. 62, 2: 387-413.
- BEN-NER, A. and VAN HOOMISSEN, T. (1991) 'Non Profit Organisations in the Mixed Economy', *Annals of Public and Co-operative Economics*, vol. 4, 519-50.
- BIANCO, M.L. and EVE, M. (1999) 'I due volti del capitale sociale. Il capitale sociale individuale nello studio delle diseguaglianze', in LAVILLE, J.-L. and MINGIONE, E. (eds) 'Nuova sociologica-economica. Prospettiva europea', *Sociologia del Lavoro*, 73.
- BORZAGA, C. and MITTONE, L. (1997) 'The Multistakeholder versus the Nonprofit Organisation', Università degli Studi di Trento, Draft Paper no. 7.
- BOYER, R. (1995) 'Vers une théorie originale des institutions économiques', in BOYER, R. and SAILLARD, Y. (eds) *Théorie de la régulation, l'état des savoirs*, La Découverte, Paris.
- CAILLÉ, A. (1993) *La démission des clercs*, La Découverte, Paris.
- CALHOUN, C. (ed.) (1992) *Habermas and the Public Sphere*, MIT Press.
- CALLON, M. (1999) 'La sociologie peut-elle enrichir l'analyse économique des externalités? Essai sur la notion de débordement', in FORAY, D. and MAIRESSE, J. (eds) *Innovations et performances. Approches interdisciplinaires*, Editions de l'École des hautes Etudes en Sciences sociales, Paris.
- COLEMAN, J.S. (1990) *Foundations of Social Theory*, Harvard University Press, Cambridge, MA.
- Co-operative Union of Canada (1985) *Social Auditing: A Manual for Co-operative Organisations*, CUC, Social Audit Task Force, Toronto.
- DEFOURNY, J., FAVREAU, L. and LAVILLE, J.-L. (eds) (1998) *Insertion et nouvelle économie sociale. Un bilan international*, Desclée de Brouwer, Paris.
- DE TOCQUEVILLE, A. (1991) *De la démocratie en Amérique*, Gallimard, Paris.
- DI MAGGIO, P. and POWELL, W.W. (1993) 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', *American Sociological Review*, vol. 48, 147-60.

