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# Social Enterprises as Democracy and Development Promoters

Comparing Danish and Italian Samples

Sara Rago



## Publications

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**Sara Rago**

**Social Enterprises as Democracy  
and Development Promoters**

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Sara Rago, International Guest Student at Centre for Social Entrepreneurship (CSE)

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## INTRODUCTION

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*“All living beings are interconnected,  
we are all involved in an inextricable network of mutual aid  
that bind us to a single lot.  
Everything that directly affects someone  
it affects also indirectly someone else.”  
(Martin Luther King, 1963)*

This work starts from the conviction that the present interpretation of the concepts of democracy and economy is not the best one because of the Age in which we are. Indeed, the introduction of the multi-dimensional process of *globalization* has highlighted the inadequacy to respond to the new needs posed by it of the so called *homo oeconomicus*, the ideal type at the base of a certain type of democracy (*elitistic-competitive*) and of economy (*capitalistic*).

Globalization asks more and more to pay attention to global social problems, as because of this phenomenon we must extend our area of reference to the whole worldwide society, as the saying “*Think global, act local*” suggests.

In this way, we can understand the need of a new form of enterprise, the so called *social enterprise*, that is aimed by a social goal and uses gained profits to pursue it. Placing social enterprises in a national business system and creating a strong network where they are integrated, it means understand the importance that they have got both in democracy and development promotion.

Indeed, social enterprises are actors of a more or less wide *social change*: their inner structure and aims allow them to be potential promoters of a higher level of democracy and development in the country where they are located or which they work with. In particular, they can be bearer of a specific type of capital, the so called *social capital*, that allows to establish social network based on *trust* (a basic element to develop a democratic society – or to make it democratic).

In this work, after a deepening of the main general issues, I especially want to focus the attention on the sample of Danish social enterprises analyzing their historical path and features and understanding if and how they can be truly democracy and development promoters. That allows also a comparison with the Italian background.

The analysis will carry out both through the revision of materials on the issues written by scholars and researchers and through the fulfilment of interviews to representatives of two local social enterprises to better understand Danish situation to this day: Landliv a/s (Holeby), a social enterprise specialized in the creation of jobs in rural area avoiding the shifting to city centres, and Settlementet (Copenhagen), a voluntary organisation specialised in the reintegration of people with social problems as e.g. alcoholism, poverty, etc., and in “life long learning” and educational projects especially for young and women, and also working reintegration programmes.

## 2. SOCIAL ENTERPRISES AND ENTREPRENEURS:

### TOOLS AND ACTORS OF A SOCIAL CHANGE

*“Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionised the fishing industry.”*  
(Bill Drayton<sup>1</sup>, 2005)

It is a hard work to give an univocal definition of what we mean by the term *social enterprise*, as it is a declinable concept according to the geographic context of reference. Anyway, there is a certainty: when we talk about social enterprise we talk on a exact way to intend *enterprise*, *innovation* and *social dimension*.

First of all, as social enterprise is also an economic concept, we must define the specific type of economy of reference, the so called *social economy*.

Social economy is a kind of of economy that seeks a *common good* as:

$$\prod_{i=1}^n b_i = b_1 * b_2 * \dots * b_n$$

and does not seek a *total good* as:

$$\sum_{i=1}^n b_i = b_1 + b_2 + \dots + b_n$$

The two concepts are different as in the latter instance (took into consideration by Utilitarianism) someone's good can be undo without changing the final outcome; vice versa, in the common good instance, being in the outcome of a product, undoing even only one of the well-being levels the final result will be also undo.

Social economy stresses the specificity of the *mission* of the organisations, namely their aim to benefit either their members or a larger collectivity, rather than to generate profits for investors. This approach thus includes the non-profit organisational form, but it highlights the democratic character of the decision-making process within the organisations and the prevalence of people and labor over capital in the distribution of incomes (EMES, UNDP, 2006).

So, the concept of social enterprise does not seek to supplant existing concept of Third Sector. Rather, it is intended to highlight features in the Third Sector that are currently becoming more prevalent: entrepreneurial dynamics focused on social aims.

Since 1996, EMES – European Research Network<sup>2</sup> – has devoted itself to the definition of a set of common criteria to identify organisations likely to be called “social enterprises” in each of the fifteen countries that then formed the European Union. A set of criteria – both economic and social – have been identified to describe an “ideal type” of social enterprise, i.e. a theoretical definition which does not necessarily correspond to concrete organisations but allows analyzing the latter.

