Chapter 4
Social Enterprises and Local Economic Development

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Following many years of development in various forms, a comprehensive and coherent legal framework for social enterprises has recently been introduced as a new legal category in the United Kingdom and in Italy. Their nature, which has been characterised in law by the presence of an explicit social aim, a multi-stakeholder nature of governance, a non-profit constraint and an asset lock, has been partly analysed, though much work is still needed in order to correctly define the economic role of this new typology of firm. Still to be explored in particular is the role of social enterprises in local economic development.

This chapter maintains that the basic economic features listed above are all conducive to a vocational role in the processes of endogenously driven local development, since at least the asset lock and the system of multi-stakeholder governance are best suited to sustain local integration and a bottom-up approach to development.

Introduction

Over recent decades, the number of organisations with an explicit social aim and innovative proprietary structure has increased and the scope of their activities has widened. Non-profit organisations, both in North America and in Europe have become more entrepreneurial and strengthened the commercial activities linked to their social mission. They have often developed as community organisations serving the needs of specific localities (OECD, 1999; Borzaga and Defourny, 2001; Anheier and Ben-Ner, 2003). Mostly in European countries, but also in some American nations, social enterprises are helping to fill the gap left by both the inability of the public welfare system to cover all the demands of social services and other public services and the unwillingness and lack of interest of for-profit firms to enter less profitable activities.

The evolution of social enterprises is traced back to non-profit organisations working exclusively or primarily on the basis of financial donations and volunteer work. The strong growth at the end of last century of both paying demand and support by public authorities, especially via direct subsidies and contracting-out practices, represented the main route through which non-profit organisations acquired an entrepreneurial character. This entrepreneurial spirit was sustained in different and innovative ways, for example by lowering the prices of services and through the distribution of resources to clients and beneficiaries not able to pay for the competitive market price.

During the 1990s, entrepreneurial social ventures acquired a more defined institutional character. In some national systems, such as the American system, social enterprises are not recognised by law explicitly, but an operative distinction is highlighted in the literature singling out the relevance of social entrepreneurship,[1] which concerns the production of both private and quasi-public goods with relevant social implications (Young, 2000; Kerlin, 2006). Ever since social co-operatives were formally introduced in Italy in 1991, across various European countries and some American nations such as Canada, social enterprises developed predominantly as social co-operatives. The final step of this process of institutional evolution is represented by the recent European legal definitions of social enterprise, as implemented in the United Kingdom[2] and in Italy[3] in 2005. This chapter will focus discussion around these two examples. In both countries, social enterprises are institutionalised as cross-ownership forms since they can take the form of co-operatives, non-profit organisations and investor-owned firms subject to the non-profit constraint.

In both laws, social enterprises are characterised by their social aim, a stringent non-profit constraint and an asset lock. The social aim has to be recognised either by a national regulatory agency (as in the United Kingdom) or included in a closed set of sectors defined by law (as in Italy). Social enterprises are expected to produce quasi-public goods[4] with meritorious character. In other words, they produce positive externalities directed towards the improvement of social relations and to the preservation of the historical, cultural and environmental patrimony.

As for the diffusion of social enterprises to date, social co-operatives represent the most widespread form in Italy. They numbered 7 363 in 2005 and employed about 240 000 paid workers, and around 30 000 volunteers (ISTAT, 2007). They served 3.3 million users and customers, while their turnover has reached EUR 7 billion. In the United Kingdom, three years after that the law on Community Interest Companies (CIC) came into force, almost 2 000 companies have been approved by the CIC regulator. However, it should be noted that CICs form only a relatively small proportion of the total volume of social enterprises in the United Kingdom. Social enterprises can be seen as entrepreneurial ventures in a strict sense, though of a specific kind. The identification and implementation of new solutions directed to the satisfaction of the community's needs can be accomplished by setting up specific organisational forms different from public and for-profit forms. These new entrepreneurial entities (social enterprises) need to be economically and financially sustainable over the longer term. Viability is reached through a sustainable equilibrium between costs and revenues, though the pursuit of the profit is not excluded when net surpluses are necessary to make investments and develop entrepreneurial activities.

The nature of the services provided is particularly relevant since collective and common goods and services are often produced in the presence of market imperfections due to information asymmetries, free-riding, market power, and positive externalities.[5] Non-excludability and/or non-rivalry induce under-provision by the private sector[6] because of the difficulty to fix prices in the presence of free-riding, which can cause the non-existence of the specific market. When the public sector cannot cope with the demand for public and quasi-public goods because of financial constraints or because of information asymmetries and contract incompleteness, social welfare is reduced. The under-provision of quasi-public goods is likely to be particularly severe in sectors like health-care and social services.

There have been various analyses of the relevance of social enterprises (Borzaga and Defourny, 2001; Anheier and Ben-Ner, 2003; Borzaga and Spear, 2004; Noya and Clarence, 2007), but few are comprehensive,

especially when the role of these organisations in the local economic development process is considered.[7] The main reasons for the relevance of social enterprises in local development are found in the typology of services produced and their positive externalities at the local level. Some of these services may be produced by other organisational forms (for-profit and public), but often at higher costs or in a less effective ways due to contract and market imperfections. In this context, social enterprises are characterised by various institutional features that are just directed to alleviate the shortcomings of public and for-profit provision. Among these, three have paramount importance:

- **The social objective.** This is stated in their statutes, or is implied by the public benefit nature of the sector of operation.
- **Non-profit in nature.** This is underpinned by the imposition of the distribution constraint (by excluding purely commercial interests) and tends to limit the objectives of the organisation to public-benefit and social aims. The constraint also implies the impossibility of selling the organisation and an increased difficulty in delocalising it because of the asset lock.[8]
- **Participation in the ownership of different actors and multi-stakeholder governance.** These factors are widespread in some national systems and entail the proactive involvement of the main actors linked to the organisation in its activities and governance. This way, local and personal ties (Granovetter, 1973; Granovetter, 1985) can directly contribute to the dimensions of the objectives of the organisation and preserve the public interest aim with a consequent impact on local development.

In other words, since most groups of stakeholders are embedded at the local level, social enterprises mainly meet localised needs. This way, they are able to increase social welfare provision at the local level through action which increases income and employment, and promotes redistributive activities. Because of the embeddedness of personal linkages, the satisfaction of localised needs and of the asset lock, the activities undertaken by social enterprises are often relatively immobile. Hence they represent a more rooted and permanent source of development, which are less at risk of delocalisation compared to traditional manufacturing activities for instance.

This chapter consists of seven sections. The first section highlights some of the main features of the legal definitions given by the United Kingdom and Italian laws to social enterprises. The second section discusses the theory of firms to highlight shortcomings that represent obstacles to defining an appropriate economic role for social enterprises. The third section builds

on section two by highlighting how property rights and governance can impact on the allocative and distributive mechanisms of an organisation's surplus. The fourth section introduces and critically discusses the concept of local economic development and its historical evolution. The fifth section defines an appropriate role for social enterprises in the endogenously-driven processes of economic development. Section seven presents some conclusions following the discussion of the main policy implications of the diffusion of social enterprises in section six.

