

## SOCIAL ENTERPRISES IN EUROPEAN UNION. THEORETICAL ASPECTS

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***Abstract:** In present, at global level, there are important economic and social issues - unemployment, poverty, social exclusion, population aging, environmental issues- that require new approaches. Thus, an important role is held by social enterprises, which represent a business where the main purpose is not economic (obtaining a higher profit), but a social one, the profit returns to the community or is limited distributed between members, respectively members participate actively in decision making. In our paper we define the concepts of social economy and social enterprise and their specific social and economic dimensions. We also try to realize a comparative analysis of these structures in the European Union Member States and their role in increasing the employment of disadvantaged persons.*

***Keywords:** social economy, social enterprise, EU member states, profit, non- profit organization.*

***Jel Classification:** O12, O15.*

### 1. Introduction

The global economic crisis and massive layoffs imposed the assessment of the efficiency of active measures to promote employability. The strategy "Europe 2020 for smart, sustainable and inclusive growth" became the expression of common European efforts to provide jobs and reduce unemployment.

In this context, it has increased the interest in the social economy, due to recognition of the limitations of traditional sectors, both public and private, to meet current challenges in the labor market and the quality and quantity of services of collective interest. This seems to be one of the most bandied solutions due to its ability to create and secure jobs.

Along the time, the social economy has strengthened its position as an alternative form of economic development based on a set of values and socio-economic principles: voluntary, democracy, non-patrimonial purpose, the professional development of members and independence from state. It provides a business development way based on principles of equity, social responsibility and transparency, encouraging democratic participation in decision making. Therefore the crisis changes may be considered "opportunities", whose valuation is due to the social economy as well.

### 2. Theoretical aspects regarding the social economy

The social economy plays an essential role in the European economy, combining profitability with solidarity, creating jobs of good quality, strengthening social, economic and regional cohesion, generating social capital, promoting active citizenship, solidarity and a type of economy that prioritizes people, supporting sustainable development and social, technological and environmental innovation (Ziomas, 2012).

The social economy (Ministry of Labor, Family and Social Protection, 2010) includes all economic activities of enterprises, such as cooperatives, associations, mutual benefit societies, enterprises, foundations and other forms existing in every EU Member State, whose ethics convey the following principles:

- providing services to its members or the community before profit;
- autonomy of management;
- democratic decision-making process.

A comprehensive approach of this type of economy is provided by the International Centre of Research and Information on the Public, Social and Cooperative Economy

(CIRIEC, 2007), according to which *the social economy* is an ensemble of private enterprises with legal personality, autonomy of decision and freedom of association, created to meet their members' needs through the market by producing goods or providing services, insurance or financing / lending, where decision-making and any form of distribution of profit or surpluses among the members are not directly related to invested capital or shares of each member, each member having one single vote.

### 3. Social enterprises- concept and characteristics

The term “social enterprise” is of american origin and represents non-profit organization that has departed from traditional forms of income, such as financial aids, moving towards approaches closer to business area, in order to obtain revenue (according to the Pro Family Association guide).

There are several definitions of social enterprises, that reflect their both theoretical and institutional comprehension. However, one of the most appropriate definition is the one provided by the European Research Network, that suggested a set of common economic and social criteria to identify organizations that may be called social enterprises. These are shown in the Table no.1:

**Tble no.1. Defining social enterprises according to economic and social criteria**

Economic criteria	Social criteria
<ul style="list-style-type: none"> <li>• Continue activity of production of goods and / or services sales</li> <li>• A high degree of autonomy</li> <li>• A significant level of economic risk</li> <li>• Minimized volume of paid work (high level of voluntary)</li> </ul>	<ul style="list-style-type: none"> <li>• An explicit purpose to benefit the community</li> <li>• An initiative launched by a group of citizens</li> <li>• Serving the community or a specific group of people</li> <li>• Promoting a sense of responsibility at local level</li> <li>• The result of a collective dynamics that involves people belonging to a community or a group sharing a certain need or a particular purpose</li> <li>• Decision-making power is not based on the capital property</li> <li>• Participatory nature involving various parties affected by activity</li> <li>• Limited distribution of profit</li> </ul>

Source: Cace, S., 2010. *Social Economy in Europe*. Bucharest: Expert Publishing House.

