

## The Rise of Social Cooperatives in Italy

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*This paper reports how a new model of social enterprise—the social cooperative (SCs)—has become instrumental, in the Italian context, in the expansion of the social economy. It underlines the contribution these associations have made toward broadening the concept and standard parameters of volunteer organizations, providing basic social welfare services, and integrating the disadvantaged into the mainstream of society. The paper focuses on some SCs organizational aspects, highlighting the many traditional and advantageous business features, the ease with which they have access to financial instruments, and their ability to activate wider social projects. Given their recent spreading in Italy, where the Third Sector is less developed than in other Western countries, SCs incorporate working modalities that could also be of interest and relevance to other countries. To adopt this type of organization, however, calls for adequate competencies and protection under specific laws because they are, on the whole, still small-sized and somewhat fragile.*

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**KEY WORDS:** social enterprise; social economy; nonprofit sector; Italy.

### INTRODUCTION

In the course of the last 25 years, various types of economic initiatives falling within the broad definition of “social enterprise” have emerged throughout the European Union (EU). The term “social enterprise” is a theoretically ambiguous concept used, in Europe, to refer to volunteer organizations, to a certain number of standard cooperatives providing care, and to some joint stock or private limited companies characterized by the development of an entrepreneurial spirit directed to reach social aims.

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By and large, the birth and subsequent spread of the social enterprise concept among scholars, is the result of both the public and private sector's inability to meet the needs and choices of a civil society differentiated in terms of income, education, ethical background, and ideology (Salamon, 1997). As has been widely shown in many Western countries, the range of basic social services that the welfare system had in the past guaranteed to its citizens has progressively diminished since the 1960s.

For many reasons, ranging from the globalization of markets to the strict adherence of budgetary commitments, the public sector has gradually shed those responsibilities to its citizens that had originally laid the foundations for the social pact: the *government failure theory* (Weisbrod, 1975). Private firms, on the other hand, have not demonstrated an ability to boost citizen satisfaction because they have not managed to guarantee efficient distribution of their production nor eliminate transaction costs, and also because once profit has been maximized they have still not provided customers with the best price-quantity ratio: i.e., the *market or contract failure theory* (Hansmann, 1980).

Therefore, the gradual expansion in certain types of voluntary work organizations (foundations, associations, mutual help societies) aims to respond more effectively to the needs of citizens. By virtue of the greater "trust" they inspire in the earmarking of resources, these organizations tend to develop first and foremost in those markets characterized by an inability to mutually satisfy actors involved in the transaction, for instance in the administration of public goods and services or of goods supplied in a situation of asymmetric information, albeit with high exchange costs.

Indeed, they are now penetrating the gaps left by an ineffective public (and private) sector and bridging some of the state's (and private firms') shortcomings in the provision of essential welfare services and to a large extent of the *communal services*; ones which in response to individual demand are still socially useful yet they are neither public nor collective (Borzaga and Solari, 2001). If supplied by for-profit firms, these services would probably carry market prices that are beyond the reach of the less well-off, and the former would be inclined to take advantage of the information asymmetry, to the detriment of consumers. If supplied by an unspecified nonprofit or public firm these services would, as the facts show, have an undifferentiated standard incapable of satisfying the majority of end users, and there would be a problem of determining the "optimum quantity" owing to the presence of free-riders.

Compared to these possible scenarios, social enterprises on the whole present a "system of incentives" linked to their intrinsic features, thereby apparently enabling them to supply the communal services under more efficient and effective conditions, and to contribute to creating social capital (Spear, 1997).<sup>3</sup> The

<sup>3</sup>Social or civil capital essentially includes elements of the social organization—such as networks, norms, trust, and solidarity—that facilitate coordination and cooperation for the mutual benefit of its members and the whole community by reducing transaction and production costs (Putnam, 1993).

advantage of social enterprises, therefore, lies above all in their ability to reduce production costs, in the different way the factors of production are remunerated, and in their ability to adapt to demand.

The European Union has a keen interest in identifying a business model capable of reconciling the objectives of economic growth, employment, and quality of life. On account of its commitment to reconciling business practice with aggregate collective aims, the EU has for several years paid considerable attention to social enterprises in general, largely because of their ability to satisfy the need for services from the tertiary sector, where a major growth in demand is forecast, and to create employment, particularly for those normally excluded from the labor market. The interest in this organization is partially related to the fact that while nonprofit organizations (NPOs) tend in general to react slowly to changes in the external environment, social enterprises seem better placed to interact with the local socioeconomic framework to the extent that it becomes a variable in their plans and schemes for expansion, and they constantly propose new and innovative solutions to problems for their own internal purposes (Borzaga and Defourny, 2001). For this reason many EU programs and initiatives introduced in recent years, such as Employment and Adapt, have paid special attention to social enterprises and many funds have been specifically allocated for the development of research into these organizations.

Many theories have been formulated in the past to explain the existence of NPOs. For instance, Young (1983) and Rose-Ackerman (1986) identify NPOs as the outcome of initiatives taken by specific typologies of entrepreneurs whose aim is to broaden their own influence, while Ben-Ner and Van Hooymissen (1991) view NPOs as institutions that allow full control over output, to overcome the information asymmetries between producers and consumers. So far, however, none of the theories has managed to provide a sufficiently exhaustive interpretation for their existence and the many institutional forms they have adopted (Ortmann, 1996). Nor have these theories managed to clarify the existence of NPOs operating in situations where whoever finances the organization is clearly separate from the beneficiaries, or the spread of NPOs with a productive or business end. The reason for this gap is that these theories usually consider contexts of competitiveness between nonprofit and for-profit enterprises whereas, in Europe at least, NPOs and social enterprises usually compete with public bodies.