- EME, B. (1994) 'Insertion et économie solidaire', in EME, B. and LAVILLE, J.-L. (eds) *Cohésion sociale et emploi*, Desclée de Brouwer, Paris.
- (1993) 'Lecture d'Habermas et éléments provisoires d'une problématique du social solidariste d'intervention', mimeograph, CRIDA-LSCI, IRESCO-CNRS, Paris.
- ENJOLRAS, B. (1996) 'Associations et isomorphisme institutionnel', *Revue des études coopératives, mutualistes et associatives*, vol. 75, 261: 68–76.
- EVERS, A. (1997) 'Le tiers-secteur au regard d'une conception pluraliste de la protection sociale', in *Produire les solidarités. La part des associations*, MIRE – Rencontres et Recherches, Paris.
- (1995) 'Part of the Welfare Mix: The Third Sector as an Intermediate Area', *Voluntas*, vol. 6, 2: 159–82.
- EVERS, A. and SCHULZE-BÖING, M. (1998) 'Mobilising Social Capital – The Contribution of Social Enterprises to Strategies against Unemployment and Social Exclusion', paper for an EMES Seminar, Brussels.
- FOURASTIÉ, J., Préface à GASPARD, M. (1998) *Les services contre le chômage*, Syros, Paris.
- GIDDENS, A. (1994) *Beyond Left and Right, The Future of Radical Politics*, Polity Press, Cambridge.
- GODBOUT, J. and CAILLÉ, A. (1992) *L'esprit du don*, La Découverte, Paris.
- GRANOVETTER, M. (1992) 'Economic Institutions as Social Constructions: a Framework for Analysis', *Acta Sociologica*, 35.
- (1985) 'Economic Action and Social Structure: The Problem of Embeddedness', *American Journal of Sociology*, vol. 91, 3: 481–510.
- GUI, B. (1995) 'On 'Relational Goods': Strategic Implications of Investment in Relationships', Dipartimento di Scienze Economiche, Università di Venezia.
- (1991) 'The Economic Rationale for the Third Sector', *Annals of Public and Co-operative Economics*, vol. 62, 4: 551–72.
- HABERMAS, J. (1992) *L'espace public, 30 ans après* (French translation), *Quaderni*, no. 18, autumn, 161–88.
- (1988) 'Vingt ans après: la culture politique et les institutions en RFA', *Le Débat*, September–October, Gallimard, Paris.
- (1986) *L'espace public*, Payot, Paris.
- (1974) 'The Public Sphere', in *New German Critique*, no. 3.
- HANSMANN, H. (1996) *The Ownership of Enterprise*, Harvard University Press, Cambridge.
- (1987) 'Economic Theories of Nonprofit Organisations', in POWELL, W. (ed.) *The Nonprofit Sector, A Research Handbook*, Yale University Press, New Haven, 27–42.
- HARRIS, J. and DE RENZIO, P. (1997) 'Missing Link or Analytically Missing?: The Concept of Social Capital', *Journal of International Development*, vol. 9, 7: 919–37.
- JAMES, E. and ROSE-ACKERMAN, S. (1986) *The Non-profit Enterprise in Market Economies: Fundamentals of Pure and Applied Economics*, Harwood Academic Publishers, London.
- KRAMER, R.-M. (2000) 'A Third Sector in the Third Millennium?', *Voluntas*, vol. 11, 1: 1–24.
- LAVILLE, J.-L. (1992) *Les services de proximité en Europe*, Syros Alternatives, Paris.
- LAVILLE, J.-L. (ed.) (1994) *L'économie solidaire*, Desclée de Brouwer, Paris.
- LAVILLE, J.-L. and GARDIN, L. (eds) (1996) *Les initiatives locales en Europe. Bilan économique et social*, Commission européenne, CRIDA-LSCI, CNRS, Paris.
- LAVILLE, J.-L. and NYSENS, M. (2000) 'Solidarity-Based Third Sector Organizations in the 'Proximity Services' Field: A European Francophone Perspective', *Voluntas*, vol. 11, 1: 67–84.
- LAVILLE, J.-L. and SAINSAULIEU, R. (eds) (1998) *Sociologie de l'association*, Desclée de Brouwer, Paris.
- LAVILLE, J.-L., BORZAGA, C., DEFOURNY, J., EVERS, A., LEWIS, J., NYSENS, M. and PESTOFF, V. (2000) 'Tiers système: une définition européenne', in *Les entreprises et organisations du troisième système. Un enjeu stratégique pour l'emploi*, Action pilote 'Troisième système et emploi' de la Commission européenne, CIRIEC, Liège, 107–30.
- LEVESQUE, B. (1997) 'Démocratisation de l'économie et économie sociale', in LAFLAMME, G., LAPOINTE, P. A. et al. (eds) *La crise de l'emploi. De nouveaux partages s'imposent !*, Presses de l'Université Laval, Québec.
- LEVESQUE, B. and VAILLANCOURT, Y. (1998) 'L'institutionnalisation de la nouvelle économie sociale au Québec: une diversité de scénarios dans un contexte institutionnel relativement favorable', Université du Québec à Montréal.
- LIPIETZ, A. (1996) *La société en sablier*, La Découverte, Paris.
- MAHEU, L. (1991) 'Identité et enjeux du politique', in MAHEU, L. and SALES, A. (eds) *La recomposition du politique*, L'Harmattan, Paris; Les Presses universitaires de Montréal, Montréal.
- MAPPA, S. (ed.) (1995) *Développer par la démocratie?*, Karthala, Paris.
- MAUCOURANT, J., SERVET, J.-M. and TIRAN, A. (1998) *La modernité de Karl Polanyi, introduction générale*, L'Harmattan, Paris.
- MAURICE, M., SELLIER, F. and SILVESTRE, J.-J. (1982) *Politique d'éducation et organisation industrielle en France et en Allemagne*, PUF, Paris.
- MAUSS, M. (1923) 'Essai sur le don. Forme et raison de l'échange dans les sociétés archaïques', *L'Année sociologique*, Paris.
- MERRIEN, F.-X. (1990) 'État et politiques sociales: contribution à une théorie néo-institutionnaliste', *Sociologie du travail*, vol. 32: 3.
- MILGROM, P. and ROBERTS, J. (1992) *Economics, Organisation and Management*, Prentice Hall International, Englewood Cliffs.
- MINGIONE, E. (1991) *Fragmented Societies, a Sociology of Economic Life Beyond the Market Paradigm*, Basil Blackwell, Oxford.
- OECD (1996) *Reconciling Economy and Society. Towards a Plural Economy*, OECD, Paris.
- ORTMANN, A. and SCHLESINGER, A.M. (1997) 'Trust, Repute and the Role of Non-Profit Enterprise', *Voluntas*, vol. 8, 97–119.
- PACI, M. (1999) 'Alle origini della imprenditorialità e della fiducia interpersonale nelle aree ad economia diffusa', in LAVILLE, J.-L. and MINGIONE, E. (eds) 'Nuova sociologia economica. Prospettiva europea', *Sociologia del Lavoro*, 73.
- PERROUX, F. (1960) *Économie et société, contrainte-échange-don*, PUF, Paris.
- PESTOFF, V.A. (1998) *Beyond Market and State, Social Enterprises and Civil Democracy in a Welfare Society*, Ashgate, Aldershot.
- POLANYI, K. (1997) *The Livelihood of Man*, Academic Press, New York.
- (1983) *La grande transformation. Aux origines politiques et économiques de notre temps* (French translation), Gallimard, Paris.
- PRESTON, A. (1993) 'Efficiency, Quality and Social Externalities in the Provision of Day Care: Comparisons of Nonprofit and For-Profit Firms', *The Journal of Productivity Analysis*, 4: 164–82.
- PUTNAM, R.D. (1993a) 'The Prosperous Community: Social Capital and Public Life', *The American Prospect*, vol. 13: 35–42.