To reflect the economic and entrepreneurial dimensions, four criteria have been put forward (EMES, UNDP, 2006):

1. *a continuous activity producing goods and/or selling services*: social enterprises, unlike some traditional non-profit organisations, do not normally have advocacy activities or the redistribution of financial flows (as, for example, grant – giving foundations) as the major activity, but they are directly involved in the production of goods or the provision of services to people on a continuous basis. The productive activity thus represents the reason, or one of the main reasons, for the existence of social enterprises;
2. *a high degree of autonomy*: social enterprises are created by a group of people on the basis of an autonomous project and they are governed by these people. They may depend on public subsidies but they are not managed, directly or indirectly, by public authorities or other organisations (federations, private firms, etc.). They have both the right to take up their own position (“voice”) as well as to terminate their activity (“exit”);
3. *a significant level of economic risk*: those who establish a social enterprise assume totally or partly the risk of the initiative. Unlike most public institutions, their financial variability depends on the efforts of their members and workers to secure adequate resources;
4. *a minimum amount of paid work*: as in the case of most traditional non-profit organisations, social enterprises may also combine monetary and non-monetary resources, voluntary and paid workers. However, the activity carried out in social enterprises requires a minimum level of paid workers.

To encapsulate the social dimensions of the initiative, five criteria have been proposed:

5. *an explicit aim to benefit the community*: one of the principal aims of social enterprises is to serve the community or a specific group of people. In the same perspective, a feature of social enterprises in their desire to promote a sense of social responsibility at local level;
6. *an initiative launched by a group of citizens*: social enterprises are the result of collective dynamics involving people belonging to a community or to a group that

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2 [www.emes.net](http://www.emes.net)

- shares a well-defined need or aim; this collective dimension must be maintained over time in one way or another, even though the importance of leadership – often embodied by an individual or a small group of leaders – must not be neglected;
7. *a decision-making power not based on capital ownership*: this generally means the principle of “one member, one vote” or at least a decision-making process in which voting power is not distributed according to capital shares on the governing body which has the ultimate decision-making rights. Moreover, although the owners of the capital are important, the decision-making rights are generally shared with the other stakeholders;
  8. *a participatory nature, which involves the various parties affected by the activity*: representation and participation of users or customers, stakeholder influence on decision-making and a participative management are often important characteristics of social enterprises. In many cases, one of the aims of social enterprises is to further democracy at local level through economic activity;
  9. *a limited profit distribution*: social enterprises not include organisations that are characterised by a total non-distribution constraint, but also organisations which – like co-operatives in some countries – may distribute profits, but only to a limited extent, thus avoiding a profit-maximising behaviour.

At the base of that kind of organisation stands a *social entrepreneur* who drives it and which has characteristics as following (Leadbeater, 1997):

- a. *entrepreneurial*: he takes under-utilised, discarded resources and spot ways of using them to satisfy unmet needs;
- b. *innovative*: he creates new services and products, new ways of dealing with problems, often by bringing together approaches that have traditionally been kept separate;
- c. *transformatory*: he transforms the institutions they are in charge of, taking moribund organisations and turning them into dynamic creative ones. Most importantly, they can transform neighbourhoods and communities they serve by opening up possibilities for self-development.

Successful social entrepreneurs are also: leaders, storytellers, people managers, visionary opportunists and alliance builders.

The quality that all the social entrepreneurs have in abundance is leadership. They are very good at setting a mission for an organisation and mobilising people around it.

Social entrepreneurs have also to be good at communicating the mission. Successful social entrepreneurs are good storytellers. This storytelling capacity marks them out from business executives and politicians.

Besides social entrepreneurs recognise that the knowledge and ideas of their staff, helpers and users are their most important resources; this is the reason why they deal with people and opportunities rather than plans and procedures.

Social entrepreneurs communicate their aims in moral terms, so they are considered visionary opportunists.

Finally they are great alliance builders, because their organisations can only survive by depending upon a wider network of support.

So, the social entrepreneurship has got the aim to create social value, rather than personal and shareholder wealth (Austin, Stevenson, Wei-Skillern, 2003).

Moreover, another thing to do to understand the way of work of the social enterprise is analyse the context of reference. Social enterprise is set in a kind of *ecosystem*, that is the environment that affect the ability of social entrepreneurs to achieve their intended social impacts (CASE, 2008). We can represent it as following (fig. 1 – on the next page).

The ecosystem has two major divisions. Each division has four categories. The first division is the *Capital Infrastructure* that provides the resources that are essential to a social entrepreneur's success.

Though social entrepreneurs can, to some extent, develop these form of capital through their operations, most social entrepreneurs rely outside organisations to help them get or build the capital they need.