In any event, social enterprise presents some specific characteristic elements—pursuit of a corporate mission for the benefit of the whole or part of the community, significant levels of economic risk and salaried workers, high degree of managerial autonomy, stimulating active participation in business activities among citizens, decision making, managerial roles not confined to the capital-owning proprietor but based on wider democratic participation by all members, limited profits distribution—that make it difficult to be classified within the traditional distinction between nonprofit and for-profit firms, in the area defined

by American terminology as “nonprofit sector,” or in that of “social economy” as defined by European terminology.

According to the mainstream theoretical framework, the NPO sector and social economy have certain features in common: they include the presence of formal yet private organizational structures, with their own decision-making organs that avail themselves of voluntary contributions (money and labour). They differ, however, insofar as the identification of aims is concerned (for the social economy it is to serve members and the community), control over the organization (in NPOs democratic participation is not formally required), and the distribution of profits (forbidden in NPOs).

Therefore, if we wanted to apply a unique or single interpretation to the systems of nonprofit and social economy for both American and some European contexts, it would be far more useful to refer to the narrow term the “Third Sector,” which only includes the factors that are in common between nonprofit sector and social economy (Mertens, 1999). Because the explanation for the existence and recent development of the social enterprise model may be ascribed to the peculiarities of their main output (*communal services*), social enterprises have to be included in the Third Sector (see Fig. 1):

social enterprises represent one of the recent ‘Third Sector’ components; whether they are regarded as non profit or as social economy. . . [They] aspire to a new way of being an enterprise, one that arises out of the transition from the traditional *welfare* system to that of *welfare mix*. (Defourny, 2001).

The latter is marked by a different division of responsibility between public bodies, private suppliers, and Third Sector organizations, and is driven by criteria of efficiency as well as of equity or fairness (Rose, 1993).<sup>4</sup>

This paper will, however, focus on just one of the specific types encompassed in Italian social enterprises, i.e., social cooperatives (SCs) precisely because of their recent emergence and rapid growth.

As will be shown, thanks to their ability to satisfy some present historical, social, and economic needs of citizens, SCs have recently secured a prominent role for themselves in the Italian Third Sector. SCs appear to be now turning into organizations which, in addition to increasingly exhibiting the features of a social enterprise as described earlier, display a more marked innovative drive that is conducive to satisfying the demand for social services—thanks largely to the involvement of more stakeholders (remunerated members, beneficiaries, volunteers, funding members, and public institutions). SCs have chosen not to stand by and merely fulfil tasks dictated by public administration. On the contrary, they are seeking to achieve greater autonomy in defining their own sphere of

<sup>4</sup>In this concept of welfare, the idea of well-being is no longer related to the amount of goods and services available to people freely or without any direct counterparts, but to the satisfaction that a citizen receives through a specific basket of goods and services to which they are entitled (Sen, 1974).

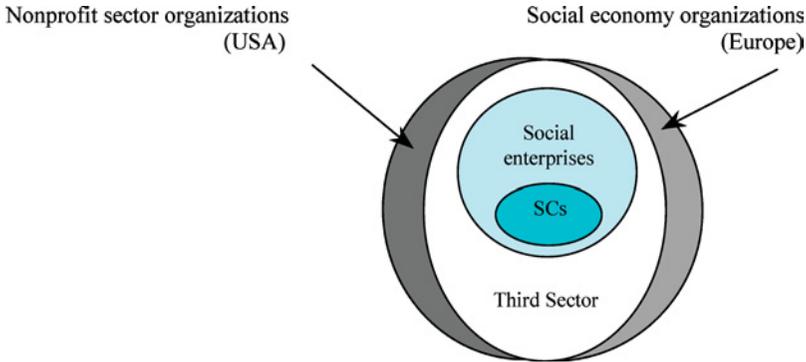


Fig. 1. Positioning of social cooperatives.

action and deciding which services to start up, how to shape them, and what organizational structure to adopt.

### SOCIAL COOPERATIVES

Legally speaking, in Italy cooperatives are nonprofit associations par excellence recognized since 1942 and divided according to type and activity (consumer, production and employment, agriculture, construction, transport, fishing, mixed, services). In conducting their activities, cooperatives must adhere to several conditions, such as the number of members, the amount of paid-in capital allowed that cannot be remunerated above a clearly defined percentage, and the appropriation of 3% of net annual profit to a fund for the promotion and development of Cooperatives in general.

Cooperatives have a mutualized institutional purpose for their members or share/stakeholders who are the statutory but not exclusive beneficiaries of the goods and services produced. More specifically, a cooperative enterprise may be said to contain eight founding principles: internal mutuality; external mutuality; nonprofit distribution; participation; representativity; accessibility; intergenerational solidarity; and intercooperative solidarity. Because of these principles, the main aim for Cooperatives is not so much to achieve the highest return on capital investment as to satisfy a common pre-existing requirement or need, in order to give members or share/stakeholders a greater advantage or saving than would otherwise have been possible separately.