The legal framework of social enterprises in the United Kingdom and Italy

Social enterprises now exist in many countries in many different legal forms, with social co-operatives and associations perhaps the most prevalent. To better understand the role of social enterprises, it is necessary deepen the understanding of their institutional features, which have been well-defined in United Kingdom and Italian law. In both, social enterprises are transversal organisational forms characterised by their social objective and not by their ownership type. They can take the form of traditional non-profit organisations, co-operatives or investor-owned firms. All three categories have to respect the constraints imposed by law.

The United Kingdom 2005 law on CICs states that "a CIC is a new type of company, designed for social enterprises that want to use their profits and assets for the public good. CICs will be easy to set up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community" (CIC Regulator, 2005). In the United Kingdom, there is not a sectoral limitation to their operation, but the CIC Regulator is tasked to accept or reject any application concerning the start-up of a new social enterprise and decides on the basis of the public benefit aim of the activity. Chapter one discusses this in greater detail.

The features of CICs that are particularly relevant for this study are the objective of the organisation (which is to ensure the development of the local community) and the asset lock. While the necessity to meet community needs is enshrined in the definition of the company, the latter aspect requires more clarification. CICs are asset locked bodies which cannot transfer or sell their assets apart from other asset locked bodies. In simple terms, it means that their patrimony is created and increased by recurring to indivisible reserves of capital, which are exclusive ownership of the organisation. Hence, the patrimony is exclusively directed to the pursuit of the social aim and cannot be appropriated by anybody (trustees, managers,

donors, employees, volunteers, users, beneficiaries, local authorities and so on) neither during the life of the organisation nor when it ceases to exist. In this latter case, the residual patrimony has to be transferred to other asset locked bodies.[9] With only very limited exceptions, such as the payment of dividends on suitably capped investor shares and the reimbursement of paid up capital upon liquidation, a CIC's assets cannot be paid back to its members unless they are themselves asset locked bodies. They can nonetheless use their assets to cover losses since CIC are intended to be firms with limited responsibility in the full legal sense of the term. Goods and services need to be bought and sold at their market value. This means that the Regulator will not permit inflated raw material, labour and managerial skills costs and the sale of goods and services at lower than market prices to persons or organisations linked to the specific CIC so as not to deplete the value of the locked assets. However, this requirement can be broadly interpreted. For example, a CIC will be allowed to sell its assets to other asset locked bodies and provide services to clients at less than market value when it needs to increase cashflow for liquidity reasons. The treatment of commercial and other economic relations between CICs and other asset locked bodies such as charities is different. In this case, the risk of private appropriation through higher labour costs or lower output prices is absent. Moreover, goods and services may be sold at less than market value on the basis agreements between different organisations concerning, for example, the use of labour services supplied by volunteers resulting in a reduction of production costs.

Dividends paid by CICs on investor shares are subject to a cap which is 5% higher than the Bank of England base lending rate. This cap is calculated on the paid up value of the shares and hence includes any premium paid above the face value. The only exception is represented by the payment of dividends to other asset locked bodies, which is free from any constraint. A second constraint is represented by the aggregate dividend cap, which is equal to 35% of distributable profits. No more than 35% of the total net yearly surplus can be appropriated by the owners of a CIC's shares even if this limitation reduces the remuneration of shares below the interest rate approved by the organisation. In other words, the two constraints (the dividend cap and the aggregate dividend cap) need to be met at one and the same time. A final constraint is represented by the ability to carry forward unused dividend capacity from year to year. This possibility is accepted by the law but only up to four years following the accounting period in which dividends where not fully paid. Hence, dividends that respect both the initial two constraints and that are not paid in a specific period can be added to the dividends calculated in the following four years.

As for Italian law (No. 118/2005), as confirmed by the legislative decree No. 155/2006, social enterprises are defined as: "private organisations … that carry out an organised economic activity aiming at the production and exchange of goods and services with public utility, directed to the accomplishment of general interest ends." Italian social enterprises cannot be controlled directly or indirectly by public bodies or by private for-profit firms. As stated, they can also only work in a closed list of sectors as defined by law. The list includes mainly health care and social services, together with cultural and educational services, and environmental protection.[10] The asset lock is also present in the Italian system in a very similar form as for CICs. Differences are of minor relevance since, as in the United Kingdom case, social enterprises do not redistribute profits or reserves of capital. The preclusion concerns direct distribution to financial supporters and members, but also the indirect distribution to other organisations, managers and workers. Besides, the managers of these organisations (e.g. investors in capitalistic firms) cannot receive any portion of the surplus through remuneration of the invested capital quotas.[11] Direct distribution is ascertained when financers without any controlling powers are paid more than the reference interest rate plus 5%, while the capital invested by controlling stake-holders cannot be remunerated. At the same time, indirect distribution wages cannot be higher than the level established for similar occupations in general industrial relations agreements, unless the higher remuneration can be justified on the basis of specific needs or skills of the workforce.

Profits and other positive net surpluses or capital gains need to be reinvested to pursue the social objective or to increase the assets of the firm. In case of dissolution, the residual patrimony needs to be conferred either to other social enterprises, or to non-profit organisations. In the case of mergers or acquisitions, if the resulting organisation is not a social enterprise, the non-profit nature and asset lock must be preserved, and the resulting organisation should retain a public benefit character.

As for governance, the two national laws concentrate primarily on the definition of the aim of the activities, of property rights, and on the financial and economic constraints that social enterprises must adhere to. Other issues of governance are considered only tangentially and in connection with specific aspects of their operation. Most notably, in United Kingdom law, control over social enterprises is explicitly excluded for financial supporters who have their capital remunerated and for for-profit firms and public bodies in Italian law. Furthermore, multi-stakeholder governance is required by Italian law, which states that social enterprises need to provide adequate engagement with clients (users) and workers. Beyond these important insights, both laws do not deliver a comprehensive framework for

governance, but after the initial legislative steps, this issue is likely to be taken up again in future legislative interventions. This chapter follows a similar scheme and does not consider governance a central issue in need of analysis. Various insights, however, will be given, since new evidence is already emerging from case studies. This evidence that shows that many social enterprises have been able to trespass the general framework defined by law and have introduced innovative governance schemes in their statutes. The involvement of different actors in the governance of the organisation, i.e. the issue of multi-stakeholdership, deserves particular attention since most social enterprises require active participation by different subjects to fulfil their social mission. Multi-stakeholder governance is indeed observed in many instances of social enterprises. As it will be explained in greater detail in the following sections, the exclusion of the profit motive, the necessity to involve different actors in the activity of the organisations and control deferred to actors different from investors are likely to be conducive to this kind of governance solution (Depedri, 2007, Sacchetti and Tortia, 2008).