Social enterprise is an organization whose main purpose is ensuring / providing welfare for the community, created by a group of citizens and where the material interests of those who have invested capital are limited (Borzaga and Galera, 2004). It is an independent organization which takes economic risks deriving from conducted economic activity and involves various stakeholders from the community in the management bodies.

In some countries, social enterprises are usually formed in the same legal structure: may be an association (in France, Belgium and Finland) or a cooperative (especially in Italy where there was adopted the “special cooperative” law in 1991). In other countries, social enterprises exist as different legal forms - from the "ideel" Swedish Association or the "friendly society" British variant, to companies with more classical basic capital, and

somewhere, in the middle of the scale, the "sociedad Anonyma laboral" Spanish approach (Defourny, 2006).

If in Europe, except Great Britain, social enterprise refers to a cooperative or social association formed in order to provide employment services or specific caring services through participative means, in the United States there is included any type of non-profit activity, involving the generation of income.

In some cases, new legal frameworks have been established specifically for economic initiatives with a social objective (Monzón and Chaves, 2012). In addition to the 1991 Italian law for cooperatives, the Belgian Law in 1995 allowed the adoption of commercial classic form, adding the "social finale" qualifying term, if a number of conditions were met. In Greece, "Social Cooperative with limited liability" (for people mentally disabled) was established by law in 1999 and recently (September 2011) has been adopted the new legal framework for the establishment of "social cooperative societies".

The concept of social enterprise is not identical with social economy, forming gradually in order to reflect a new type of organization that was founded in the context of the social economy sector. Social enterprise refers to entities built from the ground, constituting a new form of entrepreneurship and containing some elements of the past experiences of the tertiary sector. This new institutional form can be the best described as a private business with social purpose, reflecting the new orientation of entrepreneurial activities. In other words, it is a new and innovative form of organization, which reconciles economic dimension (business efficiency) and social dimension (solidarity).

Moreover, social enterprise is characterized by a larger participation of various partners, such as employees, volunteers, service users, supporting public or private organizations and others, in contrast with social classic organizations that were particularly homogeneous groups.

A social enterprise operates as an economic agent, produces goods and services offered on the market, but leads their operations and redirects the surplus to achieve the social, cultural or environmental protection goals. Social enterprise has two main purposes:

- achieving social, cultural, environmental aims;
- obtaining revenue for the achievement of the objectives.

Also mention other important features:

- social enterprise requires an entrepreneurial approach to social problems solving and achieving changing at community level;
- uses entrepreneurial methods of achieving the social goal, and the profit is used in particular for accomplishment of the mission;
- profit is mainly used to fulfill social goals and not to provide welfare to shareholders.

More specifically, the social economy entities present the following characteristics:

- private entities that are not controlled by the public sector - in some cases receive funds from the public sector or have members in this sector (see NGOs);
- formal organizations - have decisional autonomy and legal personality;
- freedom of association;
- social economy entities are created to meet their members' needs through application of the self-helping principle;
- are market producers - create products that are sold on markets, assuming economic risk;
- limited distribution of profit;
- democratic organizations - social economy entities are based on the principle of "one man-one vote" in the decision-making process. Thus all members participate in decision-making within General meetings.

Social economy enterprises are characterized by a strong personal involvement of its members in the management of the company and by making a profit. Due to the specific way of doing business, which combines economic performance, democratic functioning and solidarity among members, these organizations contribute to the implementation of some Community objectives, particularly in the fields of employment and social cohesion.