In order to specifically help volunteer organizations engaged in an improved deployment of human resources and the integration of disadvantaged citizens into society (minors, the disabled, drug addicts, the elderly, former prison inmates, the mentally handicapped, and immigrants), a new type of cooperative was set

up in 1991 (Law 381): the social cooperative. In accordance with the cooperative principles outlined earlier, SCs cover either *caring activities* (management of social-health care and educational services, provision of home and residential care to people at risk, babysitting/childminding, cultural activities, and initiatives for environmental protection) or *training activities* (introduction of disadvantaged people, who are unable to enter “normal” productive circuits, to business activities and employment opportunities).<sup>5</sup>

With regard to caring activities, SCs are able to substitute the public sector in the fields referred to earlier, also displaying greater levels of effectiveness in the large-scale distribution of services and efficiency in the deployment of resources. Furthermore, SCs neither betray the trust of their clients nor are they inclined to hide discrepancies behind administrative smokescreens, bureaucratic delays, and the indefinite procrastination of agreed deadlines. As for training activities, SCs are found where no other entity wants to operate; they propose innovative schemes for disadvantaged people who are not only offered real jobs but frequently become entrepreneurs themselves (Mattioni and Tranquilli, 1998).

Unlike other types of cooperatives in Italy, SCs follow the managerial patterns of private enterprises that compete, at least in part, in the open market but their aim is to go beyond profit generating and, as a result, they focus on the will to satisfy a widespread demand for communal services that neither the state nor private firms are able to meet. Law 381 has therefore given shape to a unique structure with a dual feature: publicly oriented with regard to the aims and supply of essential goods and services and, at the same time, privately oriented insofar as organizational and accounts/budgetary requirements are concerned.

Thus, SCs point out a sort of inversion of the profit-making firm. The main aim for the latter is medium- and long-term economic growth in conditions of optimal profitability. Satisfying the social aspects of workers, the local community, the environment is one way of enabling the primary aim to be achieved in the course of time. The opposite is true for SCs, whose goal is to pursue the common good for society according to criteria of economic rationality and efficient use of available resources (Table I).

SCs contain three main categories of members (or share/stakeholders): *lending or funding members* (generally, 65% of all members), i.e., those who receive some type of economic benefit in return for the service they provide or who use ordinary workers from the SC; *beneficiary/user members* (5%), such as the elderly or disabled people and their relatives; *volunteer members* (20%), i.e., individuals who give their services freely, as they share the general interest of the community to promote human resources and integrate citizens socially. For the first time among social enterprises, SCs are fostering multistakeholder dynamics, which are

<sup>5</sup>Originally the two activities were strictly separate (type A and type B SCs). Even though a few different formal duties remain, they are now referred to as mixed SCs.

Table I. The Business Idea of Social Cooperatives

Social success	Economic success	
	High	Low
High	Efficient and effective management, stakeholder satisfaction, and the pursuit of social goals are interrelated.	Social success is achieved to the detriment of economic equilibrium and is therefore destined not to last.
Low	Economic success is achieved at the expense of some stakeholders' expectations or one or more of the social goals.	Inefficient and ineffective management, stakeholder dissatisfaction, and failure to achieve one or more of the social goals.

an integral part of the social project it has itself proposed (Borzaga and Santuari, 2001).

Furthermore, it is now legally recognized that share/stakeholders of an enterprise may pursue the collective interest, especially where disadvantaged people are concerned. In this regard, it is worth pointing out that other types of members (about 10% of the total) who are unaccounted for in current legislation on ordinary Cooperatives, have now been identified: *financing members*, whose aim is largely one of seeking profit by financing cooperatives activities internally through share subscription; *legal members*, for whom provision is made in the SC statutes for financing and developing solidarity and nonprofit-making initiatives; *stake-holding members*, who are not directly involved in running the enterprise but whose goal is to achieve profit by virtue of providing their financial support to it; *ordinary or cooperating members*, who have a specific interest in achieving their aspirations but are not entitled to exercise rights on mutuality services regarding the cooperative society; *technical and administrative members*, who are restricted to the number required to run SCs efficiently; and, *honorary members*. Finally, *public bodies* themselves constitute a further stakeholder, since they are keen to delegate more and more "social" services by stipulating agreements or contracts with SCs (see later).

Against the background of such an apparently complex system of governance, the risk of frequent internally conflictual situations could easily emerge. At least for the moment, however, this aspect is not a predominant cause for the failure of SCs. This is due to the fact that financiers are patrons/benefactors and not speculators, while the volunteer staff is more intent on self-fulfilment than personal gain. Indeed, very often they are professionals specialized in medicine and education, and already in employment elsewhere. Benefactor users are thus keen to ensure there is good harmony internally, so that their needs can be fully and satisfactorily met (Mora and Ragazzi, 1998).

The spread of SCs in Italy has experienced exponential-type growth (Table II). According to unofficial databases of Consorzio Gino Mattarelli (CGM, 1997), SCs

**Table II.** Social Cooperatives in Italy

Year	Number	Index (1985 = 100)
1985	650	100
1990	1,800	277
1995	2,834	436
2000	5,401	831
2001	5,936	913
2003	7,400 (estimate)	(1,138)

*Source:* National Statistic Office.

have gone from 650 in 1985 to an estimated 6,800 units in 2002, involving 105,000 paid workers (18,100 of whom are disadvantaged), 11,400 volunteers, and as many as 129,300 members or share/stakeholders and 498,000 beneficiaries users. This expansion has been sustained as much by the substantial growth in the demand for communal services as by the conviction, on the part of the founders themselves, that SCs seem to constitute a good tool for responding to those collective needs left unsatisfied by the state, and also for fulfilling their own aspirations.