These institutional features strongly support an active role for social enterprises not only in the provision of goods and services of general interest, but also in local development processes. In the United Kingdom, social enterprises are defined by law as community companies. In Italy, social enterprises develop similar strong linkages with the community, since the subjects controlling them are locally-based and usually serve objectives relevant to the local level. Limitations to participation in regulated financial markets also make them dependent on localised financial sources. It is possible to delocalise a social enterprise even in the presence of an asset lock, for example, through mergers and acquisitions, or through the devolution of the patrimony of dissolved activities to other asset locked bodies. However, delocalisation and the creation of trans-local (e.g. regional or national) organisations are rare since stakeholders and administrators are unlikely to be interested in losing control over the asset lock. The asset lock also reduces the ability of owners to sell the organisation to obtain its market value. As a result, the assets at the disposition of the community are increased. The nature of the services produced, which have often a relational character, is also important. The high relational intensity requires the development of personal ties at the local level. Delocalisation would imply a complex process of replacement and the development of new ties. Similarly, it is expected that the multi-stakeholder governance and participation processes will be, in most cases, a sufficient guarantee for the firm to remain locally embedded and to maintain its role in the local system.

Social enterprises in the theory of the firm

Building on previous work (Borzaga and Tortia, 2007), it is possible to improve the understanding of the emergence and the diffusion of social enterprises by going beyond the boundaries of the traditional theory of the firm at least in two respects: i.) by redefining the objectives and nature of entrepreneurial ventures, and; ii.) by giving a more realistic picture of the motivational complexity which drives economic actors. While neoclassical thinking considers firms as mere production functions, the new institutionalist school, which has devoted some attention to the study of organisations controlled by subjects other than investors (Hansmann, 1996), considers non-profit organisations as important given the existence of market failures.[12] For example, in the presence of asymmetric information, customers may be mistreated by for-profit firms through higher prices and reduced quality. Non-profit organisations and social enterprises, given their non-profit nature, have no incentive to increase profits and reduce quality by exploiting information advantages and other market imperfections. Hence they may be preferred by customers and users in many instances since the exclusion of the profit motive favours the development of fiduciary relations (Hansmann, 1996). However, because of the absence of the profit motive driving the entrepreneurial venture they lack adequate incentives to be efficient and are bound to be marginalised as competition and market regulation advance. Both competition and market regulation are understood by new-institutionalist economics to favour the spread of for-profit firms. Increased competition reduces problems linked to the presence of market power since it supports increased production and lower prices. The high-powered incentive represented by the pursuit of the profits increases the efficiency of for-profit firms, which are then favoured in a competitive environment. As a consequence, not-for-profit organisations, since they do not exploit market power in their favour, may be selected against by customers as competition tightens. Regulation, on the other hand, improves the protection of customers against the exploitation of market imperfections (e.g. asymmetric information) by firms by imposing standards of quality that are universally applied. The spread of for-profit firms is again favoured because customers feel protected by the rules and can be confident in choosing them.

Notwithstanding these theoretical arguments, social enterprises can also grow and diffuse when production does not suffer from market failures. Other elements also need illuminating and relate to the different way in which they are able to implement production processes and to create surplus. For example, social enterprises can be able to create trust relations with customers and their governance is based on the involvement of all the relevant stakeholders and on the valorisation of the intrinsic motivations of

workers and managers, more than on extrinsic and monetary motivations (Rose-Ackerman, 1996; Young, 1983; Young, 1997; Borzaga, 2003).

First, it can be shown that profit maximisation is not the only possible objective for entrepreneurial ventures. It also cannot be the unique yardstick for efficiency since there is now a large amount of evidence showing that organisations with non-profit objectives can nonetheless grow, substitute public provision and often compete with for-profit firms. The strong implication of this evidence is that a more general conception of the firm is needed; one that considers entrepreneurial ventures as co-ordination mechanisms whose governance is geared to solving economic or social problems through the production of goods and services (Borzaga and Tortia, 2009). Firms can be understood as evolving institutional structures comprised of rules and processes that the evolutionary theory defines as "organisational routines" (Nelson and Winter, 1982; Hodgson, 1993; Hodgson, 2003; Hodgson, 2006).[13] The design of new routines improves the adaptive ability of organisations through better co-ordination between interested actors and a better match between motivations and objectives (Hodgson and Knudsen, 2006).

Second, actors with an active role in the firm are not exclusively driven by economic motives and self-interest, but also by motivational complexity whose defining features are more difficult to pin down than traditional theories assumed (Sen, 1977; Sugden, 1991). Intrinsic, altruistic, relational and process-related preferences (Ben-Ner and Putterman, 1999; Borzaga and Depedri, 2005) must also be considered as drivers alongside pure economic rewards and self-interest. Within the organisation, individual motivations and firm objectives are matched through the implementation of appropriate incentive mixes (Borzaga and Mittone, 1997; Bacchiega and Borzaga, 2001; Bacchiega and Borzaga, 2003) that can be both monetary and non-monetary. Incentives should closely correspond with the set of organisational routines and governance solutions implemented by each organisation. Corporate culture can help to align motivations and incentives. Corporate culture itself can be seen as an individual's acclimatisation to organisational routines and corporate values (Kreps, 1990). It emerges as the main social and psychological underpin and by-product of the organisational framework. Individuals become accustomed to organisational routines and corporate culture through acclimatisation and the learning of both codified and tacit knowledge and processes. They do not need to learn the whole set of behaviours that make up organisational routines, but only those elements which, together with elements learned by all the other individuals, ensure the organisation functions. Hence, routines are to be interpreted as procedural equilibria emerging out of the interaction of differently motivated individuals within the organisation.

Social enterprises represent a peculiar and new synthesis of both aspects, since their essence is found not in the maximisation of the economic value of the activity, but in the satisfaction of social needs. Governance is perceived as a way to serve this specific aim. Hence, organisational routines cannot be exclusively based on the management of self-interested motivations by means of hierarchy, control and monetary incentives. Instead, organisational routines also need to attribute value to non-monetary motivations through suitable processes of involvement of both workers and customers. Both limitations can be overcome by implementing proper incentive mixes based not only on monetary incentives, but also on intrinsic and relational incentives (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006). These incentives should promote organisational objectives that are different from the profit motive.

Given these theoretical premises, while social enterprises are not expected to work across the spectrum of sectors that make up the economic system, it can be stated that their potentials are realised through an improved ability to produce goods and services in public benefit sectors, often of a non-standardised kind and with a high relational content. Social enterprises have already been growing over the last ten years in these areas of activity, as formalised by Italian and United Kingdom laws. They increase the supply of quasi-public (collective and common) goods by perceiving and satisfying needs better than more traditional ownership forms thanks to a different ownership and governance model. They also show an ability to strengthen trust relations and sustain the accumulation of social capital through positive externalities and spills-over that primarily benefit local systems. In this context, the role of the non-distribution constraint rests not with the reinforcement of trust relations in the presence of asymmetric information alone (Hansmann, 1996), but instead with the stabilisation of the firm's activity in the long run. This stability is accomplished by devoting capital to production objectives with a social character. Furthermore, the non-profit constraint creates the basis for the development of an incentive mix which stresses the relational and intrinsic aspects of the firm's activity, not just monetary rewards (Borzaga and Tortia, 2006). In this respect, it represents a signalling device for workers and customers seeking non-traditional productive solutions.

