



Organisation de Co-opération et de Développement Economiques  
Organisation for Economic Co-operation and Development

English text only

PARIS

OECD/LEED FORUM ON SOCIAL INNOVATIONS  
INTERNATIONAL SEMINAR

**THE ROLE OF THE NON-PROFIT SECTOR IN LOCAL DEVELOPMENT: NEW TRENDS**

**11-12 September 2000**

**International Monetary Fund  
Meeting Hall A  
700 19<sup>th</sup> Street NW  
Washington DC**

**THE INNOVATIVE TRENDS IN THE NON-PROFIT SECTOR IN EUROPE:  
THE EMERGENCE OF SOCIAL ENTREPRENEURSHIP**

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*This initiative is the result of an ad hoc collaboration between the LEED Programme and the European Commission (Directorate General for Employment and Social Affairs) as well as the German Marshall Fund of the United States.*

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## **REFERENCES**

## **1. Introduction**

In European countries, there was little, if any, interest in the non-profit sector until the end of the 1980s. The few papers written up to then by sociologists and political scientists were exclusively concerned with the contribution of voluntary or civic organisations to public social policies, since these, mainly advocacy organisations were deemed forms of direct democracy. The only not-for-profit form approached by economists was the co-operative (mainly worker co-operative).

From the end of the 1970s onwards, the interest in the non-profit sector started to grow. The interest of researchers, academic centres, the public at large, the European Commission and national governments towards the sector has steadily increased, particularly because of its ability to provide new social services, its job creation potential, - especially in favour of long-term unemployed - and its capacity to promote social cohesion.

The first systematic researches on the dimensions of the non-profit or third sector in Europe date back to the early 1990s and have developed throughout the decade (see Salamon and Anheier, 1996; Salamon and Associates, 1999, CIRIEC, 2000). These researches stress the fact that the non-profit sector also has its own specific weight in Europe as to number of organisations, added value and employment. In several countries this importance is by no means marginal, sometimes the same as and in some cases even higher than in the United States. This means that the non-profit sector was well established in most European countries even before its recent discovery by researchers and policy makers. However, it remains to be explained why, after being ignored for decades the non-profit sector has become of general interest.

The reasons for such a rediscovery are many. The most important ones are to be identified with the crisis of the European welfare systems built up during the nineteenth century and with the innovative characteristics taken on by non-profit organisations that have developed since the 1970s.

The European welfare systems had been established on a division of tasks between the state and the market and had pushed the non-profit sector aside. In some countries during the nineteenth century, many non-profit organisations were even eliminated, whereas in others they were made heavily dependent on public policies. However, the crisis in these welfare models, which began in the 1970s and has grown progressively, has made more room for private initiative, especially in the production of social services, where most European welfare systems were failing. And it is exactly the dissatisfaction with the insufficient supply of social services that explains for the development of the new non-profit initiatives.

As some researches have demonstrated (EMES, 2000), the non-profit experiences developed after the '70s are more autonomous and entrepreneurial than traditional non profit organisations.

To stress these new characters of the non-profit sector, the term 'social enterprise' was introduced (EMES, 2000; OECD, 1999).

These new trends in the third sector were at first underestimated by researchers and policy makers, who rather stressed the voluntary and precarious dimension of the new organisations. Since the 1980s, the sector has been increasingly taken into consideration. Accordingly, it has become the object of a growing number of research projects and of several supporting policies at the European, national and local level. However, the interpretation of this development is still uncertain,<sup>1</sup> and the supporting policies have been to date unsure, occasional and often uncoordinated. The outcomes of these policies are still controversial.

The paper will attempt review over the evolution of the third sector in Europe. In order to comply with this task, it is necessary though to move from a prevailing static and statistical (Salamon and Anheier, 1996; Salamon and Associates, 1999) to a historical-dynamic approach to the sector under consideration. This shift will also take into account the evolution of the welfare state. Indeed, the strong interdependence between the welfare state and the non-profit sector is one of the most important features of the non-profit sector in Europe. In this respect, both the size and the characteristics of non-profit organisations in Europe depend on the way in which the welfare state is devised.

However, it is nonetheless necessary to state clearly that the analysis carried out herewith cannot but be incomplete and a little more than introductory. The differences among the European welfare models are indeed remarkable and have increased over the last twenty years according to the diversities in the reforming policies accomplished. The legal systems are different as well. Accordingly, the characteristics of the non-profit sector in the different countries and its recent evolution are also different. Notwithstanding these shortcomings, the authors believe that it is useful to carry out an analysis at the European level, at least as a first insight for future researches, which will have to be held in every single country.

The paper is divided into two main parts. The first one is aimed at tracing briefly the historical evolution of the non-profit sector in Europe (par. 2) and at providing a synthetic classification of the role assigned to the sector by the different welfare state models during the period late 1960s – early 1970s (par.

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<sup>1</sup> Indeed, there coexist several different ways of defining the sector, such as 'third sector', 'third system', 'social economy', 'non-profit sector', each one of which encompasses different groups of organisations.

3). The second part of the paper begins with a brief analysis of the causes of the crisis of the welfare state (par. 4), especially of the space that this crisis has opened up for the development of the non-profit sector; par. 5 will deal with the development of the new non-profit initiatives by highlighting a) their main characteristics, etc; b) the main fields of activity; c) the evolution of the relationship with public authorities and for-profits; par. 6 will focus on the contributions of the non-profit sector to European societies and economies. In par. 7 a comparison with the United States will be made and, finally, the concluding paragraph (par. 9) will include some insights into supporting policies.<sup>2</sup>

## 2. Historical background

Let us now try to place the evolution of non-profit organisations within the historical context in which they have developed over the centuries in Europe.

Until the end of the eighteenth century, charities, mutual organisations and co-operatives, freely developed according to the changing social needs of the community. Social work, health care, alms-housing and education were all areas in which charities and mutual benefit societies evolved.<sup>3</sup> Human and material resources were invested in non-profit organisations which in their turn would distribute them to the community or a significant part of it. The Governments would mainly ensure that charities carry out their objectives according to their original spirit and purposes. As long as a charity was established to achieve a beneficial purpose it could live on without being checked or hindered. In England, for instance, the relations between charities and the Government were mostly defined by co-operation and mutual support rather than conflict or antagonism. It was in the Government's interest to sustain and help charitable organisations to grow and develop, not only because such intervention would take a certain number of responsibilities away from the Government itself but also because this approach was perfectly in line with the liberal culture of the time. Charities then performed their activities in several areas, such as education, elderly care, poor relief, and so on, especially in the big towns during the Industrial Revolution.<sup>4</sup>

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<sup>2</sup> The paper privileges an institutional and economic approach. Nonetheless, it is largely consistent with other scientific contributions based on sociological or political approaches (see Evers, 1999; Laville and Nyssens, 2000). In writing up this paper, the authors have drawn heavily on the works carried out within the EMES network, in which they have taken part.