#### 4. Social enterprises models in European Union

At European level it has been imposed a definition based on the French concept of social economy (European Parliament report, 2008), according to which social economy organizations are economic and social actors active in all sectors. They are characterized mainly by their distinct purposes and forms of entrepreneurship. The social economy includes organizations such as cooperatives, mutual societies, associations and foundations. They are particularly active in areas such as social protection, social services, health, banking services, insurance, agricultural production, labor associations, crafts, construction of houses, purchasing, education and training, culture, sport and leisure activities.

In large European conception social economy entities may be:

- traditional non-profit forms: foundations, associations, parishes (forms of religious organization having legal personality in some states);
- associative traditional economic forms: cooperatives, mutual societies;
- classical economic forms: limited liability companies, joint stock companies, public-private partnerships.

We present in the Table no. 2 a picture of social enterprises in several EU countries, and their fields of activity:

**Table no. 2. Social enterprises examples in several EU states**

Sector	State	Example
<b>Personal services</b>	Austria	Activities dedicated to children: child care services, supported by a higher level of parental involvement
	France	Organizations for children conducted by parents: childcare services, driven partly by parents. These organizations have established a national network (ACCEP).
	Denmark	Social residences: residential institutions as an alternative to conventional institutions for children and teenagers with difficulties (based on training and care services).
	Great Britain	Cooperatives for home care: cooperatives that use their members, especially women, to work part time.
	Sweden	Local agencies as cooperatives, developed / organized at national level (FKU); their objective is to rehabilitate and reintegrate people with mental disabilities.
	Italy	Type A social cooperatives: active in health, training and personal services (legal framework adopted by the National Assembly of Italy in 1991).
	Portugal	Cooperatives for training and rehabilitation of children with disabilities; they were united into a single national federation in 1985.
	Belgium	Training firms at work and for integration at work in the south of the country, integration enterprises and social workshops in the north of the country. Companies for

<b>Training / integration / by work</b>		integration at work are supported by different regions have great market orientation and focus on long term employment.
	Italy	Type B social cooperatives, working on integration at the workplace of persons in precarious conditions (legal framework in 1991)
	Germany	Market-oriented social enterprises that receive temporary public assistance. Their aim is to create jobs and promote economic development, but at the same time deal with social integration and employment for long-term unemployment. Jobs are created either in existing private companies or in new companies (in their start-up phase).
	Luxembourg	Associations (and sometimes cooperatives) offering their members integration at the workplace and economic activities in various fields, including environment, agriculture, construction, waste recycling etc. (These are pilot projects subsidized by the state).
	Spain	Societies for work integration for people with disabilities or people excluded from the labor market. In both cases, the current trend is to provide access to employment transition, with the aim of integrating, eventually, the target groups in conventional market of jobs, rather than to offer them long term "protected" jobs.
<b>Local development</b>	Finland	Cooperatives of work in regions, organized into nine development agencies (CDA); constitute an important support point for economic development at regional and local level. These cooperatives differ from traditional workers unions because they subcontract their employees services to other companies.
	Netherlands	Enterprises for Management Districts: independent enterprises that develop neighborhood services; they provide the residents of disadvantaged neighborhoods the opportunity to perform paid work either in the maintenance / improvement of private residences and common infrastructure or by providing social services in their neighborhood.
	Greece	Farm tourism cooperatives: cooperatives established by women who live in rural areas with tourism potential; they provide services in accommodation, food and small crafts.
	Ireland	Local community development companies with varying statuses, provide a diversity of services, including social housing, credit unions for labor integration, neighborhood services and others.

Source: Ziomas, D., 2012. The emergence of new forms of social economy: The case of social enterprises. *European Journal of Social Economics*, 2(3), pp.5-11.

In addition to the above examples, in Greece, "Social cooperatives with limited liability" have been established in order to provide jobs and training in working conditions to meet the specific needs of people with mental disorders. These therapeutic and

economic cooperatives are commercial organizations that can develop and carry out any economic activity in entrepreneurship, in order to serve their social purpose.