By implementing non-traditional ownership, governance and financial solutions, social enterprises can help increase overall social and economic welfare where neither the state, nor private for-profit firms are able to do so in an efficient and effective way. Their contribution is given both directly by way of the increased production of goods and services which increase output and employment, and, indirectly, by way of positive externalities and accumulation of social capital, which benefit the local system as a whole.

When these conditions are fulfilled and social enterprises are able to serve their role of support to economic development, a cumulative process gains momentum. The increased surplus produced, which benefits a wider range of subjects, creates new resources that can be plugged back into the firm activities by way of reinvestment processes. This process reinforces the effectiveness of the institutional set-up as a whole.

The allocative function of social enterprises

Previous sections showed that social enterprises do not take as their main objective profit maximisation, but instead the satisfaction of socially relevant needs under the constraint of economic sustainability. This shift in the objectives of the organisation can have visible implications in terms of resource allocation and output. This is notable where competition defines prices ambiguously, since in this case, different modalities of allocation and distribution of resources are compatible with the survival and growth of the organisation. When market competition is not perfect, either because of some degree of monopoly, or because of asymmetric information, for-profit firms are expected to increase prices and to reduce supply in both quantitative and qualitative terms. This is because by doing so they are able to increase their profitability. When social enterprises are considered, in the absence of the profit motive, an increase in prices and the reduction of supply are not necessary implications since they are less inclined to exploit market power. Their survival depends more strictly on trust relations with costumers, volunteers and financiers. If prices were increased and quality reduced, social enterprises would be perceived as opportunistic and relations with users and the local community would be damaged. In these cases, relations would be considered instrumental to the pursuit of private ends and the organisation would not be able to gather consensual support by way of trust, reputation and prestige.

Furthermore, the way in which social enterprises allocate their resources can be different from what is traditionally observed in for-profit firms. When an organisation does not maximise its profits, but pursues instead the satisfaction of socially relevant needs, goods and services can be supplied to a wider set of consumers and users since lower prices favour the accomplishment of increased production. This way, distribution can be extended to weak social groups with a low ability to pay.

Additional resources like voluntary labour and donations can be used to increase the supply of public and quasi-public (i.e. common and collective) goods and to support the process of local development. Non-market transactions based on the at least partial distribution of free resources become possible outcomes. Hence, a different allocative behaviour becomes

apparent with respect to for-profit firms with positive effects on employment and welfare. The potentialities of social enterprises as community organisations begin to take shape. For-profit firms cannot intervene in the same way just because they are driven by the requirement to increase returns on investments for private appropriation. The focus on private appropriation prevents them from having access to additional resources, such as unpaid and underpaid labour, to pooled resources and to devoting an appropriate part of their value added to social purposes. Hence, only in exceptional circumstances do they tend to allocate any part of their resources to the production of socially relevant goods and services. At the same time, they are less prepared to distribute resources to weak and disadvantaged social groups. By contrast, since the satisfaction of social needs is the main objective of social enterprises, a much bigger slice of their surplus is directed to fulfil it.

It is important to consider, the exclusion of the profit motive and the tendency not to profit maximise. In particular, they should be discussed in conjunction with the ability of social enterprises to overcome the under-supply of quasi-public goods and the presence of various market and contract imperfections that often hinder adequate provision by the public sector and for-profit firms. Social outcomes are obtained largely thanks to the socialisation of resources in the form of socialised capital. They are supported by public subsidies, volunteer work and financial donations, which can be increased by the involvement of different actors in the governance of the organisation. While the socialisation of resources reinforces trust relations and helps to overcome the problem of free-riding (Weisbrod, 1977; Weisbrod 1988), involvement processes can alleviate the problem of contract incompleteness and asymmetric information. This is because the empowerment of different stakeholders allows a better circulation of information and reduces opportunism. Furthermore, the allocative behaviour can be different from what is traditionally observed in competitive markets since goods and services can be supplied to a wider set of consumers and users than market equilibrium would allow. Here, production is increased thanks to lower prices and distribution is extended to weak social groups with a low ability to pay. Additional resources can be used to support the process of local development and the nature of a social enterprise as a community organisation begins to take shape. For-profit firms cannot intervene with the same allocative and distributive modalities, since their main objective is to increase profits for private appropriation. This is hardly compatible with the socialisation of resources and the involvement of non-investor stakeholders. Indeed, in general terms, for-profit firms are forced to increase profits as much as possible in order not to weaken their competitive position and not to reduce the market value of the organisation. Their tendency to privately appropriate any surplus and to

exacerbate contrasting interests and asymmetric information (Jensen and Meckling, 1976) put for-profit organisations at a disadvantage in sectors where a degree of socialisation of resources is required and market imperfections are severe. At the very least, for-profit organisations will find more difficulties in obtaining public support, and labour and financial donations.

This is especially true in the case of meritorious goods, which are the most traditional type of goods produced by non-profits and social enterprises (Weisbrod, 1988). Meritorious goods are characterised by the production of important positive externalities, which lead to under-provision by private producers. When donations are not sufficient to guarantee economic sustainability both subsidisation by local authorities and price discrimination[14] may be necessary to meet high fixed costs. Support by the local community is usually granted by the nature of the goods and services produced and by the better utilisation of public money relative to public provision. Public supply finds its main obstacles, beyond budget constraints, in the difficulty to overcome contract incompleteness and asymmetric information due to the limitation of involvement processes. By contrast, social enterprises are expected to reduce costs. To meet this requirement, they must increase efficiency, innovation and productivity, which boost surpluses relative to the public sector.

In summary, the different allocative mechanisms, which result in a distributive function of social enterprises, are affected primarily by renouncing profit as their main objective. The main objective of social enterprises is instead the satisfaction of social needs. The absence of the profit motive also implies a lower propensity to exploit market power and overcome various market imperfections, such as the presence of asymmetric information. The main consequence is that social enterprises distribute resources toward consumers. Social enterprises do not appropriate consumer surplus by means of higher prices and, at least in some cases, distribute resources to individuals who are not able to pay thanks to the ability of social enterprises' to appropriate non-market resources such as voluntary work and grants.

This ability can integrate the redistributive function of public authorities through a better and more efficient use of public resources. This way, poverty and social exclusion are likely to be reduced. Moreover, additional resources are used to produce meritorious goods and services that strengthen social cohesion and trust relations. This favours the accumulation of social capital.