<sup>3</sup> The English Charitable Users Act of 1601 read as follows: 'Charity is[...] *the relief of the aged, impotent and, poor; help for sick and mutilated soldiers and sailors; freeing schools and universities; repairing bridges, pavements, ports, churches, main streets and shores; educating and promoting orphans; help, relief and assistance to the prisons; marriage of poor householders; attention and rescue of prisoners; relief of any poor inhabitants as to the payment of taxes and rates*[...]'.<sup>4</sup>

<sup>4</sup> The urban population, which consisted of workers living in cities like London, Norwich and Bristol, was considered to be 'a sort of wild, savage, unwelcome people, whom nobody knew and nobody visited'. Jones, 1967.

In France, on the other hand ‘while part of the community of associations arose from a philanthropic desire for social peace, the dominant philosophy was a republican egalitarianism reflected in a broad-based appeal to a multifaceted concept of solidarity [This solidarity principle] eventually led the country beyond the dichotomy between liberalism and statism’.<sup>5</sup>

From the end of the eighteenth century, non-profit organisations were seriously affected by three shocks, which hardly hit the sector in different ways according to the single country involved:

- a) the ideology of the French Revolution, which exerted a huge influence, especially on France and Italy;<sup>6</sup>
- b) Fascism and Nazism, which brought with them a deep fight against any expression of civil society and forms of local autonomy. These regimes affected mainly Germany and Italy;
- c) the formation of universalistic welfare state systems, which influenced, though to a different extent, all the European countries.

a) Starting from the end of the eighteenth century, when the French Revolution broke out, in Europe, except for England,<sup>7</sup> a kind of suspicion of and aversion to charities began to grow. They were mainly regarded as belonging to extraneous powers, especially the Catholic Church, which were to be reduced because they represented a third party between the Government and individuals. Indeed, these were the only two subjects that the ideology of the Enlightenment recognised: the state was the highest and supreme interpreter of the people's will and no other established body could exist because citizens had to strengthen the authority of the state in order to widen and protect their individual rights. The liberal form of the state, which the French Revolution affirmed, implied the isolation of individuals in front of the state. Accordingly, the legitimacy of intermediate bodies was to be denied, the only freedom thus being that referring to single individuals and not to social groups such as corporations, foundations and associations, which were consequently excluded *a priori* from any active role and welfare function. In continental Europe, therefore, that which had been always peculiar to charities and voluntary organisations was

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<sup>5</sup> CIRIEC, 2000, p. 108.

<sup>6</sup> Since this analysis is limited to Western Europe, the effects of Socialism and Communism in Eastern Countries are not taken into account here.

<sup>7</sup> The history of British charities and voluntary sector has always been defined by the search for a partnership with the state. ‘In the late nineteenth century, the voluntary sector took the lead in establishing the nature of the partnership; in the later twentieth century it is Government that has proposed a new ‘Compact’ on relations between the two sectors (Home Office, 1998)’. J. Lewis, *Reviewing the Relationship between the ‘Voluntary Sector’ and the State in Britain in the 1990s*, mimeo, 1999, p. 1.

replaced by the authorities of the state.<sup>8</sup> In any case, such an approach was often characterised by an ideological bias. In France, as well as in Italy, the action that the Government exerted on associations, especially on their carrying out economic activities, was rooted in the intention to prevent the Catholic Church from consolidating its power.<sup>9</sup> Just to mention an example, in Italy, the Government did not hesitate to pass some acts that prevented religious and charitable organisations from owning property, from developing their resources and finally from carrying out activities without a specific state authorisation.<sup>10</sup> The suspicion towards not-for-profit organisations has contributed to fostering the isolation of these organisations which have been regarded as a residual aspect of social and economic relations. Where this was not the case, the authorities of the state carried out some statutory acts aimed at incorporating the functions of private charitable organisations into public bodies that were directly controlled and managed by the Government.<sup>11</sup>

b) Fascism and Nazism were based on a strong centralised state. It followed that all existing not-for-profit organisations, including co-ops, were either to be incorporated within the bureaucratic mechanisms of the state or suppressed altogether.<sup>12</sup> In Germany, the co-operative movement lived two different stories.

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<sup>8</sup> Conversely, in Great Britain, the frontiers between the voluntary and statutory sectors have been moving along the centuries. On the one hand, there have been parts of the British voluntary sector that have never been independent of the state, but rather have been linked by royal charter, patronage and networks of elite kinship, while others, such universities or the Medical Research Council are linked to the state in ways that smack more of 'fusion' than partnership. Lewis, *op. cit.*, p. 2.

<sup>9</sup> See CIRIEC, *op. cit.*, p. 109.

<sup>10</sup> It was only in 1997 that Section 17 of the Italian Civil Code of 1942 was repealed. This section provided for a specific authorisation on the part of associations and foundations had they intended to purchase a building or to accept donations or bequests in the form of assets.

<sup>11</sup> In Italy, this process occurred with the passing of the Act of 1890 relating to Welfare and Benevolent Public Institutions - still today partly in force - by which the Government institutionalised benevolent and philanthropic organisations that traditionally were the expression of society. From a legal point of view, it is with the Act mentioned above that the terms 'state' and 'public' started to be regarded as synonyms and were to be considered as such even later. Public, therefore, has been identified with state provisions of social services and not with the purpose that the organisations, both public and private, pursued.

<sup>12</sup> In particular, Fascism intended to strike the second-level organisations, since they were fundamental in defining the behaviour of their members and were the real powers of the whole co-operative system. In this respect, the Government of the time sought to crush local Federations and to concentrate the control and co-ordination activity of co-operatives in bodies at the national level. By Law No. 2288/1926, the Ministry of National Economy was entrusted with the supervision over all co-operatives, except for credit and insurance ones. Furthermore, by the same act, the National Agency for Co-operation was created, which was to be act as a kind of administrative branch of the ministry for all the control, development and co-ordination of co-operatives. The aim of such action was not either to paralyse or to destroy the co-operative movement, which represented a very important sector to the whole Italian society of the time, but rather to make the ideal motivations that supported the movement sterile. Such bias ended up with violating the principles of free association that had always inspired the co-operative movement, so much so as to jeopardise the natural development of co-operation, the basic origin of which was turned upside down. For

On the one hand, the insurance mutual and credit co-operatives, representing mostly the interests of the middle classes, proved to be very successful. These co-ops expanded during the Weimar Republic, survived quite well during the Third Reich and eventually recovered easily after the end of Nazism. On the other hand, the co-operative movement linked to workers, especially housing co-ops, was hindered during the Nazi period.<sup>13</sup>

c) The building of the modern welfare state started at the beginning of the twentieth century. It is, however, from the late 1940s that policy makers began to move towards a conception of a universal welfare state, i.e. a system in which the authorities of the state were to play a major role in the delivery of collective and public goods and services. With the evolution of welfare state systems, not-for-profit organisations could not but change their basics.<sup>14</sup> Therefore, those private not-for-profit organisations that had survived until then decreased in their importance and began increasingly to concentrate their activities in fields in which any economic or distributive implications were to be excluded.

These three shocks have hit the different countries in different ways. Some countries, like Italy, have suffered from all three shocks, though with different intensity. Others, like the United Kingdom, have suffered only from the last one.<sup>15</sup>

According to the nature and intensity of the shocks the following has taken place:

a) in some cases, non-profit organisations, or large parts of them, were ‘transformed’ in their original nature by making them come within the public sector;<sup>16</sup>

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further details on the Fascist period and the co-operative movement, see E. Corelli, 1979; M. Degl’Innocenti, 1981; G. Galasso, 1987.