Insofar as the beneficiaries of SCs are concerned, almost half are elderly, minors at risk, or disabled, whereas only 9.9% of SCs are concerned with drug addicts, 9.6% with the mentally ill, and 14.7% with disadvantaged adults. On average, SCs are made up of 40–50 members (only 10% have more than 100 shareholders), half of whom are paid workers, with an annual turnover of €500,000, four fifths of which comes from successful public bid tenders. Private clients and for-profit enterprises account for 8% of revenues, while the rest comes from public subsidies (Borzaga and Santuari, 2001); this is because there are still in actual fact few SCs capable of competing with for-profit enterprises.

## THE PRACTICE OF SOCIAL COOPERATION

The main activities carried out by SCs, other than home help (including medical) for the disabled, children, and the elderly, are professional retraining, direct occupational placement or outplacement for disadvantaged and unemployed people, production of craftwork items, labour-intensive work in agriculture and fishing, ethical and solidarity-based trade.

As mentioned earlier, SCs have acquired a stronger role in the wake of Law 381/91 by responding to the needs left unsatisfied by the crisis in the Welfare State and its incapacity to deliver services, largely for reasons ranging from financial difficulties to an inability to adapt to changes forced on it by the expectations of citizens for quantity, quality, and product mix. In addition, SCs have responded to the requirements of a consistent and growing number of disadvantaged people

in Italy who, according to latest estimates, amount to around 7% of the overall population.

SCs cannot be wholly compared to other types of existing firms or Cooperatives because they make no attempt to substitute or integrate functions performed directly by the public sector; also SCs do not fall within the sphere and duties of government/public bodies or in those of traditional profit-making firms.

SCs should have a role of their own: to carry out “social entrepreneurship,” that is helping the smooth entry into employment of disadvantaged people who, in turn, themselves become entrepreneurs—an aim that has never before been part of the world of entrepreneurship and business organizations. This is why SCs try to increase and enrich existing opportunities, look for innovative methods, and provide original solutions to satisfying social needs.

In order to reach these objectives, SCs have equipped themselves with a series of instruments and competencies that enable them to perform more duties at the same time. Integrating people who traditionally live on the fringe of civilized society, reemploying workers no longer active in productive work, reducing “frictional” unemployment caused by the delay in matching supply and demand, and meeting company requirements for flexibility are examples of what SCs do. Logically speaking, more fundamental criteria may be traced whereby SCs try from time-to-time to achieve these goals and, in so doing, reinforce the transfer from a situation of welfare to one of workfare, that is from passive intervention to active employment policies (Mattioni and Tranquilli, 1998):

1. *Educational function.* Some similarities with the traditional model of employment integration are retained. Promoters and workers of SCs basically work as educators/trainers and, accordingly, regard their own activity as a public service. The risk implicit in this approach is that less attention is paid to the creation of stable and skill-providing job opportunities.
2. *Direct entry.* The main objective is to integrate disadvantaged people for whom SCs constitute a permanent solution to their need for employment. Such an approach is unquestionable for those disadvantaged people who, though having some working skills, are not in a position to be taken on in ordinary firms and, hence, integration in a cooperative is the only alternative. Naturally, SCs will at a certain point have to broaden the scope of their activities.
3. *Re-training.* This refers to the efforts made to re-employ disadvantaged people in the mainstream job market, at the end of a cycle of work experience and personal growth within the cooperative. In this case, even though the activity of the cooperative in quantitative terms remains stable in the course of time, it can nonetheless take on a growing number of people who would otherwise end up being socially alienated.

Whatever approach is adopted, SCs are implicitly typified by their approach to treating human resources in terms of an enterprise–worker relationship in one or all phases of entry, duration, and exit. Although SCs still have much to learn as far as the technical and operative organization of work is concerned, they appear to have already acquired considerable experience in teaching how human resources should be “treated” (Martinelli and Lepri, 1997).

Though analysts generally focus their attention on the youngest elements who cannot find any occupational openings at the end of their training phase, the problem cannot be underestimated—even when it concerns people who have been made redundant as a result of the high turnover of staff in many enterprises and in the absence of other corporations able to absorb this “surplus.” This is why it is now considered timely to broaden the definition of social disadvantage and include the “long-term unemployed,” seeing that their situation reflects the problem of being caught up in a possible vicious circle: the longer they are unemployed, the greater the difficulty for them to join the job market again.<sup>6</sup> In the EU the percentage of long-term unemployment in relation to the total figure of unemployment varies from 28.1% and 31.8% in Austria and Denmark respectively, to 61.4% and 63.6% in Ireland and Italy, with 43.6% in the UK, and with an average of 49.2% (Isfol, 2002).

In general terms, more than one third of SCs have arisen out of the hope of creating a job for their members, as they are able to bypass the already saturated routes to employment and refrain from setting up new, conventionally lucrative firms. The latter are less protected by facilitation laws than SCs, experience a greater impact on the open market, and are subjected to a higher risk of failure (Thomas, 1999).