Examples of the different allocative and distributive functions of social enterprises can easily be found both in the United Kingdom and Italy. In

these countries, social enterprises may employ volunteers to maintain and restore cultural and environmental heritage sites, through tourism for example, or to integrate the disadvantaged into the labour market. This can take place through the constitution of a protected work environment or through forms of tutorship for young people by experienced volunteers. These activities often show volunteers and other donors pursuing important social ideals such as supporting local communities and the disadvantaged, whilst they help to implement entrepreneurial activities that would not be accomplished without their assistance. Social enterprises can charge fees for their services or sell their products on the market. In some cases, social enterprises may choose not charge fees for the services they produce, such as for the *Misericordia,* in Florence, Tuscany.[15] Medical assistance by specialised physicians is paid for by free contributions by clients and revenues are high enough to cover costs. In other cases, different activities can be conjugated, since social enterprises supporting cultural tourism can buy goods and services from work integration social enterprises.

These consequences of the organisational and allocative structure of social enterprises are expected to have an impact on local development, and will be discussed in greater detail in section five. Before that, it is important to introduce the concept of local economic development.

A new concept of local economic development

The specific linkage between social enterprises and local economic development can be clearly distinguished only when different aspects of development that are underestimated by economic theory are considered. In general terms, the theories surrounding development can be sorted into two streams. The first looks for exogenous explanatory factors of development, such as direct foreign investments, capital transfers, public interventions, innovation spills-over and infrastructures. The second stream focuses instead on endogenous factors, such as social capital, the valorisation of human capital and other resources present at the local level, together with culturally embedded craft traditions. The role of social enterprises is better-positioned in the latter stream, since its focus is not on flows of material resources and investments, but mainly relates to personal relations, social capital, human resources and on the local demand for services. The resource mix is tapped into organisational objectives which are social and embedded at the local level. As a result they concern development objectives that are defined by the same actors that will benefit from the outcomes. In this sense, social enterprises can represent an important instrument for an endogenously driven process of development.

From a historical perspective, the viewing of endogenous factors as important drivers of development is ascribed initially to Marshall (1920). Marshall introduced the concept of "industrial atmosphere" to explain why development took place in English industrial districts following the industrial revolution. Industrial growth was observed only in specific circumstances and in specific places, while it was absent in others. This perspective was extended to development studies only after several decades, when the literature on industrial districts and endogenous development spread. It runs in the opposite direction with respect to exogenous explanations. This is because a central role is given to firms created from scratch, which are small and relatively inward-looking, at least in the early stages of their evolution. Entrepreneurial initiative and the network of relations, together with culture and institutions, have a central role in explaining development. Local resources, together with the institutional framework, are crucial since industrial growth is likely to become reality only when these factors support it.

The literature on industrial districts is now enormous, and it may therefore be sensible to cite only a small number of the most relevant classics to exemplify this fact (Becattini, 1979; Becattini, 1989; Piore and Sable, 1982; Brusco, 1982; Amin, 1999).[16] Authors showed that geographically localised activities can develop synergies when they are working in similar or complementary sectors in terms of the diffusion of new technologies, scale and scope economies, circulation of information, and accumulation of knowledge. In addition, the labour market and the communitarian context in industrial districts assumed an important role in supporting local development. For example, it was highlighted that a high degree of homogeneity in the labour force, and the possibility and willingness of workers to meet outside the job and to move between different firms in the district, favoured the dissemination of innovative knowledge and practices. This resulted in important system effects and network externalities which supported development.

Efforts understand the role of local factors in development processes were none the less centred around the role of a specific type of actor (the small and medium-sized firm) working mainly in manufacturing activities. However, this approach to understanding development is losing its explanatory capability because the significance of manufacturing activities is shrinking in most economies. Contemporary understanding of the development process requires the consideration of other, non-traditional entrepreneurial actors. Indeed, development can be driven by service production and by collective-benefit objectives that favour the accumulation of social capital (Trigilia, 2001). These non-traditional patterns of development were anomalous in the early stages of economic growth since

manufacturing was sufficient to guarantee increased production. The demand for public goods was generally satisfied by the public sector and the demand for social services was fulfilled mainly by the family. Hence, the intermediate space between the public sector and private manufacture was largely left unexplored. However, recent data clearly shows the continuous growth of this domain in most industrialised countries, also in terms of its weight in relation to the total product. The production of services has acquired a dominant role in all industrialised countries, and its expansion is driven by the structural evolution of demand towards social and meritorious services (Salamon, 1998).[17] For example, service production and not-for-profit activities are acquiring weight in local development because the globalisation of commercial and financial markets requires a more integrated territorial governance. This governance requires all relevant local actors to sustain a quicker and more effective regeneration of former manufacturing areas and to serve other public benefit purposes such as environmental protection (Greffe, 2007).[18]

When endogenous development is considered, the production of quasi-public and meritorious goods and services with a social character becomes important since these kinds of services are likely to represent important development preconditions. This is because they not only satisfy specific social needs, but also favour the accumulation of human and social capital, and the reduction of negative external effects of economic growth, such as marginality and inequality. The strong growth of the demand for personal and community services is evidence of a shift of the focus of development patterns towards areas of operation which are much nearer to the working of social enterprises.

The impact of social enterprises on local development

The relevance of the role of social enterprises in local development is shown by the matching of their development with the growing demand for public interest services that often have a strong personal and relational connotation. Social enterprises are able to socialise resources for the production of quasi-public and meritorious goods to overcome market and contract imperfections. Multi-stakeholdership is an emerging feature of social enterprises. It derives from the necessity to overcome market imperfections through participation practices. These institutional characteristics form the basis of their embeddeness, which is conducive to local development. The network of personal relations can be integrated with involvement mechanisms at the governance level, while socialise capital can support the satisfaction of social needs in the presence of important externalities and other market imperfections.

Entrepreneurship impacts on the quality of local development by acquiring a new and distinctive social role. It is quite clear that this perspective has important linkages with the literature on multi-stakeholder organisations (Freeman, 1984) and corporate social responsibility (Grimalda and Sacconi, 2005). However, stakeholders are not viewed here as mere defenders of specific economic interests. The different "publics" that have a stake in the process of development will value the fairness of procedures whose implementation is intertwined with involvement processes (Tortia, 2007). Objectives common to all the involved actors acquire a central role beyond the specific interest of individual stakeholders. They find a synthesis in new governance solutions and are supported by socialised resources. This way, organisational impasses and contrasts can be curbed and resolved within the boundaries of the organisation. A holistic view is needed to highlight that mere quantitative growth is not sufficient any more to justify consensus. The satisfaction of local needs, the fulfilment of aspirations and the transparency of decision process are indeed as important, if not more important than economic results (Tyler and Blader, 2000; Tyler and Blader, 2003). Indeed, many contributions now show that the growth of income is not sufficient to increase welfare and satisfaction (Esterlin, 1974; Pugno, 2005). If welfare is to be increased then non-monetary, intrinsic elements need to be added to the way in which organisations are governed and stakeholders are motivated. The quality of social relations is also important (Borzaga and Depedri, 2005, Gui and Sugden, 2005) and the possibility to be involved and to define the objectives of development is an integral part of this quality (Frey and Stutzer, 2005). Procedures and their fairness acquire a paramount role in influencing the well-being of the involved actors (Tortia, 2007). The influence of self-interested behaviour, of more traditional economic factors and of the constraints posited by economic sustainability should not be underestimated. This is especially true when the performance of the organisation is considered, but they need to be repositioned and interpreted in a more general and encompassing framework, not considered as the unique objective of the whole system.