<sup>13</sup> See I. Bode – A. Evers, 1998.

<sup>14</sup> In particular, in England, with the development of major national social programmes, ‘voluntary organisations no longer aimed to be the first line of defense for those in need as they had done in the early part of the century[...] Beveridge, while best known as a leading architect of the welfare state, was also a firm believer in voluntary action and harked back to the turn-of-the-century insistence on the importance of the ‘spirit of service’ and the ethical purposes of charity. The good society could only be built on people’s sense of duty and willingness to serve. The voluntary sector was in this sense a counterweight to both the ‘business motive’ and a necessarily rule-based state bureaucracy, albeit that it continued to be seen as supplementary or complementary to the state. Ethical purpose and public benefit (one interpretation of which is of course entrenched in English charity law) have continued to provide the basis for the case for voluntary action’. J. Lewis, 1999b, p. 260.

<sup>15</sup> However, one is to acknowledge that it is not accidental that the current size of the non-profit sector is particularly limited in those countries, like Italy, which were hit by all the three above-mentioned shocks.

<sup>16</sup> It is the case of Italy where, for instance, the Red Cross was originally set up as a private non-profit organisation, which later on was subjected to public regulation, thus making it a paramilitary force of the



- b) in other cases, non-profit organisations were incorporated in the welfare system: they formally and legally remained private organisations but they were to be subject to administrative and bureaucratic checks, thus losing their autonomy;
- c) in almost all countries, the non-profit organisations that were not part of the welfare system were prevented from developing productive activities, that is, business. It followed that non-profit organisations were left with the possibility of carrying out only advocacy functions.

The ensuing civil and tax legislation is consistent with the foregoing trend. Indeed, from a tax point of view, with respect to the US, tax deductions are much more restricted both for donors and for non-profit organisations, which generally cannot benefit from these deductions when they carry on commercial activities.

### **3. The non-profit sector in the European welfare models until the 1970s**

The outcome of the combination of the three different shocks and of their relevant intensity can be outlined by depicting three main welfare models. These correspond to different ways of conceiving the non-profit sector and, accordingly, its different functions and dimensions. Although not all countries fit closely into one of these groups, the classification helps to explain the differences in the spread of non-profit organisations at the beginning of the 1970s.

The first group consists of countries with a well-developed, universal welfare state engaging both in public services provision and in cash benefits (pensions, unemployment benefits, vital minimum, and so forth). Sweden, Denmark and - though to a lesser extent - also Finland fall within this group. Until the reform that led to quasi-markets, England too belonged to this group. In these countries, non-profit organisations were confined almost exclusively to play an advocacy role. Accordingly, this means a widespread third sector (in which there is a strong participation of citizens in associations) with little significance in the direct provision of social and collective services.

The second group consists of countries also having a developed and universal welfare state, although largely based on cash benefits, with a limited commitment on the part of the government to direct supply of social services. Here both the family and the traditional third sector play an important role in the social and community care services provision, mainly funded by public authorities. Germany, Austria, France, Belgium, Ireland and the Netherlands fall within this group. In these countries, the non-profit

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state. The same occurred to ACI (the Italian Automobile Club) which was established as a private non-profit association to become later a branch of the public administration.

organisations were widely involved in the provision of social services with well-established financing rules. This has caused a strong dependence on public authorities not only for funds, but also as to the sectors of activity and with regard to the specific ways of service organisation. The above-mentioned countries are those in which the welfare system has frequently been built up by incorporating non-profit organisations into the public welfare policies (though without making them public) and more generally in the supply of public services (see the school system in Ireland and in Belgium and the system of mutual associations in Germany).

The third group includes countries with a less developed welfare state, especially until the early 1980s, largely based on cash benefits, with a limited, public provision of social and community care services confined to few sectors (education and health). Since the welfare state was less developed than in other countries advocacy organisations were not spread out either. Italy, Spain as well as Greece and Portugal belong to this group. As the provision of social and community care services was mainly entrusted to the family and informal networks, the non-profit organisations providing social services have developed only to a certain extent.

In concluding this paragraph, it is possible to state that only in the second group of countries non-profit organisations had some real weight. However, when compared to the US model, this group appears to be scarcely independent of and often different only formally from public services.

#### **4. Some features of the crisis and the evolution of the European welfare models**

Starting from the 1970s, the European welfare systems have begun to crumble under the burden of financial and organisational difficulties. The decline in the rates of economic growth and the rise of unemployment were at the origins of this crisis which, at the beginning, was mainly of a fiscal nature and led to growing public deficits. While public revenues grew at a slower rate than in the past, public expenditures increased faster, especially in countries with generous subsidies for the unemployed and for the retired and pre-retired.

In the first stage, most European countries reacted against the fiscal crisis both by reforming employment subsidies and by restructuring, slowing down or blocking the growth in the public supply of social services. However, the increasing inability of traditional macroeconomic and employment policies to reduce unemployment, and to respond to an ever-swelling demand for social services, which proved to be increasingly differentiated and attentive to quality, gave birth also to a legitimacy crisis of European welfare regimes. In fact the crisis of the welfare system coincided with a declining of the family informal

provision of social services, mainly due to the growing participation of women in the labour market and to the reduction in the size of families.

When European policy makers realised that the decline in economic growth was a lasting phenomenon, they tried to implement a wider reform of welfare systems. With regard to public services provision, action was undertaken in order to steadily reduce its impact on the public budget, and to tailor, at least in theory, the supply of services to users' needs. This was done by decentralising to local authorities some power in deciding and implementing social policies, by introducing prices and tariffs, by privatising some services, and by shifting from passive to active labour and employment policies. However, the introduction of prices and tariffs often affected the more needy, thus reducing social cohesion.

Policies for privatisation of social services provision have been implemented both by separating financing responsibility, which was kept by public authorities, from services provision, which was contracted out to private enterprises, and by ceasing the production of some services. This set of changes has allowed for both a growth in the demand for private providers of social services by local public authorities, and for a wider range of needs opening new spaces to the non-profit action. Moreover, the supply of services has been made more dynamic by de-centralisation and policies aimed at separating purchasers from providers. De-centralisation and the consequent shift of responsibility to local authorities, closer to citizens' needs, has allowed for a better acceptance of civil society's initiatives and has made their public funding more viable. The separation of purchasers and providers has stimulated supply and especially boosted the establishment of new initiatives in a sector that for-profit enterprises regarded as of little interest to them.

A more specific reduction of the public policies, though important in explaining the development of the non-profit sector, can be found in the failures of traditional labour policies and in the difficulties in shifting from regulatory, and mainly passive, policies to active ones. These difficulties are associated with workers who find it hard to enter or re-enter the labour market, and whose number and duration of unemployment have progressively increased over the years, especially in France, Germany and Italy.

## **5. The emergence of the new non-profit sector**

The evolution of the crisis and the reforms of welfare systems has gone with a revitalisation of the non-profit sector.