There has been much heated debate about the potential for employment that SCs may generate for the disadvantaged or disabled, but at the moment we can only give an estimate of 153,000 for the former and 19,100 for the latter. Furthermore, the commitment shown by SCs in the promotion, implementation, and activation of “welfare-to-work” type programmes (*socially useful work*) addressed specifically to helping the long-term unemployed join the working world can be seen from the figure of almost 113,000 “disadvantaged” Italian workers employed in socially useful work at the beginning of 2001 (Isfol, 2002).

These are very modest yet significant figures because these people would otherwise be unemployed and constitute an untapped resource. Therefore, SCs seem able to operate in those contexts that, owing to the complexity of inherent social–relational dynamics and the growth of new forms of discrimination and

<sup>6</sup>There are countless reasons for this phenomenon, such as loss of motivation and stimulus; distrust and indifference on the part of companies; atrophy and ageing professional skills; little or no access to sources of information about new job opportunities; material costs of research. Rejoining the job market under these circumstances might well require a course of action that leads to gradual entry into work and the rehabilitation of human resources, similar to what is needed for people with physical disabilities.

unrest, require a capacity to provide answers and solutions that cannot be found in the ordinary voluntary service or other organized entities (Borzaga and Santuari, 2001).

### **The Social Cooperative Choice and the Role of Volunteers**

As pointed out, a SC usually emerges from the ability to establish a continuum, both formally and in substance, between the voluntary service experience and a more structured commercial entity. According to sample surveys, 15.9% of SCs are the result of the transformation of a previous association carried out by a group of either secular or religious people and 50% of another cooperative. Some 79% of SCs members are volunteers or supporters (but this percentage has gone down over the years) and just 21% are paid shareholders (Borzaga and Santuari, 2001).

The many, more or less organized, forms of voluntary service provide a rich reservoir for collaboration and an opportunity to strengthen the expertise and professionalism of SCs. Both SCs and the volunteer are particularly keen on investing their energies in a common project that enables both sides to verify the practicability and effectiveness of cooperative work.

At the root of the volunteer choice, there are different and independent motives as to why he or she shares the ethical and social aims of the cooperative, considers the cooperative as an opportunity to enter the job market, and believes that SCs provide an opportunity to complete and verify previously acquired knowledge in study programmes through direct experience of practical activities. Thus, being a volunteer in SCs implies combining ethically inspired motivation with concrete practical experience, which may then lead to the development and growth of professional skills and, possibly, to smoother entry into the job market.

On the other hand, SCs benefit from volunteers by drawing on the availability of low-cost labour, the possibility of appointing future personnel, the contribution of new ideas and fresh energies, a mix of participants of different age and educational background, "humanization" of the service, and professional, material, and emotional-relational support. In so doing, SCs give an assurance to the outside world of the image of enterprises pursuing the interests of society rather than personal ones.

Perceiving volunteers in the cooperative as essential components of human capital makes for increasingly complex human resources management and assigns a central role to motivational aspects such as, for example, greater responsibility. Indeed, those volunteers whose work is not paid are forced to look for more stimulating conditions than other workers, obtain greater satisfaction for their actions, and recognize the importance of their contribution. Volunteers must be willing to give their contribution "voluntarily" and manage their involvement in

an independent way; again, they tend to produce less than mainstream workers, since they are less willing to complete uninteresting jobs and usually work for a limited number of hours.

Furthermore, volunteers are more inclined than employees to follow the rules and undergo formal supervision if they are convinced that doing so is indispensable to achieving the goals of the organization. In this respect, the figure of the charismatic leader in the organization is of central importance to volunteers because they are very keen on emulating the actions of the former. Likewise, the development of a broad internal communication network is of special relevance by spreading the mission of the cooperative as well as the contribution each member makes to the final goals and by reporting on the progress and on results achieved (Clary *et al.*, 1996).

### RELATIVE ADVANTAGES OF SOCIAL COOPERATIVE ENTERPRISES

The benefits that SCs seem to be enjoying vis-à-vis all other Cooperatives or NPOs, as well as for-profit firms, have been outlined elsewhere. This assertion has profound implications for establishing an effective mix of public and private bodies where the provision of social-welfare services is concerned. SCs, that is, could potentially achieve greater collective well-being than lucrative firms could, in the provision of some types of social service, due to some more economic sources of supply, not only of productive inputs such as donations or—production being equal—lower transaction costs in the voluntary work. The fiduciary factor is particularly crucial because of possible opportunity behavior (Borzaga, 1998).

This hypothesis stems from the connotation of “enterprise,” which makes SCs more market oriented than other NPOs, precisely because they are “proactively” committed to securing orders, even of a private nature. In other words, they are more likely to compete with lucrative firms. More specifically, SCs have to cope with three levels of competition, thereby encouraging them to search for higher levels of efficiency than other NPOs; the latter are usually confined to very narrow and exclusive niches in the markets. Indeed, not only do SCs have to face competition of an intercategorical type, found among all types of cooperative and traditional firms, families, and public bodies, but also intracategorical competition, found among SCs themselves and/or between them and other cooperative types and, finally, extracategorical type competition, i.e., between SCs and private or public organizations that could turn out to be their potential customers in the outsourcing of some kinds of activity previously carried out internally (Thomas, 1999).

Some operative areas in which the relative advantages of SCs appear clearer are outlined as follows. Unlike other NPOs, SCs benefit from their aim to satisfy

a public purpose, according to the typical criteria of efficiency and effectiveness found in lucrative firms (Travaglini, 1997).