The second major division captures *Context – Setting Factors*. These create the conditions in which social entrepreneurs and their capital providers operate. The factors tend to have their influence indirectly, and they are highly diverse.

With this representation we can understand the complexity of relations in which social enterprise is placed as well is not simple to be a social entrepreneur without the specific above-mentioned characteristics.

Indeed, the problem is that a social entrepreneur is not only a *homo reciprocans* (Bruni, Zamagni, 2004), i.e. an entrepreneur moved by the so called "emotional intelligence" with a social aim: he must be also an *innovator* with a key role for the *social change* of the context of reference.

By *social change* I mean something that alter structures, processes and outcomes of domains larger than single organisations in ways to persist over time (Brown, Leach, Covey, 2004).

Social entrepreneurs play the role of change agents in social sector by (Dees, 2001):

- *adopting a mission to create and sustain social value (not just private value);*
- *recognizing and relentlessly pursuing new opportunities to serve that mission;*
- *engaging in a process of continuous innovation, adaptation and learning;*
- *acting boldly without being limited by resources currently in hand;*
- *exhibiting heightened accountability to the constituencies served and for the outcomes created.*

The core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible business is the *mission* of social improvement that cannot

Fig. 1 – Ecosystem of Social Enterprise



Source: Adapted from CASE (2008)

be reduces to creating private benefits for individuals. Social entrepreneurs look for a long-term social return on investment – which can be measured by the so called SROI index (see paragraph 3.2.2. in succession).

Also, where others see problems, social entrepreneurs see opportunities: they have a vision of how to achieve improvement and they are determined to make their

vision work. And they do that breaking ground, developing new models and pioneering new approaches.

Finally social entrepreneurs are skilled to do more with less and to attract resources by drawing in partners and collaborating with others (they are network builders); while they are doing that, social entrepreneurs are also able to assure they are creating value as they are seek to provide real social improvements to their beneficiaries and their communities.

### 3. SOCIAL ENTERPRISES AS DEMOCRACY AND

#### DEVELOPMENT PROMOTERS

*“The right to the development is an inalienable human right, in virtue of which every human and all people have the right to participate and contribute to an economic, social, cultural, political development where all human rights and all basic freedoms could be fully realised, and to benefit from this development.”*

(Declaration on the Right to the Development,  
General Meeting Resolution 41/128,  
4<sup>th</sup> December 1986)

How can social enterprises promote democracy and development in a country? This is the main question I try to answer in this paragraph. Yes, because social entrepreneurship is mainly aimed, as previously explained, by a social purpose. This is why social enterprises predominantly operate within six areas (Bisballe, 2006):

- voluntary work and support functions and self-help groups;
- social, democratic and co-operative entrepreneurship;
- employment and social inclusion and coherence;
- local development and urban regeneration projects;
- environmental issues;
- communication and advocacy.

Working in this areas social enterprises contribute to raise the level both of democracy and of development in the geographic context where they are located and/or where they (and also their partners – if there are) work.

#### 3.1 SOCIAL ENTERPRISES AND NGOS AND THE PARTICIPATION TO THE CIVIL LIFE

First it is important to understand that the concept of *democracy* can not lie outside the word *cooperation*.

“To cooperate” means “to operate together with others”, but it also means “to contribute with own work to achieve an aim”.

For this reason the word “cooperation” is a collective term, since it assumes the existence of several people (and I underline *people*, not *individuals*<sup>3</sup>), which are related to each other and act together to achieve a common aim.

As cooperation, also democracy, to exist as such, assumes the existence of a plurality of people, acting (at least from a theoretical point of view) to pursue a com-

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<sup>3</sup> The difference between *people* and *individuals* is that person, unlike individual, to be identified needs other people: “I” exist because “you” exist and you recognise me as person (Zamagni, 2007a).

mon good. The higher and “nobler” definition of democracy would like that people would be sovereign and that, as such, act together to achieve a common good.

Indeed, in my opinion democracy is like a so called *relational good*, i.e. a good with an utility depending both by its intrinsic and objective features and by the enjoyment conditions with other people (Bruni, Zamagni, 2004). A relational good assumes the identity knowledge of the other people involved in the relation; it is also an *anti-rival*<sup>4</sup> and *time-investing* good.

The reality do not always perfectly adhere to the definition of democracy concept, both because the current prevailing model is the one of *representative* (or *elitistic-competitive*) *democracy*, than because, consequently, at the base of the action reside the motivations that conduct people to operate to obtain own individual interests, rather than to the common good.