Thanks to these institutional specificities and their allocative and distributive consequences, social enterprises are expected to improve the welfare of local systems primarily by increasing the supply of quasi-public goods, which results in increasing employment and production. Since production is also based on trust and involvement, efficiency and effectiveness can be enhanced with limited recourse to more traditional governance forms based either on hierarchy or bureaucracy. The production of socially-oriented services with a high personal content also sustains endogenous development in the medium to long term. This is because a service-driven development model is better suited for contemporary economies than traditional models based on manufacture and the public

sector. From this perspective, the production of services is brought nearer and is tailored to local needs. Embeddedness and proximity acquire features and strengths that reproduced with difficulty by public provision and also, in many cases, by for-profit firms.

Second, social enterprises create new employment at the local level which predominantly favours individuals such as women and young people who may have difficulty moving between localities to find jobs and a higher quality of life. Contrary to a static interpretation of the working of the economic system, social enterprises can indeed create new jobs. Thanks to their peculiar organisational formula, which can be in many cases necessary preconditions for the provision of specific services, any new jobs created are not substitutes for existing jobs. For example, a specific group of social enterprises, named work integration social enterprises, has as their aim the creation of new jobs for unemployable or near unemployable workers, a typology of service which, up until now, has not been reproduced by traditional (public and for-profit) proprietary structures (Nyssen, 2006; ISTAT, 2007).[19] This ability is often questioned as, in most cases, these social enterprises pay salaries which are lower than when compared to similar occupations in other organisational forms. However, empirical evidence shows that this criticism is questionable since workers in non-profits and in social co-operatives are more satisfied with their job and with their salary than in the public sector and are as satisfied as employees in for-profit firms (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006; Tortia, 2007). As a result, social enterprises are able to produce a net improvement in the welfare of local communities. Thirdly, and building on previous points, the different allocative modalities support the reduction of poverty and inequality. This result is particularly important at the local level, where social enterprises can help local welfare systems to react in proactive and open ways in order to the reduce the development and spread of social ills. Costs are also reduced for the welfare system and negative externalities are converted in development objectives. Moreover, work integration social enterprises are able to achieve valuable results since they significantly reduce the marginality and poverty of hard-to-employ workers and their families. Further evidence for this effect comes from a recent national research project on Italian social co-operatives (ICSI, *Indagine sulle Co-operative Sociali in Italia*). It involved 310 co-operatives across Italy and gathered data concerning the distribution of resources in terms of unpaid for or under-paid services. When managers where asked if their co-operative voluntarily distribute resources in favour of disadvantages social groups in terms of unpaid services or higher salaries for disadvantaged workers, they answered that these actions are taken systematically in 23% of cases and occasionally in 16% of cases. On average, the percentage of turnover distributed by co-operatives that help disadvantaged social groups at least

occasionally is estimated at 10%.[20] Hence, empirical evidence shows that a conspicuous share of social enterprises does indeed accomplish a distributive function, [21] even if this result is not granted by the institutional set up alone. However, it is likely to need, beyond adequate economic conditions, proper governance solutions and managerial models.[22] In this respect, the ability to distribute resources to disadvantaged individuals can be considered one of the criteria by which to single out the best and most deserving ventures.

Fourth, the enhancement of endogenous development allows the valuing and implementation of objectives that are strategically important for the locality, and that would not have been pursued (or would have been pursued with more difficulty) in the presence of exogenous drivers. Social enterprises are well-positioned to value non-mobile resources such as environmental patrimony or human resources like voluntary labour, and reutilise local assets, such as the cultural and historical patrimony. This surplus of resources needs to be managed and should not be used for purely commercial ends. Hence, in the absence of social enterprises, this surplus would often remain unutilised. Finally, positive externalities, which are predominantly found in the form of better social and trust relations, sustain the accumulation of social capital at the local level. This process, in turn, also helps with the implementation of culturally driven models of sustainable development.

The new crucial role given to local resources justifies the appearance, development and legal recognition of a specific organisational form that is able to strengthen and enforce this role in local development by managing them in such a way that local needs are satisfied without the limitations related to traditional modes of production. Social enterprises are relevant since they are conceived as locally based companies. The nature of the goods and services offered, together with the other institutional aspects already highlighted, creates a situation where local resources and personal relations are the fundamental core elements of the organisation's activity. Only around these core elements is it possible to build a network of locally-based actors ready to contribute to its objectives. The active role of social enterprises can be deployed on local markets and does not need to be confined to contracts and other relations with local authorities. Their embeddedness also makes it easier to create networks of local actors inside and outside the organisation by way of participatory mechanisms, as opposed to hierarchical control. Networking and partnership is one of the main mechanisms by which not-for-profit organisations can function effectively. This is because networks of co-interested and co-motivated actors widen the potential of involvement processes based on personal and trust relations, both inside the network and concerning the relations of the

network with external subjects, whilst guaranteeing an adequate scale of production for localised services (Sacchetti and Sugden, 2002, Sacchetti and Tortia, 2008). This is reinforced by the ISTAT (2007) data, which, for Italy in 2005, shows the existence 284 consortia of social co-operatives operating across Italy. Furthermore, other results from the ICSI survey show that only 13% of involved co-operatives work in isolation, while 56% are engaged in networks with other firms. The average number of networks each firm is involved in is around 1.8. Finally, 22% declared that they also form networks with subjects different from firms such as universities, research centres, and centres for territorial development. The average number of this typology of networks for each firm is 2.6.

In this way, social enterprises are expected to reduce asymmetric information and limit confrontation between different interest groups by building trust between internal and external stakeholders. Embeddedness and networking can also create a shelter which buffers the local system from the intense competition that characterises globalisation. Indeed, when market exchanges are based not only on the fixation of the lowest price, but also on personal relations and trust, firms become focal points that are easily recognisable by different customers and users, both private and public. Often, demand for their services is sustained solely by those elements of territorial embeddedness. This picture of the role of social enterprises in local development is further rounded by noting that organisations are often created to support the local system without extracting significant economic rents from their position.

The most relevant examples of social enterprises supporting local development can be found in multi-stakeholder organisations, which are usually controlled either by volunteers or by users and workers. These organisations implement community development objectives by involving different actors, such as local authorities, associations representing the civil society and businesses, and other non-profit organisations. Community development companies can often be seen as network of co-motivated actors emerging out of the need to reduce information asymmetry, and to create trust and social cohesion, which are conducive to the production of new and often tacit, knowledge. Many social co-operatives in Italy and entrepreneurial non-profits in the United Kingdom actively participate in the formulation and implementation of local development strategies without any lucrative purpose.