SCs have a greater inclination to set up networks with other actors in the same region, especially “trust networks,” which have lower bureaucratization, higher worker motivation, including empathy, greater end-user involvement, and an attitude to the environment based on the informal exchange of news and information. This trust-based climate propagated among economic actors can lead to lowering transaction costs and underscore relational and network economies. However, the likelihood of this happening is closely tied to the presence of “network goods.” Although trust is a very precarious resource, the model of the cooperative firm from this latter standpoint could be considered an extremely important instrument for establishing links, based on more solid and long-lasting grounds than is usually the case with the for-profit firm (Mora and Ragazzi, 1998).

SCs can obtain economic benefits regardless of the company size. If good performance cannot be expected from Cooperatives in the sectors where the need to bring in large-size plant and equipment, or follow the guiding line of technological progress calls for substantial investments that are neither within reach nor part of SC logic, then it also follows that SCs may benefit from “economies of scope” linked to synergies and interdependence that can be exploited in contexts other than those of acquisition. This characteristic is expressed in the undisputed ability of SCs to provide a wide variety of social-welfare services with similar roots, but suited to the heterogeneous needs of customers at considerably reduced costs (Travaglini, 1997).

Linked to the earlier-mentioned need to extend the scale of operation is a further aspect. SCs can activate not merely “problem solving” but also “problem setting” policies and can either anticipate needs or encourage customers to outsource more of their activities. Compared with other NPOs, SCs are also capable of producing increasingly complex services or ones called “good-embodied services.”

The nature, tradition, and development of cooperatives leads one to maintain that, in being founded on the principle of voluntary participation of its members, SCs are in a position to save substantially with regard to personnel direction in all situations of “adverse selection,” which otherwise would require a complex system of supervision of individual conduct tied to free riding or to other speculative behavior.<sup>7</sup>

A further advantage may be noted in the more intense motivation and greater drive of workers in SCs. Whether these aspects are analyzed through Herzberg’s pattern (1968)—content and work environment—or according to Maslow’s

<sup>7</sup>Compared with the traditional approach to company management, McGregor’s *X theory* (1986), which presupposes the existence of passive individuals who can only be stimulated by threats or monetary reward, SCs have adopted the opposite *Y theory* that hinges on employees’ sense of responsibility, self-assertion, creativity, and imagination (with a different interpretation of motivation in human behavior).

“hierarchy of needs” (1970)—physiological, safety, relationships, esteem, self-realization—it may be argued that employees are noticeably stimulated to exercise greater drive. At least most of the employees do not look for economic gain as much as the need for achievement precisely because they perform an activity for the collective benefit. Following Hirschman’s hypothesis (Hirschman, 1970) with regard to the relationship between productive efficiency and employee behavior—and thanks to the greater influence of *voice* and *loyalty*—it may be inferred that SCs employees have a higher motivation than workers in the for-profit firm.

As for achieving their identified target, SCs have at their disposal a generically greater capacity to draw on internal business skills (embeddedness)—on account of their peculiar organizational structure. In their pursuit of “economies of sharing,” they use new competencies acquired for different business activities from those originally performed, as well as “economies of speed” in the operational choices they make, given the principle of employees sharing objectives and the absence of a hierarchical structure (Thomas, 2002). With specific reference to the expectations of customers, who care as much about the intrinsic features of the services as the scope for feedback, SCs appear to be best able to carry out relational marketing. Indeed, by their very nature they do not simply provide a service, but are expected to reshape the service supplied according to the needs of the demand.

More precisely, compared to other NPOs and for-profit firms, the fulcrum for the elements of competitiveness inside SCs lies in the central role attributed to *humanware* (Spear, 1997). While many firms, especially large-sized, continue to regard their employees as a source of cost rather than opportunity and give the impression of being more concerned with supervising the workforce, in SCs there is a constant focus on human resources. The aim behind this focus, reinforced by choices that develop the structure of SCs in a democratic and horizontal way, is to maximize both personnel skills and spontaneous commitments.

In connection with the spread of certain features of financial instruments within terms of “ethical finance,” though SCs project a positive image on a par with other NPOs they are more capable of making efficient use of the resources entrusted to them by virtue of their higher level of professional competencies and broader boundaries for action.

In light of these considerations and the conspicuous expansion enjoyed over just a few years, and testifying to their ability to endure impact with the market (in 2002 the average survival rate after 5 years of existence was around 89%), it is reasonable to suppose that when providing social welfare services SCs may be capable of guaranteeing, not only to customers or beneficiaries but also to the entire community, higher levels of efficiency and effectiveness than are other NPOs and many lucrative firms. Actions in support of social cooperative entrepreneurship, therefore, can be interpreted as one of the means to

increase productivity and retrieve hidden, lost, or underutilized socio-economic resources.

## FINANCIAL INSTRUMENTS AND INSTITUTIONS FOR ITALIAN SCs

As in other profit enterprises, SCs need financial and other support services to conduct their activity. Initiatives for the provision of resources may be subdivided as follows: gifts and donations; grants-in-aid (unsecured public funds); program-related products or production of goods for sale; program-related services (parallel services to primary offer of goods); staff and client resources; hard property (sale or rent of property belonging to the organization); and, self property (making use of intangible rights such as copyright, label, or brand name, licences or permits).