Since the 1970s, in almost all the European countries some of the existing advocacy organisations and several new groups of citizens started providing social services, especially for groups affected harder by the economic crisis and not covered by public social policies. Their action was, at the beginning, autonomous from and often in open contrast with the public policies and largely based on voluntary work.

During the 1980s and the 1990s the collaboration with the public authorities grew as a consequence of the changes in the public policies. The more systematic funding policies established during the 1980s and the 1990s contributed to strengthening the role of the new non-profit organisations. However, the growth in numbers and economic size of non-profit organisations is only one aspect of this evolution. The new organisations differ from the traditional non-profit in several respects. In this paragraph we try to summarise the most important of these differences.

### **5.1 *Main characteristics of the new non-profit organisations***

The new non-profit organisational typologies emerged from the 1970s display the following main characteristics:

- a) they are characterised by a productive and entrepreneurial behaviour: since their aim is the provision of services to meet needs often not recognised by public authorities, and not simply to advocate they must organise a productive activity and find the economic resources. Since the beginning, most of the new non-profit organisations have based their activity on a mix of resources (donations, volunteers, and public funds) and are market-oriented;
- b) they show a high propensity to innovate the supply of social services from several points of view: in the types of services provided, in the target groups (often the more marginalised) and in the organisation of the services provision (high attention to active policies and to the empowerment of users);
- c) they pay particular attention to the creation of new job, especially for hard-to-place people (long term unemployed youth);
- d) they stress the local dimension of their activity, the strong link with a well-defined community and with its needs;

- e) although they do not distribute profits, they do not always assume as the main or distinctive characteristics the non-profit distribution constraint. Yet they give more importance to the clear definition of the social goal, to the different stakeholders representation, and to democratic control and management.

Compared with the traditional European non-profit organisations the new organisations are:

- a) less interested in advocacy or interested in it as a secondary purpose;
- b) more autonomous: they derive resources from a plurality of suppliers and they enter into relations with the public authorities as independent parties, often on the basis of contracts;
- c) more attentive to employment creation, especially for disadvantaged people and, consequently, more interested in collaborating with for-profits;
- d) attentive to defining an ownership structure, capable of guaranteeing the participation of the stakeholders and self-management;
- e) locally based and generally small-sized, though the traditional non-profit organisations were large and operated at the national level;
- f) oriented to the creation of new services not provided by other organisations, and to new ways of answering the social needs.

One of the most interesting organisational innovation is probably the creation of the ‘multi-stakeholder’ form, in which the membership and the executive board are shared among volunteers, workers, consumers and public authorities<sup>17</sup>. This organisational innovation can be seen as a way of taking into account the different interests characterising the production of social services.

However, the new non-profit organisations have profoundly changed not only the goals of the traditional non-profit organisation, their management and operational methods<sup>18</sup> but, in many cases, also the legal forms. At the beginning of their development, the legal forms available for the new organisations

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<sup>17</sup> See CGM-CECOP, 1995; CECOP-Regione Trentino Alto Adige-CGM-European Commission, 1996; United Nations, 1996; V. A. Pestoff, 1994, 1996; R. Spear, 1995.

<sup>18</sup> The changes brought about in British non-profit organisations by the introduction of the NHS and the Community Care Act are well documented in two works by Taylor and Hoggett (1994), Langan and Taylor (1994).

were associations and co-operatives. These forms were not deemed fully compatible with activities, which simultaneously were to be socially oriented and productive.

Largely spread in the civil law systems, especially in France, Belgium and Italy, the association was born as a 'moral entity' for idealistic purposes, originally even hampered by the authorities of the state<sup>19</sup> and rigidly separated from companies at large. Accordingly, the association was at the beginning explicitly forbidden to carry out commercial and productive activities, thus being distinguished by the absence of a continuous productive or 'speculative' activity. Although progressively, with the change in the activities carried out, associations have been allowed to manage the production of services of general interest, associations were never granted a full entrepreneurial status.

Unlike the association, the co-operative society is considered by all European legal systems as an enterprise. And with the association, it shares the social purpose. Indeed, since co-ops were often established by groups of people who were damaged by the market, they were generally regarded as enterprises with a specific social purpose. For this reason, in Europe they have been generally limited in the distribution of profits.<sup>20</sup> However, co-operatives were characterised by the meeting between member and beneficiary and by a membership consisting of only one category of stakeholder.

The new organisations used both these legal forms, often even beyond the limits permitted by the law, to organise their activities. In some countries, the organisational changes introduced by these organisations have been recognised by the legal system, as in the case of the Italian 'social co-operatives', of the 'social solidarity co-operatives' in Portugal and of the '*entreprise a finalité sociale*' in Belgium. The latest interesting evolution is the project to set up a form of 'co-operative of general interest' in France.

To summarise this complex evolution and to provide a better identification for these new non-profit organisations, the term 'social enterprise' has been introduced (Emes, 2000). The definition of what social enterprises are, helps to summarise the recent evolution of the European non-profit sector.

As regards the entrepreneurial side, four elements are considered as the most relevant: 1) a continuous activity producing goods and/or services; 2) a high degree of autonomy; 3) a significant level of economic risk; and 4) the presence of paid work. A possible fifth parameter might be added: a

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<sup>19</sup> In France, for example, it was only in 1901 that the legislature passed a statutory act by which associations were recognised as subjects at law, no longer to be suppressed or destroyed as they had been during the Revolutionary period.

<sup>20</sup> Nonetheless, they are not considered, in international literature, as non-profit organisations.

market orientation, which means that a significant part of the organisation's income has to be derived from the market (services sold directly to users) or from contractual transactions with public authorities.

Five indicators depict the social dimension of these organisations: 1) an initiative undertaken by a group of citizens; 2) direct participation by the persons affected by the activity; 3) power not based on capital ownership; 4) limited profit distribution; 5) an explicit aim to benefit the community. The innovativeness of the service produced, with regard both to the typology of the services supplied (which also meet needs not traditionally addressed by the public welfare systems) and to the productive processes, can be seen as another specific, even if not essential, characteristic of these organisations.

## **5.2. *The fields of activity***

The new non-profit organisations are engaged in different activities. However, it is possible to break these activities down to two main fields: work integration and social and community care services provision.

Work integration non-profit or social enterprises are basically present in all the European countries. They partly stem from the foregoing experiences of sheltered employment workshops, but with at least two important differences: firstly, they are generally less dependent on public funds and pay more attention to market dynamics; secondly, they pursue the objective to ensure that employed disadvantaged people earn income comparable with that of other workers. Moreover, several of these organisations have the explicit aim of providing disadvantaged workers with job training, and they increasingly organise employment services with the ultimate aim of helping workers to integrate into the open labour market. In some countries, work-integration initiatives employ very specific groups of workers, mainly not supported by existing public employment policies (as in Spain). In other countries, social enterprises encompass a broader range of people and employ thousands of workers (as in Italy).<sup>21</sup> Whereas the traditional sheltered workshops fall within passive labour policies, the new work integration organisations are fully, innovative tools of active labour policies for the same groups of workers.