### **5. The distinctive features of a social enterprise to a nonprofit organization and to the small and medium enterprise**

Key elements of differentiation of a social enterprise by a non-profit one are : a) business perspective, that operates on business criteria, b) autonomy, in contrast to state dependence observed in other non-profit organizations, c) applying the economic criterion in their operation (balanced budget) and d) a combination of resources (income) in and out the market (subsidies). Moreover, apart from more precisely entrepreneurial nature, social enterprise is characterized by greater participation and a greater involvement of the different shareholders through democratic control forms and management (a lesser degree of paternalism), through a closer partnership with public authorities and a greater integration of their policies.

In Romania, the entities that have most of the social enterprises features, described in the Report on social economy (2009) conducted by the Committee on Employment and Social Affairs of the European Parliament, are non- profit organizations and protected units.

*Non profit organizations* in Romania are, at this moment, the most important actors of social and community development through both their number and diversity of services provided. Characteristics of the activities of these organizations approach them mostly to the concept of social enterprise:

- are involved in providing social services either to groups of persons in difficulty or members of their communities;
- have a participatory and consultative approach in planning and conducting their activities;
- benefit of independence from the public authority, establishing their own priorities, even if some (or all) the necessary funds come from public authorities;
- they are established as non-profit organizations. If the non-profit organizations carry out income-generating activities, surpluses obtained are used in order to achieve the goals of organizations.

*Protected units* are organizations that may be established by any person or entity, public or private, that employs people with disabilities (According to Government Decision no. 268/2007 concerning the normative regulations for the application of Law 448/2006 on the protection and promotion of rights of people with disabilities, Article 44).

Also, regarding the differences between social economy enterprises and those which make up the traditional economy (generating profit), these are described in the following table:

**Table no. 3. Difference between social and traditional economy**

	<b>Traditional economy</b>	<b>Social economy</b>
Purpose	Maximizing profit	Solving a social problem
Position of social benefits	Secondary	Central
Main source of financial resources	Valorization of goods / services provided	Economic activities, donations, sponsorships
Organization form	Economic Organization	Variable depending on purpose
Money scope	Goal in itself	Instrument

Source: Pro Family Association, a guide for setting up a social enterprise in rural areas covering agricultural products and handicrafts.

### **6. Social enterprises - new sources of employment**

Social changes that have occurred in recent decades in developed countries have marked the transition from a society characterized by the production of material goods and meeting the primary needs of production services of society to achieving complex and diversified needs leading to improving the quality of life and work. The main factors that are considered to be the basis of this transformation are:

- demographic change and living conditions, namely an aging population, changes in family structure;
- changes affecting work and family life: women entering the labor market, changes in the use of time and space;
- changes in relations between individuals and their environment, more specifically, the impact of new communication and information technologies on the daily lives of individuals and families and / or increasing awareness related to environmental protection.

The European Commission acknowledged in 1995 that these changes have generated new social needs and, consequently, an increased demand for services that the market could not meet. For this reason, the European Commission identified at the beginning 17 new areas of economic activity (later they increased to 19) in the service sector, with a significant potential growth and new jobs at local level, called "new sources for work". Thus, there are areas or sectors where new job opportunities are identified and where we have new profiles or skills.

The areas of activity that have been identified as crucial for the implementation of interventions in the social economy have been classified into four main categories: community service, audio-visual industry, recreation and culture, improving lifestyle and environmental protection.

However, the concept of "new sources of employment" is founded on the interaction between the need to meet the new social expectations and to fight unemployment, by encouraging the creation of jobs (interaction can be the best observed locally). The local market is the place where social needs are the best identified to increase economic activities and exploit present opportunities for creating new jobs (European Parliament's Committee on the Internal Market and Consumer Protection, 2016).