Although the main tool for SC funding has until now been public support, other financial sources may be outlined: subscribers waive their rights to earnings on interest or capital account (in total or in part); operating surplus obtained from invested capital earmarked for social aims; direct investment in companies involved in ethical activities.

Even though there are no rules and regulations in place to help the start-up or maintain the survival of SCs (as is the case with volunteer organizations), they can use funds collected in the following ways: directly in social programmes; supporting the growth and development of the social cooperative movement itself; helping and replacing the so-called ethical investor/subscribers in their decisions.

With regard to this latter point, at least three types of instrument may in theory be outlined—those offering the depositor or the subscriber a guarantee that their money will be put to equitable and morally irreproachable use, products responding to the desire of those wishing to use their own capital to sustain specific activities, and, humanitarian-type instruments reflecting the personal interest of the depositor in issues of poverty and socioeconomically backward areas.

Ethical investors are usually committed backers and less willing to adopt a high turnover of their funds because they are generally less interested in monetary gain. Ethical investment also implies greater shareholder involvement (shareholder activism). For the fund collector, this aspect means paying close attention to the performance of the portfolio and adopting clear and unequivocal management criteria, so as not to lose the confidence of investors.

Consequently, socially geared investments consist in the selection and management of products (shares, bonds, loans) that are influenced by ethical and social criteria, given that the ethical investor also wants to be informed of the real reasons behind the profit earned, characteristics of the goods produced, location of the enterprise, and the way in which business is conducted. It is also true that the financial products available for the nonprofit sector are not given that much consideration in texts on finance—where attention is by and large focussed on

**Table III.** Key Financial Operators for Social Cooperation in Italy

Specialist	Intermediate	Ordinary
Ethical bank	Mutual funds	Banking Foundations
Cosis	CFI	Standard banks
MAG	Fincooper	Cooperative, rural, and popular banks
ETIMOS	Finec	Iccrea
CGM Finance	Rollover funds	Ethical funds

aspects of risk and profitability that are measured according to traditional methods of evaluation.

Nowadays, there are many financial institutions in Italy favoring SCs, since they offer greater opportunities than other NPOs (Table III). In particular, these are specialists operators, who conduct matters largely in favor of SCs; intermediate operators, who work to the advantage of the entire cooperative system; and, ordinary operators, who are interested in the nonprofit sector in its widest sense but often only marginally compared to their main activities. These key financial operations are considered in turn.

*Ethical Bank.* Set up in 1994 out of a joint venture between the cooperative network and external operators, to establish a financial institution that would operate on the lines of UK merchant banks. Inspired by the principles of a human and socially sustainable model of development, it was conceived as a meeting-point for savers who are sensitive to the need for a more informed and responsible investment of their personal savings and socio-economic initiatives.

*The Social Enterprise Development Company (Cosis).* A development finance company that provides backing for enterprise and SC projects that have a social mission and can demonstrate economic feasibility. It promotes the management of development initiatives, disbursement of funds, and the provision of services to SCs in order to boost their expansion and growth.

*Self-help/managed Mutual Associations (MAG).* Using members' savings, the "social purpose" of these organizations is to support and spread the importance of social cooperation, self-management, and basic organization to pave the way for higher levels of quality in the development of SCs and, at the same time, guarantee the personal growth of workers and users/beneficiaries of the goods produced and sustain development that will help disadvantaged people enter the job market.

*Etimos.* Since 1989, with 5,000 shareholders, it aims to favor the ethical and solidarity-based trade development as well as environmental and social interventions.

*Gino Mattarelli Consortium Finance (CGM).* It consists of 88 SCs and 19 consortia, whose goal is to grant loans and advances as well as provide technical, financial, and administrative consulting services for credit and investment operations.

*Mutual funds.* Earmarked for the promotion and development of cooperation, these funds receive 3% of annual profits from Cooperatives belonging to Central Cooperative Organizations (discussed below). The funds are used for capital risk sharing and granting mid-term share loans.

*The Industrial Finance Company (CFI).* Provides funds and helps people who have worked for firms in crisis and have been made redundant to start-up a cooperative.

*Fincooper.* Active since 1969, it provides collection and payments services, financial compensation arrangements between partners in Cooperatives, liquidity, and funding management services. In addition, it grants financial support for the development, consolidation, and reorganization of businesses.

*Finec.* Set up in 1995 with a view to launching and developing merchant banking on a national scale, it specializes in defining intervention programmes for Cooperatives that are in the restructuring process, and providing assessment of their future prospects.

*Rollover funds.* These are dependent on and available from central government for the promotion and development of cooperative societies.

*Banking Foundations.* Some directives have recently given rise to a new and closer link with social Cooperatives inasmuch as the institutions concerned are authorized to pursue aims in the public interest and of social utility in the sectors of scientific research, education, arts, and health.

*Banks.* At the beginning of the 1990s there began a rapid expansion of ethically defined financial instruments specifically designed and launched to finance non-profit organizations (bank accounts, certificates of deposit, investment funds). At the same time, the banks moved to earmark investment activities that could qualify for altruistic and nonprofit-making status.

*Iccrea.* Set up in 2000, it is the only Italian bank whose main purpose is to support the cooperative system by providing a wide range of financial, credit, and insurance services at low cost to Cooperatives and with unambiguous conditions.