Still, it is possible to find, into the today’s overview, the existence of subjects which moving to a common and social-useful aim: social enterprises as, more in general, NGOs.

These organisations are embedded within the debate on the pre-existing dichotomy model of social order composed of the *market* and *State*, the former as producer and supplier of private goods, the second as supplier of commons and rebestower of resources following equity rules determined at the political level: everything in accordance with the “will” of Fundamental Theorems of Welfare Economics.

The existence of these subjects, according to some scholars, would be justified by the existence, on the one hand, of the *government failure* theorized by Weisbrod (1975), and on the other hand, of the *market failure* theorized by Hansmann (1986).

According to Weisbrod, they rise to satisfied, on the supply side, a demand for commons such as those that the State provides but is unable to handle in quantity and which is not satisfied by private *for-profit* sector, because there is not a stimulation to their production by these actors, since they are “not excluded” goods (that is, which can not be apply a price that would exclude consumers when they were not willing to pay) that do not generate the sought profit.

In high development degree of context, owing to the “principle of majority”, the State has increased to nearly always meet only the needs expressed by a particular type of voter, the so-called *median voter*, so named since he corresponds to the median of preferences expressed by the electorate. According to Weisbrod’s theory, they would consequently exist “dissatisfied minorities” in size directly proportional to the degree of – ethnic, religious, cultural – heterogeneity of the society to which it refers, whose presence legitimizes the origin of social enterprises and NGOs as commons suppliers.

However, Hansmann focuses on the demand side (i.e., he attempts to explain why there is a demand for goods and services) and concludes that social enterprises and

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4 We have a *rival good* when the same part of a good can not be consumed by many people at the same time.

NGOs take life to remedy the problem of *imperfect information*, which leads enterprises operating in the maximization of profit to provide private goods and services of lower quality than promised or declared (Bruni, Zamagni, 2004).

According to Hansmann, these subjects are able to compensate this problem thanks to the *Non Profit Distribution Constraint* (NPDC), which they are required to undergo in order to be faithful to their legal form, and that would enough as sign of lack of opportunistic behaviors, which, however, were adopted by for-profit enterprises.

Both above interpretations fall into a very narrow and residual vision of the existence of such subjects, because they feel, in both cases, that they will originate from the failure of one of the two pillars of the dichotomous model, State and market; however, on the other side there is who argued that the social enterprises and NGOs be born with their own identity, by a “bottom-up” pressure, for a well-defined and independent will to the people who are at the base of them.

This interpretation considers the emergence and spread of social enterprises and NGOs as expression of civil society, i.e. as “free agreement between people that is aimed by a shared project to be carried out” (Zamagni, 2007b).

In order that NGOs can express their holistic nature (private but with social utility purpose) it is essential that the concept of democracy is applicable to both inside them and surrounding outside.

I mean that it is necessary, first of all, that a model of *deliberative democracy* should be internally implemented to each social enterprises and NGOs to manage their activities and to take decisions; second, these deliberative spaces are also made in the relationship between social enterprises/NGOs, State and market: we can not recognise the existence of certain entities but, at the same time, ignore “their voice”, because in this way it falls into the manipulation of those subjects entitled to act but illegitimate to express themselves and actively participate in decisions that affect them.

In addition, it must exist also another element in order that social enterprises and NGOs may be the best form of democratic expression of civil society and of diffusion of democracy concept – as originally conceived: I mean to a type of internal *governance* of the entities that we are write about.

Civil society organisations must develop inside of them forms of democracy so called *democratic stakeholding* (or *multistakeholding governance*), i.e. a type of governance that offers a real possibility to participate to decisional process to everyone involved in relationships with the social enterprise or the NGO, that at the same time are influenced and/or influencing from/to the activities of the organisation – the so called *stakeholders*.

In order to have the best possible democratic governance inside a social enterprise or NGOs, the governance models based only on the *information* and the *consultation* are not enough: this two types of control are necessary but not enough conditions to affirm that the governance is democratic. Indeed, as well as the dissemination to all stakeholders of the information concerning the organisation and the implementation

of moments of occasionally confrontation and involvement, it is essential that the concept of *participation* becomes daily within the decision-making processes and the implemented activities.

I think that, as in an osmotic process, as many social enterprises and NGOs will be able to implement a multistakeholding governance and to act according to democratic methods and motives, the more the surrounding civil society will be able to see widespread practices and ideals of democracy, filling with new meaning the latter.