These conclusions can be easily reconciled with recent contributions in industrial economics (Sugden and Wilson, 2000; Sacchetti and Sugden, 2003; Sacchetti, 2004) that have widened the perspective of research on local development driven by endogenous forces. Industrial firms are no longer the only relevant actor, but other agencies, both public and non-profit

intervene in the production of services with a relevant local impact. Today, the whole range of actors that have a stake in the local system may contribute and benefit in different ways. The different involved actors need to find an appropriate participatory position in the local system, which permits the possibility of expressing their needs and implementing suitable solutions. This situation is difficult to achieve, but it is clear that multi-stakeholder ownership and governance based on active participation, is a step in the right direction. Moreover, these participatory features reinforce results obtained in the past. Evidence for this kind of governance model can be easily found in various case studies concerning Italian social co-operatives. In this case, representatives of different local actors (e.g. representatives of workers, clients, of the local community, of meso-institutions like associations of entrepreneurs and of other groups of citizens) sit on the Board of Directions or similar structures (Sacchetti and Tortia, 2008). Furthermore, the already cited ICSI survey shows that about two-thirds of the involved co-operatives can be considered multi-stakeholder, even if the law does not force them to endorse this form of governance. This is not only because most of them include in the membership both paid and voluntary workers (40% of cases), but also because many of them also include users and other organisations (16% of cases), or local authorities and financial supporters (8% of cases) (Borzaga and Depedri, 2007; Depedri, 2007). In these cases, the firm can be interpreted as a not-for-profit venture of co-motivated and co-interested actors that interact in the governance structure of the organisation to solve social problems.

When the public sector cannot intervene because of the implementation of inefficient production processes, and for-profit firms are not an efficient co-ordination device, social enterprises can represent the most relevant vector of development, even if decision-making processes based on involvement may be more costly. Indeed, even if some authors (Hansmann, 1996) identify the higher costs of decision-making as the main weakness of co-operatives and other non-investor owned organisations like social enterprises, in this context, it is clear that this is not necessarily one of their shortcomings. Even with the need to solve complex problems and with actors' diverging interests, participation mechanisms that are based on trust and common social objectives can lower and not increase the costs of decision-making. Besides, social enterprises are able to reduce other kinds of costs, such as labour, thanks to lower wages, and underpaid and voluntary work.

A strong shift in the focus of analysis has been accomplished. While it started from the determinants of economic growth implemented mainly by manufacturing firms, it ends up giving economic objectives a merely

instrumental role and renewed attention is given to the non-instrumental components of well-being. As already underlined, the exclusion of the profit motive and the implementation of a governance structure based on involvement and the valorisation of intrinsic motivations represent the main institutional factors capable of supporting this shift in the understanding of development patterns.

In summary, the idea of an active and important role of social enterprises in local development becomes meaningful, since, by its very nature, this type of organisation produces services to respond to social needs and takes into consideration demands from different "publics" within the locality. Economic objectives can be understood as merely instrumental, while the organisation focuses on those elements, like involvement, voice and the equity and transparency of procedures, which have been shown to be the most relevant determinants of well-being (Benz, 2005; Benz and Stutzer, 2003; Benz, Frey and Stutzer, 2004; Tortia, 2007). The partly public nature of social enterprises should guarantee that not only private objectives are taken into consideration, but also collective objectives. In this sense, social enterprises can be understood as a collector of instances of social and collective needs that, when fulfilled, allow a better match between economic growth and the needs of the local actors.

Policy interventions

Given the innovative features of social enterprises and their growing weight in development processes, specific policy interventions seem to be needed. In this context, a shift from traditional policies in favour of non-profit organisations, which have been mostly based on fiscal advantages justified by their non-business nature, is likely to be required. Interventions should instead focus on the specific business features of social enterprises.

First, it is necessary to widen the juridical recognition of social enterprises and the relative development of legislation. Promotion is needed to ensure all the potentially interested actors are aware of the existence of this new type of firm.

Second, policy interventions should be directed to support a better understanding at the scientific and juridical level, but also in the political arena of this new organisation type. Social enterprises are likely to require a wholly new institutional set up, whose features have not been fully clarified by many scientific contributions to date. The relevance and potential of social enterprises need to be explored with more precision by empirical research and their implementation still requires many gaps to be filled. For example, the definition of more precise governance schemes and of patterns

of involvements for different groups of stakeholders is a gap that needs to be filled. The boundaries of their fields of activity also need to be identified with more precision to properly locate them in between more traditional public and for-profit activities.

Third, given their local and social vocation, social enterprises represent ideal candidates for partnerships with the public sector especially in terms of managing activities dependent on decisions taken by local authorities. However, the exact legal and administrative features of these public-social partnerships still await a clear definition. Lack of proper co-ordination between parties of differing economic natures can result in competition and contrasts, instead of fruitful collaboration. At the local level, it is also necessary to support the development of consortia and networks of social enterprises which are able to widen their scale and scope economies and create synergies with similar and complementary fields of activity. Given their non-profit nature and their all-inclusive governance models, social enterprises seem unsuited for large scale production and need to develop new tools of co-ordination to reach scale advantages.

Finally, at the financial level, financial intermediaries are already noticing and supporting, in Italy and the United Kingdom in particular, the potential for development and the financial reliability of this new form of firm (Borzaga, 2007). New institutional tools and political campaigning may be needed to promote donations and new forms of support by institutional donors, public and private actors, especially in favour of social enterprises that have clear development objectives.

Conclusions

This chapter, after the initial theoretical remarks concerning the economic nature, the legal framework and the allocative features of social enterprises, has sought to improve the understanding of their impact on local economic development. It first presented some of their most relevant features, as they are defined by the United Kingdom and Italian laws. These features primarily include the definition of an explicit social objective (which is most of the time determined locally), a non-profit making nature and an asset lock (which underpin the accumulation of inalienable capital resources directed to development objectives) multi-stakeholder ownership or governance (which allow the involvement of all the relevant "publics" that are often embedded at the local level), and the definition of the firm's objectives.

To properly situate social enterprises in the theory of the firm and the theory of local development, two shortcomings in existing theories have

been highlighted. First, the theory of local development has up to now considered almost exclusively industrial firms and public bodies. Not enough weight has been given to the intermediate area between these two extremes, where non-profit organisations and social enterprises usually operate. Second, the theory of the firm considers almost exclusively profit-making activities. This is not a comprehensive approach since firms are defined in terms of evolving sets of organisational routines and co-ordinating mechanisms that are required to govern complex production relations which are carried out by subjects that are driven by a complex set of motivations. These motivations can be monetary and economic, but also intrinsic, relational, and altruistic. In this sense, non-profit making activities like social enterprises must also be considered firms. The profit motive is instead to be interpreted as a specific, not general, driving force of a firm's operation. These theoretical refinements position social enterprises as well integrated in all those models of development that tend to valorise endogenously driven instances and local resources. The activity of social enterprises tends to be at odds with exogenous models of development. Their contribution in this context is mainly represented by the satisfaction of needs, most of which are local in nature. This takes place through direct impact by increased supply and lower prices, by the distribution of resources to disadvantaged social groups, through the indirect dissemination of positive externalities and accumulation of social capital.