A large part of work integration non-profit organisations is autonomous from the public sector and open to market relations. Some of them operate in new activities, generally labour intensive, disregarded (at least during the 1970s and the 1980s) by for-profits (see the case of recycling activities). Several of them cover all the expenditures, too, for training disadvantaged workers, supplying goods and

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<sup>21</sup> For a wider presentation and a theoretical analysis of the work-integration initiatives, see Defourny, Favreau and Laville, 1998.

services to private consumers or to for-profit enterprises. Often, the only public subsidies are the employment subsidies on which any enterprise employing the same types of workers can rely.

The second field of activity of new non-profit or social enterprises is represented by social and community care services provision. These non-profits, too, are spread out in almost all European countries, but with major differences with respect to work integration social enterprises both in the number of enterprises and in the types of service supplied.

Their diffusion largely depends on the organisation of the national welfare state.

In the countries with a well developed welfare state, classified as belonging to the first model (par. 3), the new non-profit organisations developed only in specific sectors: normally, those in which the government or local authorities reduced voluntarily their own presence as providers, but maintained the role of financing; or those in which there was not an organised public supply.

In the countries belonging to the second model, the presence of new non-profit organisations is uneven: they have developed more in some countries (France and Belgium) or in some regions than in others and often operate in niches, mainly in the provision of new services and exploiting public resources not specifically geared to the production of social services (e.g. employment subsidies). The wide involvement of traditional non-profit organisations in social services provision and the well-established financing rules that characterised these countries explain this uneven development and the fact that, more than in countries belonging to the other two models, the new non-profit organisations derive from an evolution of the traditional ones. In some countries (as in Germany) traditional non-profit organisations have more or less resisted to the emergence of the new.

In the countries belonging to the third model, characterised by a limited public supply of services, the new non-profit organisations could develop in a larger set of activities since they were set up to bridge the increasing gap between needs and supply. However, their potential development was restricted by the limited amount of public resources for social services, especially in countries with the lowest *per-capita* income (see Greece and Portugal).

Yet the distinction between different fields of activity is somehow artificial. In fact, many non-profit organisations combine production of social services and work-integration activities. This overlap has different explanations. It can be due to the fact that some social services are suitable for work-integration of disadvantaged workers, as they are labour-intensive and appropriate for skills acquisition. It can also be a way to provide a full social and economic integration of some disadvantaged groups, like drug addicts,



for which service provision and work-integration activities cannot be separated. However, in some cases, this overlap has been caused by the fact that, lacking clear public funding policies for the new social and community care services, new non-profit organisations have been forced to recruit unemployed benefiting from employment subsidies in order to develop those services. They have accordingly been able to create actual and innovative social and community care services, by integrating public social and labour policies and without having adequate guarantees of survival in the medium run because of the limited duration of the employment subsidies.

Beyond the direct beneficiaries of their activities oriented towards work integration or social and community care services, new non-profit organisations also operate for the development of local economic systems. In some cases, as for the Irish credit unions, the Finnish village co-operatives, and the UK business communities, such contribution to local development is among the explicit objectives of the organisations.

Finally, the analysis of the different national experiences indicates that new non-profit organisations are not confined to the services they have provided so far. In most countries, they are already enlarging their activity to other services, such as environmental and cultural services, less linked to social policies and more generally of interest to the local communities.

### **5.3. *Relationships between non-profits and public policies***

Since the areas of intervention of public social policies and of non-profit organisations are basically the same, it is clear that the evolution of the former, and accordingly of the relevant welfare models, has a great deal of influence on the evolution of the latter. And this is especially true in the European countries characterised by universalistic welfare systems.

Whereas until the crisis of the welfare system of the 1970s the non-profit sector seemed to have been charged with a precise role, though marginal, that crisis opened up to new development perspectives. As has been already pointed out, there have been many such perspectives. New non-profit organisations have evolved either as open critics against the deficiencies of welfare systems or, at least independent of public policies by using the resources that were not generally devoted to the production of social services.

In the years following the crisis, and particularly during the 1990s, there were many attempts to reorganise public social policies. Decentralisation, privatisation and separation between funding and provision of services have been the main lines of the reforming action. However, this rearrangement of

public social policies has not pursued to make the non-profit sector come within the original boundaries set by the welfare systems. Rather, the non-profit sector has resulted by being strengthened. Decentralisation and the separation between the funding and provision of services have enabled the non-profit organisations established after the crisis and mainly engaged in the production of social services to consolidate their position. New organisations have also been created.

Less clear and less stimulating to date have been the policies in favour of work integration non-profit organisations. In fact, it seems as though European policy makers have not yet come to realise the particular mission of these initiatives and their potential for the development of active labour policies benefiting the most disadvantaged groups of people.

The recent evolution of public social policies has not only favoured the development of the non-profit sector. It also has partly changed its characteristics. Indeed, public policies have mainly been influenced by the aim of reducing or rationalising public expenditures and this has been achieved by attempting to reduce the costs of services. Accordingly, there has been an increase in tenders for the supply of single social service inputs, which are little interested in the quality of services and projects. This has finished with reducing the independence of non-profit organisations, their capacity of innovating both the products and the production processes, of networking with the other resources of local communities. Such an approach has favoured the development of organisations that are more oriented towards the creation of professional job opportunities rather than towards the pursuing of social aims. The risk connected to the spreading of these contractual policies in the future is the change in the nature of the new non-profit organisations. They might lose their peculiar characteristics and go back to be, as before the crisis, a group of organisations ancillary to public policies. In this case, though, these organisations would be even more precarious than in past welfare models, since they would be more dependent on hard short-term contracting.

#### **5.4. *Relations between non-profit organisations and for-profit enterprises***

Unlike the US, in the European countries non-profit and for-profit organisations have traditionally represented two separate worlds. This separation was originated by the culture of the two different universes, by the universality and extension of the welfare systems, by the different level of regulation relating to businesses and by the different tax laws. Moreover, in recent years, after the start up of the reforming process of welfare policies, and especially after the creation of quasi-markets, the emphasis has been put on the advantages deriving from competition between non-profits and for-profits in

the supply of social services and on the dangers of unfair competition which supposedly would stem from the tax benefits granted to non-profit organisations.

The investigation on the real relations between these two worlds is still today very slight. Nevertheless, according to the few analyses carried out to date, some new factors seem to come to the surface. Above all, there are very few distinct circumstances under which unfair competition between non-profits and for-profits can be detected. This is why the sector of social services does not appear to attract the interest of companies, particularly in those countries in which the non-profit sector is well developed and dynamic. Indeed, social services are characterised by a low profitability, especially in the short term, and they often require the capacity of activating both personal (volunteers) and financial (donations) resources, which are less accessible to for-profits.

Moreover, in Europe as well in the US, forms of co-operation between for-profits and non-profits are developing. Mostly, such a collaboration is concerned with work integration of disadvantaged people, which can take on different forms:

- a) productive partnerships: for-profits purchase semimanufactured or finished products from work integration non-profit organisations, thus giving stability to the productive activity of non-profit organisations;
- b) co-operation of disadvantaged people during the training process: for-profits temporarily employ disadvantaged people from work integration non-profit organisations so as to favour the completion of the training process;
- c) collaboration in the creation of stable jobs for disadvantaged people: some systematic collaboration between work integration non-profits and for-profits has been developing over the years in order to favour the definite and stable integration of trained disadvantaged people in the open labour market. Some experiments of joint action for the creation of placement services for disabled workers are particularly interesting.