*Ethical funds.* Given the excellent results this type of financial product has achieved abroad, in Italy these funds have either originated out of the specific needs of a few nonprofit organizations to find potentially very useful instruments for gathering resources on a regular basis or to test whether the Italian market is mature enough to invest in ethical funds.

There are also institutions—Central Cooperative Unions, Gino Mattarelli Consortium—whose aims are to foster collaborative attitudes between Cooperatives; to provide back-up, technical-administrative consultancy, and financial support services for members; to manage ongoing training activities; to facilitate the development and social utility of Cooperatives; to promote and foster the expansion of SCs through appropriate schemes; to liaise with public bodies; to apply specific label or brand names to services and/or products so as to

distinguish themselves from others. Furthermore, other Organizations—Luzzatti Institute, AICCON—aim to promote, encourage, and conduct studies and research into historical, social, economic, and juridical aspects related to social cooperation in order to implement schemes for propagating the teachings and methods of SCs.

## CONCLUDING REMARKS

This paper has attempted to give an insight into the current state of the Italian social cooperatives (SCs) movement and to describe some of its prospects for growth and development. What emerges is a picture of hopes and aspirations that hinge on boosting the movement's intrinsic potential.

Italian SCs show a possible way of modifying the welfare system based more on monetary handouts, managing more profitably than previously human resources and financial benefits, and trying to mobilize resources that would otherwise have been unproductive. Compared to other NPOs embracing the same social aims, SCs have an advantage, since they can resort more easily to financial markets, have their roots in the territory and can thereby offer services more suited to the expectations of the local population, can turn readily to more qualified human resources, possess greater working flexibility, and have a higher inclination for innovating services owing to competition from other types of enterprises.

Furthermore, by virtue of the greater contact they have with the "market" and competitive pressures, SCs are "forced" to be more efficient than other NPOs in order to survive. Indeed, they are more market oriented by virtue of being proactively involved in winning contracts (in other words more likely to compete with profit-oriented companies) and having to face three levels of competition (intracategory, intercategory, extracategory). SCs have more instruments at their disposal to achieve their aims.

With regard to the provision of social services, and compared to profit-making companies, SCs seem to be suitable vehicles for greater collective well-being through the delivery of lower-cost sources of productive input supply. Productivity being equal, these advantages derive from voluntary work, donations, and from statutory constraints. By virtue of these constraints, any problems arising in transactions where the trustee factor is essential or where there is betrayal of trust or an opportunistic behavior may thus be overcome at low cost.

To sum up, SCs can provide a contribution to transforming the welfare systems and to encouraging local development for job creation, social cohesion, the creation of social capital, and growth of the Third Sector in general. In so doing, they alleviate critical factors such as providing care or integrating disabled people into the working world, redeploying the long-term unemployed or people seeking their first job, helping small volunteer organizations restricted by qualitative and

quantitatively tighter limits to have access to credit arrangements, or enhancing managerial and operative skills necessary for the development of the Third Sector.

So far, however, SCs have been perceived as suffering from: legislative uncertainties, thus inducing the original organizational model to be abandoned in favor of more protected and socially recognizable legal forms; heavy reliance on decision making and financial allocation by public authorities (in particular, the current system adopted by the public sector of outsourcing social services through bid tenders tends to favor the lower cost over the quality variable, to the detriment of the latter); the difficulty of bringing volunteers and paid persons together (indeed, there is the tendency to create SCs with remunerated members only, thereby shedding one of their key features); the difficulty of reconciling the pursuit of a multitude of goals; the possible high “costs” of governance, since they do not have a single, clearly defined proprietor (the advantage of having many stakeholders can lead to internal conflicts); limits tied to their small size (the medium revenue is about €800,000) and insufficient inclination for growth; and, frequent lack of managerial and entrepreneurial competencies essential for competing in the market.

From the financial point of view, there remains the matter of trying to reconcile the original mission of SCs with the unorthodox interpretation of some economic instruments such as accountability, financial planning, management control, staff deployment, fundraising, and social marketing. In this respect, at least four possible weak factors may be pointed out: business inexperience; little financial trust in SCs; lack of specific legislation for the sector; and, weakness of aid-providing institutions.

Hence, if the experience of Italian SCs bears out that it is possible to start up private enterprises and pursue social as well as economic goals, it is equally true that we are dealing with a fragile model in need of consolidation through laws and the development of a culture suited more to the specific features of this form of enterprise. Growth and development prospects for this pattern will therefore depend on the ability of SCs to embark on a new path, joining social goals with methods of business management and appropriate managerial best practices.

SCs should not limit themselves to responding to unanswered needs, but ought to make demands on the public sector to acknowledge and identify old and new needs. Concurrently, they should not so much aim at merely filling gaps left open by cutbacks in social spending but, in a problem-setting perspective, strive for the protection and consideration of people living on the fringes of society, seek to satisfy other types of demand that receive little or no response in the market, and to tackle unprecedented problems facing the sector by acquiring a more well-defined role for themselves.

A great deal will be contingent on the willingness of SCs to become more business oriented without losing their sense of mission and social motivation, to become less dependent on public funds as opposed to the demand from the paying

private sector, to improve their ability to take on initiatives and acquire greater autonomy of action, to enhance the quality of their activities and services, to make conditions for workers more secure, to promote involvement in projects and sound policymaking, to urge policymakers to adopt a more streamlined legal framework, and to project greater transparency and less ambiguity to outside bodies and public opinion.

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