Because of these elements, social enterprises are expected to make efficient use of public money and of unexploited resources at the local level relative to both for-profit firms and the public sector itself. In the former case, private firms may privilege private returns to the detriment of public objectives. In the latter, they represent a flexible expenditure channel for public authorities that can increase efficiency and effectiveness of services provision, at least in some sectors of operation. Social enterprises can complement and expand the services supplied by other organisational forms thus increasing welfare and employment, and reducing poverty. These results are affected through different modalities to allocate and redistribute resources in favour of customers and the less well-off.

Notes

1. Some general contributions dealing with the emergence of social entrepreneurship in the United States, mainly in connection with the development of the non-profit sector, are Young (2000) and Kerlin (2006).

2. Law on Community Interest Company, CIC, in 2005.

3. Law no. 118, 2005, on the Impresa Sociale, as completed by the legislative decree 155, 2006 and by four ministerial decrees in 2008.

4. Quasi-public goods are sorted into collective goods, which are non-rivalrous, but excludable (e.g. university lectures), and common goods, which are rivalrous, but non-excludable (e.g. natural resources). Many goods and services can have both collective and common features (e.g. health care services). The study of common and collective goods is relevant for the development of social enterprises since many services with a social connotation are clearly rivalrous, but their consumption cannot be excluded for ethical reasons. On the other hand, collective goods are important because the share non rivalry and high fixed costs with public goods.

5. As for market imperfections, information asymmetries induce phenomena of adverse selection and moral hazard that reduced demand, since the non-informed parties in transactions will try and avoid exploitative behaviour by the better informed parties. Information asymmetries can induce also marked phenomena of contract incompleteness since many future contingencies may not be predictable or ascertainable. Positive externalities are present when the price defined by the market does not fully represent the social value of the goods and services produced. Finally, market power in the case of natural monopolies, induces higher-than market equilibrium prices and reduction in supply.

6. Non-excludability is often found in conjunction with the difficulty to fix a unique price in the presence of non-rivalry, and with high fixed costs and low variable cost which require important investments in fixed capital and infrastructures. A thorough treatment of the economic nature of public and quasi-public goods and services is beyond the scope of this paper.

7. Among the few notable exceptions the reader can consult Greffe (2007).

8. The non-profit nature and the public-benefit aim are implemented in most countries through the accumulation of indivisible reserves of capital that constitute most or the whole patrimony of the firm. The indivisible patrimony cannot be appropriated by any of the stakeholders of the organisation and is directed to the realisation of the statutory purpose.

9.The organisation that is shutting down operations can usually choose the asset locked body or bodies which will benefit from the transferral of its residual patrimony, but the transferral has to be approved by an ad hoc regulatory agency, which will use it for equivalent public benefit purposes.

10. The exact list of services for Italian social enterprises is as follows: social services; health care;; education and training; protection of the environment and the ecosystem; valorisation of the cultural heritage; social tourism; graduate and post-graduate university training; research and supply of cultural services; extra-educational training; commercial and other services related to the vocational activities of social enterprises.

11. Exception is made for social cooperatives that, on issues concerning the patrimony of the organisation and the distribution of profits, are subject to the cooperative legislation, which allows limited forms of distribution.

12. The neoclassical and the new-institutionalist theories of the firm took into consideration the firm respectively as a mere production function and as a cost-minimiser. These conceptions are both strongly centred around the idea of efficiency since profit maximisation and/or cost minimisation are the only firm objectives. The most important flaws in these conceptions were the lack of attention paid to non-fully self regarding preferences and the exclusive focus on profit maximisation, to the exclusion of social aims with different connotations in cooperative firms, non-profit organisations and now in social enterprises (Borzaga and Tortia, 2007).

13. The evolutionary theory of the firm (Nelson and Winter, 1982; Hodgson, 1993) draws its analogies mainly from biology and has been developed in the social realm mainly to show that the evolution of economic and social institutions shares relevant features with biotic evolution. In this context, organisational routines are to be interpreted as behavioural predispositions that form the basis of behavioural patterns at the organisational level. They are not a property of individuals acting inside the organisation, but of the organisation as a whole. They can be considered the analogue of habits at the individual level, since habits are behavioural propensities of individuals. They emerge as the result of the interaction of individuals inside the organisation, are stored both formally and informally in organisational procedures, and are activated in specific circumstances by environmental stimuli (Hodgson, 2003, 2006).

14 Firms discriminate on prices when prices are adapted to customers' willingness and ability to pay for the specific good or service. While for-profit firms are expected to use price discrimination in order to increase appropriable surpluses, social enterprises, given their non-profit and distributive nature, can instead discriminate on price to extend supply and to serve weak social groups unable to pay the full market price.

15. The initial historical roots of the Misericordie are found in Florence by the middle of the 13th Century.

16. Many works in this stream deal with the systems of small and medium sized enterprises that have been able to guarantee both economic growth and social cohesion in many areas of central and north-eastern Italy.

17. The UN Handbook on Non-Profit Institutions shows that the non-profit sector as a whole reached about 15-17% of total production in the United States, in Canada and in the Netherlands, and the secular trend has market a continuous increase since the end of last world war.

18. The negative consequences in various countries and specific areas hit by deindustrialisation have already called into play new actors, often very different from the traditional industrial firms, which have revitalised and restructured the economic system allowing the creation and growth of locally embedded firms and of network of co-motivated and co-interested entrepreneurs. In some cases, industrial activities fallen out of the processes of development were renewed and strove again. Also craft production and retail commerce have been observed to strive again in many instances in which local embeddedness and social capital flourished.

19. The Italian legislation defines a specific category of social cooperative (the Type B) carrying out work integration. Official ISTAT (the Italian National Agency for Statistics) data recorded 2419 Type B cooperatives in 2005. They employed 30 141 disadvantaged workers, mainly disabled, but also ex-alcohol and drug-addicted and ex-convicted. The same figures in 2003 were 1979 cooperatives employing 23587 disadvantaged workers. The growth in two years was 22.2% in the number of cooperatives and 27.8% in the number of disadvantaged workers (ISTAT, 2007).

20. Our elaboration on data coming from the survey ICSI (*Indagine sulle Cooperative Sociali in Italia*) financed by the Italian Ministry for Scientific Research (MIUR) in 2004 within the research programme "The Economic Role of Non-Profit Organisations: New Theoretical Developments and Empirical Tests".

21. This is true, in Italy, also for those social cooperatives that work mostly on the basis of contract with the public administration since they often serve a higher number of users than what is required by the contracts.

22. The distributive function of social enterprises is often favoured by the presence of volunteers in the board of directors and in other organs of the firm.

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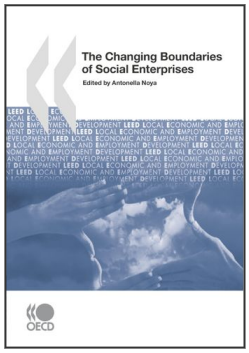

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