These forms of co-operation, though experimental, seem to be destined to develop in the near future, especially in those countries where companies are compelled by the law to employ disadvantaged workers. Yet the development of these initiatives is often hindered by labour policies at the national level. At present, these still regulate excessively, if not impede, the collaboration between for-profits and non-profits both as to the training and placement activity. In fact, the most innovative experiments so far have

been made possible mainly within the actions funded by the European Community (see, for example, Integra, Horizon, and so forth).

## **6. Contributions of the non-profit sector to European societies and economies**

Both experiences and research demonstrate that a well-established and dynamic non-profit sector can contribute not only to social cohesion, but also to the efficiency and dynamics of the whole economic system. Therefore, we will hereafter try to summarise the lessons derived from the recent European experience.

### **6.1. Transformation of the welfare systems**

The outcomes of the policies implemented to tackle the difficulties of European welfare systems, and especially of the attempts to privatise social and community care services provision, are still uncertain. Indeed, transaction and contract costs have often increased more than expected, thwarting cost containment efforts. Furthermore, at least in some cases, the quality of services and jobs has deteriorated. These negative outcomes have emerged mainly in those countries in which governments have particularly relied upon market simulation and for-profit enterprises.<sup>22</sup> The nature of quasi-markets, by tending to use prices as a major criterion to discriminate among providers, often favours hard contracting. At the same time, existing regulations are often not sufficiently well defined to guarantee the desired level of quality.

In this context, non-profit organisations could contribute to the reform of European welfare systems in several ways, such as: by making the income distribution closer to the desires of the community and the supply of services closer to the demands for them; by helping cost containment; by providing a greater volume of supply and, in many cases, by helping to maintain or to improve the quality of services and jobs.

Autonomous non-profit organisations, though privately owned and managed, can pursue a redistributive function, thus contributing to modifying the resources and income distribution provided by the joint action of the market and the state. Non-profit organisations are often created to serve groups of people with needs not recognised by the public policies and base their re-distributive action on a mix of free (donations, volunteers) and low-cost (motivated workers) resources, some of which are not available to either for-profit or public providers.

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<sup>22</sup> This seems to be the case of some social services, like home care services in the UK (see Young, 1999).

The researches carried out over the last years (EMES, 2000) present several examples of this redistributive function. In some cases, social enterprises have replaced public authorities in their redistributive role. In Belgium, for example, new non-profit organisations provide housing services for marginalized people who are unable to pay the growing rents and to satisfy the conditions required for social public housing. In other countries, non-profit organisations have autonomously taken up a redistributive action in favour of groups of people with needs not recognised by public authorities, as in the case of work integration of people with major difficulties in finding a job. In countries where the supply of services organised through public policies is insufficient to satisfy demand, non-profit organisations contribute to the creation of an additional supply. This is the case for social services that governments are willing or able to fund only in part. In this context, non-profit organisations can increase supply through a variable mix of public, market and voluntary resources.

However, non-profit organisations, like other third sector organisations, also influence redistributive public policies. By providing services to new groups of people with needs not fully recognised by public policies, they can move public resources toward these services.<sup>23</sup> Moreover, non-profit organisations often mix their productive role with more traditional advocacy activities in favour of the same or other groups of users.

In creating new services, not only do non-profit organisations develop a re-distributive function; they can also innovate with regard to services provided. They can make new services available, but they can also use new ways of producing traditional services, mainly through innovative forms of involvement of consumers (as co-producers), of local community (volunteers) and of workers themselves. The new non-profit organisations created throughout Europe and the changes of both the associative and the co-operative forms are good examples of this innovative behaviour.

A third important possible contribution of non-profit organisations to the improvement of European welfare systems occurs in the context of the privatisation of service provision. The effectiveness of privatisation policies depends on a competitive supply of social services, and there are several difficulties in establishing contractual relations between public authorities and service providers. Because of their nature, non-profits can contribute to the establishment of a competitive environment and to the development of contractual relations based on trust. Since the aims of non-profit organisations often

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<sup>23</sup> This is the case in countries with a limited public provision of social services like Italy where several services (day centres for handicapped or teen-agers, services for drug addict rehabilitation, etc.) were initially created by non-profit organisations without systematic public support. Only after several years did national and local authorities decide to support fully the financing of these services and of the organisations providing them.

converge to some extent with the aims of public authorities, this makes negotiations easier for the provision of the services for which effective quasi-markets cannot be established. They can also contribute to the reduction of production costs since they do not strive for profits and can mediate between non convergent interests of public authorities, consumers and workers, thus singling out, better than other organisational forms, the right mix of customer satisfaction and worker guarantees.<sup>24</sup>

## **6.2. *Employment creation***

Non-profit organisations contribute also to the creation of additional jobs. This is clear for the work-integration non-profit organisations that employ workers with minimal possibilities of finding a job in traditional enterprises. However, non-profits providing social and community care services can create new employment too since they make a sector with a high employment potential more dynamic, especially in countries in which the level of employment in the sector is still low.

The interpretations of slow employment growth and of high unemployment rates in most European countries have recently shifted their emphasis from the rigidity of labour markets to the rigidities of the product markets. These latter are seen as responsible for the slow growth of employment, especially in the service sector, mainly (by assuming the US as a benchmark) in commercial and tourist services, in business services and in ‘communal’ or social and community care services.<sup>25</sup> The level of employment in communal services is particularly low in the European countries with a welfare state mainly based on cash benefit (like Italy, France and Germany) and a low public provision or public financing of social services. Moreover, this public expenditure composition is a possible cause of the insufficient employment growth in the sector, especially if combined with the constraints on public expenditure that occurred after the 1980s. Public expenditure composition is also at the origin of the increasing gap between demand and supply of services to people and communities, which is now experienced in several European countries.

However, the potential increase in employment in social and community care services cannot currently be achieved simply by increasing public expenditure. The pursuit of such a policy is impeded both by the constraint of reducing the public deficit and by the necessity to use savings on public expenditure to reduce fiscal pressure and indirect labour costs, in order to face the increasing international competition. An alternative policy can be pursued by changing the composition of public expenditure from

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<sup>24</sup> The few comparative studies on employment relations in social service provision (Borzaga, 2000) indicate that social enterprises tend to pay wages lower than public providers and higher than for-profit enterprises.

<sup>25</sup> As demonstrated in several documents of the European Commission. See, among them, European Commission (1998).

cash benefits to services provision or services founding and by encouraging the growth of private demand. However, this is unlikely to be fully accomplished by for-profit organisations either. They have, at least for the time being, little interest in producing these services, due to their low profitability and to information asymmetries that affect market relations both with consumers and local authorities.