Therefore, the activities of social economy seem to be one of the most effective means, on the one hand, to meet local needs unfulfilled by the market and which the state, for a number of reasons, it is unable to take them over and, secondly, to assist the most disadvantaged social groups to return to employment market.

As regards the last aspect, it was emphasized that the formation and structuring of these new areas of economic activity promotes the growth of economic independent activities (taking an organizational collective form) that facilitate vocational integration of groups of people who are most threatened with exclusion from the labor market (young people, women and disadvantaged groups).

However, as the European experience demonstrates, the important areas for implementation of interventions in which the social economy organizations are in position to play a major role can be grouped, for operational reasons, in the following three categories:

- services that improve quality of life - social services at local level: modernization of housing; redevelopment of urban public; local public transport; home care services; childcare; Support for young people in difficulty or other disadvantaged groups.

- services for the environment: waste management; water use; protection and maintenance of natural areas; regulation and monitoring of pollution.

- cultural and recreational services (media and sport): cultural heritage; local cultural development; tourism; audio-visual sector.

All these categories have at least four common elements:

- the aim of their business is to meet social need;
- have an area of production or service delivery that is delimited territorially;
- are intensively focused on jobs;
- are established within some incomplete markets.

## **7. Social Economy in Romania and EU**

The concept of social business began to take shape in Romania in the last decade, after there were launched more governmental funds in the social economy. Nowadays, more and more companies are willing to invest in social affairs, which operate exactly like a business, but they also have a social component, by hiring people with disabilities or long-term unemployed.

According to the Ministry of Labor, in 2016 there were over 10.000 legal entities, in various forms, operating in social economy; however, only 1,7% of the Romanian employees activate in social economy, much below the EU average of 6,5%.

According to the Annual Report of the Social Economy Europe for 2015, in the EU there were about 2 million enterprises and social organizations, representing approximately 10% of all European businesses. Social enterprises had, in 2010, more than 14,5 million employees, meaning 6,5% of the entire population of the EU employed.

In contrast with the trend of increase in the number of unemployed people, in recent years, there have been studies according to which social economy recorded a growth in the number of employees, from 11 million in 2002-2003 to 14,5 million in 2009-2010. For some European countries, there are statistical data that support the hypothesis that social economy is a source of job creation and economic development of states:

- France, the social economy represents 10,5% of the jobs (+ 0.2% in 2015), contributing with 6% to GDP.

- Spain, the social economy represents 12,5% of the jobs (+ 0.2% in 2015), contributing with 10% to GDP.

- Italy, 2,2 million people are employed in the social economy sector (+ 39.4% over the last 10 years). Italian social economy has contributed with a total of about 200 billion to GDP.

## 8. Conclusions

In recent years, the social economy has contributed efficiently to solving emerging problems, managing to strengthen its necessary sector position needed for a balanced and stable development of both the state and the business environment. Social economy entities have managed, to some extent, to reduce the differences between classes, to compensate the shortcomings that the state has in the provision of various services, to support the labor market, through the inclusion of various vulnerable groups, to increase substantially the living standards of people and strengthen democracy.

In Europe, the social economy is made up of a multitude of actors, managing to produce social utility and cover needs that neither the public sector nor the business succeed.

Social economy is addressed to all forms of social needs and the funds needed for these efforts are obtained either through donations and grants either, as desired lately, through implementation of economic activities whose profit would be directed to such services.

Regarding the social enterprises, their key role is due to the system of values (economic democratic alternative) and attention for the active inclusion of disadvantaged groups. Social enterprises respond to labor market imbalances: unemployment, job instability and social exclusion of the most vulnerable people. Social enterprises are widespread in Europe. However, our country's legislation does not regulate this form, but it is envisaged the development of the conceptual and legal definition of social enterprise in Romania.

In conclusion, we can say that the effort to combine social objectives, user protection, entrepreneurial leadership, enables social enterprises to strike a balance, which both conventional firms and traditional nonprofit organizations can achieve it with difficulty.

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