- (1993b) *Making Democracy Work. Civic Traditions in Modern Italy*, Princeton University Press, New Jersey.
- RAZETO, L. (1988) *Economía de solidaridad y mercado democrático*, Libro tercero, Fundamentos de una teoría económica comprensiva, PET, Santiago de Chile.
- ROSE-ACKERMAN, S. (ed.) (1986) *The Economics of Non-profit Institutions. Structure and Policy*, Oxford University Press, New York.
- SABEL, C. and the LEED Programme, Ireland (1996) 'Partenariats locaux et innovation sociale', OECD, Paris.
- SALAMON, L. (1987) 'Of Market Failure, Voluntary Failure, and Third Party of Government Relations in the Modern Welfare State', *Journal of Voluntary Action Research*, vol. 16, 2: 29-49.
- STROBEL, P. (1995) 'Service public, fin de siècle', in GREMION, C. (ed.) *Modernisation des services publics*, Commissariat général du plan, Ministère de la recherche, La Documentation Française, Paris.
- TOURAINÉ, A. (1973) *Production de la société*, Le Seuil, Paris.
- VIVIANI, M. (1995) 'Tools of Co-operative Identity - Fixing Values in Turbulent Conditions: the Case of Lega della Co-operative', ICA Conference paper, Manchester.
- WEBER, M. (1991) *Histoire économique. Esquisse d'une histoire universelle de l'économie et de la société* (French translation), Gallimard.
- (1918) *Essai sur la théorie de la science* (French translation 1959), Plon, Paris.
- WILLIAMSON, O.E. (1975) *Markets and Hierarchies*, Free Press, New York.
- World Bank (1997) *Annual Report*, Oxford University Press, Oxford.
- ZUKIN, S. and DI MAGGIO, P. (1990) *Structures of Capital: The Social Organisation of the Economy*, Cambridge University Press, Cambridge.

19 Management challenges for social enterprises

Carlo Borzaga and Luca Solari

Introduction

As the number of social enterprises in Europe grows, the managers who run them are faced with an increasingly difficult task. Not only must they establish their organisations and legitimate them, but they must also find suitable ways to manage their key assets including their social mission and efficiency constraints, committed volunteers and employees, and enlarged governance structures. As shown in previous chapters, social enterprises are different not only from for-profit and public-sector organisations, but also from traditional non-profit ones (Steinberg 1997). While traditional non-profit organisations still struggle with problems related to their multi-faceted identities (Young 2000), social enterprises are faced by tougher challenges. They embody a new form emerging in an institutional and competitive arena which appears to be rapidly changing, and in which they must frequently compete with public sector, for-profit and traditional non-profit organisations. They share with traditional non-profit organisations the problem of defining a perceived and recognised external and internal identity (Young 2000) which is harder to bring into focus because of the hybrid and poorly defined nature of the social enterprise form. This hybrid nature is reinforced by various factors among which the following are prominent:

- A social enterprise is 'essentially a (private) organisation devoted to achieving some social good' (Young 2000: 18) and which must furthermore incorporate, besides the traditional resources of non-profit organisations (donations and voluntary participation), commercial revenue (originating both from public and private customers and founders) and business activity. As Preston (1989a) shows, when modelling the behaviour of for-profit and non-profit organisations, non-profit organisations end up specialising in the production of goods with some positive externalities. This is consistent with the view set out in the theoretical chapters of this book insofar as social enterprises provide private goods with positive externalities or with a redistributive component, and therefore increasingly allow 'for private sector firms to compete by selling a similar good in the market' (Kingma 1997: 140). For-profit organisations may in fact provide the same good by