Non-profit organisations, especially the new and more dynamic, on the contrary, may help in developing both demand and supply, as well as in reconfiguring public expenditure composition. They present several advantages. Since they do not aim at profit maximisation, they can easily be involved in productions entailing low profitability and, if they rely on resources deriving from donations and on volunteers, they can reduce the production costs especially in the start-up phase.<sup>26</sup> Cost reduction is also possible when non-profit organisations attract workers and managers interested in working in the sector also for wages that are lower than in comparable activities.<sup>27</sup> Moreover, by involving consumers and by being rooted in the local community, they can quickly adapt supply to demand and can rely on fiduciary relations to overcome the difficulty for consumers of monitoring the quality of services.

Non-profits can contribute to job growth even if they are fully or partially financed by public funds. When non-profits are financed with public money, it is because the services supplied are considered to be for the common good. Normally, the higher the re-distributive effect, the greater the public funding. However, non-profits should not be considered a mere substitute for public authorities. Many of them started their activity without, or with negligible, public subsidies and only after some time was their activity recognised by public authorities. As a consequence, they have contributed to increasing the public expenditure directed to services provision and along with it the related employment.

### **6.3. *Local development***

Since new non-profit organisations are mainly locally-based organisations they are among the actors involved in local development. Close links with the local community in which they operate are, for new non-profit organisations, a condition for development and efficiency, because they facilitate the understanding of local needs, the creation and exploitation of social capital, and the working out of the optimal mix of resources (from public authorities, donations, users and volunteers).

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<sup>26</sup> A specific category of start-up costs faced by organisations willing to provide new social services are the entrepreneurial costs (Hansmann, 1996), i. e. the costs related to assembling sufficient volume of demand to sustain a stable and efficient production. By often consisting of users or their representatives, in many cases, social enterprises can evaluate the potential demand at low costs.

<sup>27</sup> This specific advantage can be misused and can create perverse effects on the wage level of the employees. However, when correctly used, it represents an important advantage.

The globalisation process and the diffusion of new technologies have spearheaded productivity growth in manufacturing sectors, but also the increasing instability of employment. They have also weakened the link between enterprises and territory. An increase in demand for goods no longer produces increases in production and employment everywhere. The new jobs are generally created in areas different from those where demand arises in the first place. These processes mainly discriminate against the less developed or declining areas, thus creating vicious circles. To tackle the problems of these areas, traditional incentives to localisation are often ineffective. Conversely, new social and community care services, requiring proximity between supply and demand and organised by small local non-profit organisations, can help to create a more stable local source of labour demand.

Some of the projects recently supported by the 'Third System and Employment' Pilot Action Programme of the European Community demonstrate that non-profit organisations operating in the field of social and community care services:

- a) can transform informal and often irregular provision of personal services in regular jobs, especially in areas (like rural areas) in which the demand of labour for some groups (i.e. women) is weak;
- b) change the nature of some services from a re-distributive to a productive one, as in the case of public social housing in the management and improving of which some non-profits are employing the unemployed users, enabling them to earn an income and to enjoy better houses at the same time.

Work integration non-profit organisations too, which are probably among mostly locally- based the non-profits, contribute to local development. The contribution of non-profits to local development through the creation of new jobs for people within local communities could increase in the future, if non-profits expand their action from social to other services, such as environmental improvement, cultural services, transportation. The creation of non-profit networks by local authorities and private, cultural organisations and a joint use of several small amounts of private and public resources have, in several some experiences, allowed for an economically viable exploitation of unused or inefficiently used cultural and environmental resources, thus creating stable jobs.



## 7. A comparison with the United States

If we compare the US system to the European experience, two different models can be clearly distinguished. Indeed, whereas in the former an individualistic tendency prevails,<sup>28</sup> in the latter it is the state authorities that are still presently in charge of the provision of many social services. These two different approaches towards the role of the state have brought with them two different roles for non-profit organisations. In the US, these organisations are deemed at the same level as companies, that is they are subject to the same rules and competition laws, except for the fact that they are compelled to invest any profits in the organisation and not to share them among the managers or directors. In Europe, as the state authorities began to accept that private agencies could play a role, though limited, in the provision of welfare services, non-profit organisations necessarily underwent a sort of institutionalisation process.

Accordingly, two consequences may be pointed out. Firstly, whereas in Europe *there is* a universalistic welfare system, though not only public, and a system of public policies, in the US there exists only an *ad hoc* collection of compromises between the reality of the economic necessity and the pressures of political tradition and ideology. Secondly, with regard to the non-profit sector, one can state that in the US any type of not-for-profit organisation is recognised and fostered, thus prevailing the concept of sector.<sup>29</sup> In Europe, instead, the statutory provisions of the sector under consideration and the judgement on the utility of and the opportunity of supporting the sector itself cannot but derive from the public policies system, which implies the presence of the state as independent actor. This role has caused, on the one hand, less attention to the non-distribution constraint, because of the more stringent public checks and a more similar type of governance (democratic principle) and, on the other hand, the growth of different legal and organisational forms.

Consequently, from a theoretical viewpoint, there persists a wide variety of definitions of non-profit organisations depending on which features are deemed distinctive. However, the prevailing tendency has been to reduce complexity through the use of the concept of 'sector' (non-profit sector, third sector). The intention has been to stress the distinction between these organisations taken as a whole and the sectors of for-profit firms and public organisations. As a result of the influence exerted mainly by American scholars, economists in particular, the distinctive feature of these organisations, and of the sector

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<sup>28</sup> '[...] *Reliance on the non-profit sector reflects a long-standing American pattern of individualism and hostility to government. The American tradition of reliance on the non-profit sector has thus been the other side of a set of social policies that has kept governmental social welfare protections rather limited[...]*'. L.M. Salamon - H.K. Anheier, 1994.

<sup>29</sup> Nonetheless, whereas the tax-exemption of profits is common to all the organisations, the tax-exemption of donations, which are made both by individuals and by companies, is granted only to religious organisations or to those which supply services for the benefit of the public.

to which they belong, has been identified with the non-profit distribution constraint. However, although this definition has been useful in determining the quantitative dimensions of the sector and of its evolution, while affirming the importance of studying these organisational forms, some scholars, especially in Europe, have stressed its shortcomings<sup>30</sup> and the necessity of replacing it. Closer analysis of the phenomenon reveals that the studies carried out to date have tended to neglect at least two other aspects distinguishing these organisations in recent years: the change of their role and the birth of new organisational forms. The evolution towards organisational forms different from those traditionally studied in this sector is also of interest in the light of ongoing debate in the United States on the effective ability of the non-distribution constraint still to differentiate satisfactorily between these organisations and for-profit ones.<sup>31</sup> The changes outlined above warrant more detailed study, for at least two reasons. Firstly, they refocus debate on the specificity of the European case and more generally on experiences different from those of the United States. Secondly, they reopen the theoretical debate on what are, may be or should be the distinctive features of private organisations producing or delivering welfare services. In other words, the issue may be stated as follows: on the basis of the recent European experience, may not organisations with characteristics substituting or supplementing the non distribution constraint prove equally efficient or more suitable to carry out public services?

## **8. Development prospects and conclusions**

The re-emergence of the non-profit sector in Europe and its development during the 1980s and the 1990s prove that a large, autonomous and well-developed non-profit sector is an essential component of any society. The constraints imposed on the autonomy of the sector during the predominance of public welfare models did not prevent its re-emergence, when these welfare models started to crumble under the weight of the crisis. After some years of uncertainty, this re-emergence has been recognised and strengthened by the reforms of the welfare systems, which have referred a specific role to the private, non-profit supply of social and personal services.

However, the future development of the non-profit sector in Europe still remains uncertain. Neither internal weaknesses nor external barriers allow forecasting the return to a situation similar to the one existing in the 1970s, nor do they guarantee that in the future the non-profit sector will maintain the autonomy and innovative capacity that it has had over the last twenty years. These weaknesses and

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<sup>30</sup> P. 6, 1995.

<sup>31</sup> H.B. Hansmann, 1995; R.G. Frank-D.S. Salkever, 1994, pp. 129-144.

barriers have been examined in several documents (European Commission, 1999; CIRIEC 2000, chapter 6). We will summarise the most important of them hereafter.

Despite its success, the organisational model of most non-profits remains fragile, based on few well-defined rules and on a high degree of trust among members.

New non-profit organisations present high governance costs, which derive from their character as organisations without well defined owners or owned by a plurality of stakeholders. Their advantage, i.e. the involvement of various categories of stakeholders (clients, volunteers, representatives of the local community) in the production and in the decision making processes, can turn out to be an element of inefficiency when conflicting interests limit the capacity of reacting quickly to a changing environment.

The awareness that non-profits, their managers and the movement as a whole have of their role in European society and economic systems and of their own specificity with respect to public, for-profit and non-profit organisational forms is still limited. In particular, there is a growing need for a well-established capability of managing the plurality of objectives that define non-profits and that bring together social aims with economic constraints.

These weaknesses reinforce the tendency towards isomorphism, that is, to evolve into organisational forms that are better defined, legally stronger and socially more acceptable while being unable to keep and develop the most innovative characteristics in the new organisational forms. Nowadays, one of the most widespread risks is that new non-profit organisations convert into associated workers' companies, consequently pursuing mainly the exclusive interests of those employed, and losing the linkage with the community and the capacity of fully using social capital. This risk appears to be related to the increase in the availability of public subsidies and the consequent decrease of the autonomous redistributive role played by social enterprises.

Furthermore, the environment in which non-profits operate does not favour the strengthening of their organisational models. In most European countries, the belief that for-profit organisations together with active public policies can efficiently solve all social problems and satisfy overall demand for social and community care services is still prevalent. This belief led to an underestimation of the potential role of the non-profit sector. This is often regarded as being unnecessary or, at most, offering transitional solutions, useful as entities dependent on public policies or as organisations that should be active only for the problems that public policies cannot solve.<sup>32</sup>

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As suggested by the explanation of the non-profit organisations as 'problem non solvers' (Seibel, 1990).

Such a negative attitude, especially towards entrepreneurial non-profit organisations, is stronger in some countries, where a very traditional view of the enterprise is still the norm. According to this view, only those initiatives that derive their income from commercial activities and pursue the sole interest of their owners can be defined as enterprises. Accordingly, the concept of enterprise does not include those organisations capable of innovating and organising the production processes in non-market activities, of basing their income on market exchanges but not pursuing the interests of their owners only. In this context, non-profit organisations are looked at with mistrust and suspicion, up to the point of regarding workers involved in them as not fully employed. This attitude is common also in those countries where the competitive process is more emphasised, thus marginalising activities, such as social and community care services, for which competition is limited by necessity.

In addition, the relationships between non-profits, on the one hand, and social and labour public policies, on the other are still confused and often incoherent. The shift from direct public provision of social and community care services to the separation of financing responsibility from services provision, together with the autonomous development of private non-profit initiatives, has not been accompanied by a general and coherent change in contractual relationships and funding rules. Old ways of financing non-profit organisations have generally been maintained, while other new contracting-out rules have been established, especially for new services. More competitive practices were given an impetus by the introduction of quasi-markets in England and by the new European rules on contracting-out and public tenders. The result is an unclear mix of direct subsidies and contracting, more or less hard and depending on the countries and the services. When contracting-out practices are applied, the specific characteristics of non-profits are very often not taken into account. As a consequence, non-profit organisations often have to operate in a precarious environment, relying on short-term contracts and without the possibility of planning their development.

Finally, in most European countries the legal forms suitable for organising non-profit activities are still inadequate. The legal frameworks are still designed so as to favour company forms. Furthermore, the process of drafting legal forms suitable for entrepreneurial non-profit organisations is still to be fully set in motion and it differs from country to country. This situation limits the workability and the possibility of reproducing social enterprises. Some of these difficulties could be alleviated by a consistent set of policies.

The first policy that would facilitate the development of non-profits is the full legal recognition and regulation of the new organisational forms. Both are important for several reasons: i) to consolidate the

most innovative organisational solutions; ii) to foster the replication process and the spread of new organisations; iii) to protect consumer's rights; and iv) to avoid isomorphism.

A second important aid to the development of non-profits would be a shift from today's predominantly fiscal policy, based on tax relief for organisations fulfilling certain organisational requirements, to policies seeking to foster the emergence and development of new demand for services. The emergence of private paying demand (by individuals and families) for social and community care services, and a change from the present informal provision, would be helped by reducing the costs of services through tax allowances in favour of consumers and through the provision of vouchers covering only part of the costs.

Another important policy would consist of better defined contracting-out and quasi-market strategies. These could be more effective if they recognised the specificity of non-profits, and the redistributive component of the services produced. This entails acknowledging that non-profits are based on a peculiar mix of resources and have a local dimension. Both of these require the preservation of strong trust and community relationships, where they exist, or an effort to create them where they do not. Competition is important to achieve efficiency, but it should be balanced with the need to guarantee the continuity and development of already existing network relations that produce trust and social capital and allow the creation of the mix of human resources that help to maintain flexibility and low production costs. A local dimension could be applied to contracting-out procedures, so as to reduce the extent of competition for social and community care service provision.

Finally, the development of non-profits could be helped by a set of supply-side policies with the aim of: reinforcing their entrepreneurial behaviour; enhancing the managerial skills of their personnel; favouring the creation of second/third level organisations and increasing their natural propensity to spin off and create new and autonomous organisations.

The evolution of both the non-profit sector and of social policy in European countries is far from being well defined. As to the evolution of the non-profit sector, its re-emergence in the European arena does not simply consist of a revival of the traditional forms. The very nature of the sector is changed and with it are changed its role, the organisational forms and the strategies. The new non-profit organisations are looking for an autonomous space, not only among social organisations but also in the entrepreneurial sector. Yet the prevailing view characterising both contemporary economies and societies does not appear to accept this challenge. As to social policies, after the crisis of the established forms of partnership, there are many different attempts to find new forms. None of them, though, is well defined and accepted. While it is certain that the non-profit sector will play a major role in the future with respect to the 'thirty glorious

years' (i.e., 1940s-1970s), its future characteristics and its contribution to social policies are unsure. Indeed, much will depend on the capacity of the new organisations to find out clear models of governance and development and on the capability of policy makers to comprehend the advantages of a pluralistic welfare system. The final picture of the ongoing process is far from being definite.

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