### **3.2 SOCIAL ENTERPRISES AND NGOS AND THE DEVELOPMENT OF THE CIVIL SOCIETY**

Before starting the analysis of how social enterprises and NGOs can promote the development of the civil society, I would like to define the type of development that I have in my mind when I talk about it. Indeed, this is not only an economic development: it is much more.

I refer to the concept of *human development* according to the definition gave by the United Nations Development Programme (UNDP; 1996):

“a continuous improvement of the conditions that allow to all people to live a long, healthy and creative life”.

This kind of development is measured by the *human development index* (HDI) that is composed by four variables:

- a. GDP per capita as index of life conditions;
- b. life expectancy at birth as index of longevity;
- c. combined primary, secondary and tertiary gross enrolment ratio as index of creativity;
- d. adult literacy rate (% ages 15 and above) as index of creativity too.

In the light of this type of development it is now possible to understand the of the concept of social capital explained as following.

#### **3.2.1 Social Capital**

The role given to social enterprises and NGOs permitting them really being promoters of “democracy” and “development” must also include act for promotion and diffusion of the so-called *social capital* as “set of *values, life styles, behavioural rules* that make consistent individual choices with the promotion of common good in every situation of non-coincidence between private and common interest” (Sacco, Zarri, 2006) and as “set of features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives” (Putnam, 1995).

The level of social capital in a specific geographic area is high insofar as there are large situations in which a big part of subjects assumes behaviours respectful of the common interest spontaneously.

The term social capital has got a double connotation: on the one hand, economic (production force), and on the other hand, social (linking relationship).

The basic elements of social capital are substantially referable to trust<sup>5</sup> and reciprocity and for this reason it is product when two people with the same acting motivations interact to each other (Donati, Colozzi, 2006).

Social enterprises and NGOs' comparative advantage must be evaluate with regard to their ability to favour relational nature production and social capital accumulation.

In particular, according to Putnam (2004), there are three types of social capital:

- *bonding social capital* – or *intragroup* social capital: it is that form of social capital that “shuts” and takes shape as boundary line between the members of a group and excluded ones. Therefore, it has got a “negative” connotation and it refers to little groups of similar people to each other, which always share the same information and are seldom open to innovations;
- *bridging social capital* – or *intergroup* social capital: it is that form of social capital that “establishes bridges” between who form a specific social group and who is not part of that group that has promoted the accumulation of this type of social capital. It is formed by horizontal connections into heterogeneous groups of people and permits to link different socioeconomic and cultural areas, promoting the transfer of information;
- *linking social capital* – or *connecting* social capital: it describes vertical connections that link people or social networks who they belong to, to people or groups that have political or economic power.

*Bonding social capital* is that one of which Banfield (1958) told about analysing the South of Italy: it is the inability of the citizens to act collectively for the common good or, at least, for any aim different from the simple material interest of the family (the phenomenon so-called *amoral familism*).

So, bonding social capital is not only a cause, but also a consequence of the underdevelopment of an area.

Our attention is obviously focused on the second and third type of social capital, as those forms allow, from a *macro* point of view, the spreading and the increasing of the so-called *widespread* or *interpersonal trust*, which consequently permits the

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5 The word *trust* derives from the Latin word *fides* that it means “rope”: it is the rope that links two elements. In Globalization Age, social capital is the real meagre resource. We are lacking of social capital that is nothing else but the whole of the ropes, i.e. of the based on trust networks and relationships (Zamagni, 2007a).

creation of *social* or – more or less formal – *based on trust networks*, that stimulate reciprocity and cooperation.

The lack of connection between citizens and institutions is a key factor of the underdevelopment of a geographic area: in this context, social wellbeing can be significantly and in short time improved only through the strengthening of *linking* social capital.

From an economic point of view, social capital permits to reduce transaction and uncertainty costs related to economic exchanges and to promote the investment in physical, financial and human capital (Fiorillo, 2005).

Many empirical studies (World Values Survey – WVS, New South Wales, Social Capital Barometer, National Civic Health Index, GSCS) have shown the existing relation between the increase of the “trust” element of social capital, and of the life of association and of the civil participation of a specific geographic area, and the economic growth of the latter.

In societies with “high level of trust”, people can spend less resources to protect themselves, both from opportunistic behaviours in economic transactions, and from illegal (criminal) violations of property rights. Moreover, a low level of trust can discourage innovations: if entrepreneurs must spend a lot of their time to control their partners, employees, suppliers’ behaviour to avoid possible bad faith, they will have less time to invest in new products and processes.

Also Arrow (1972) had identified the absence of mutual trust as one of the main basic elements of the delay in worldwide development processes.

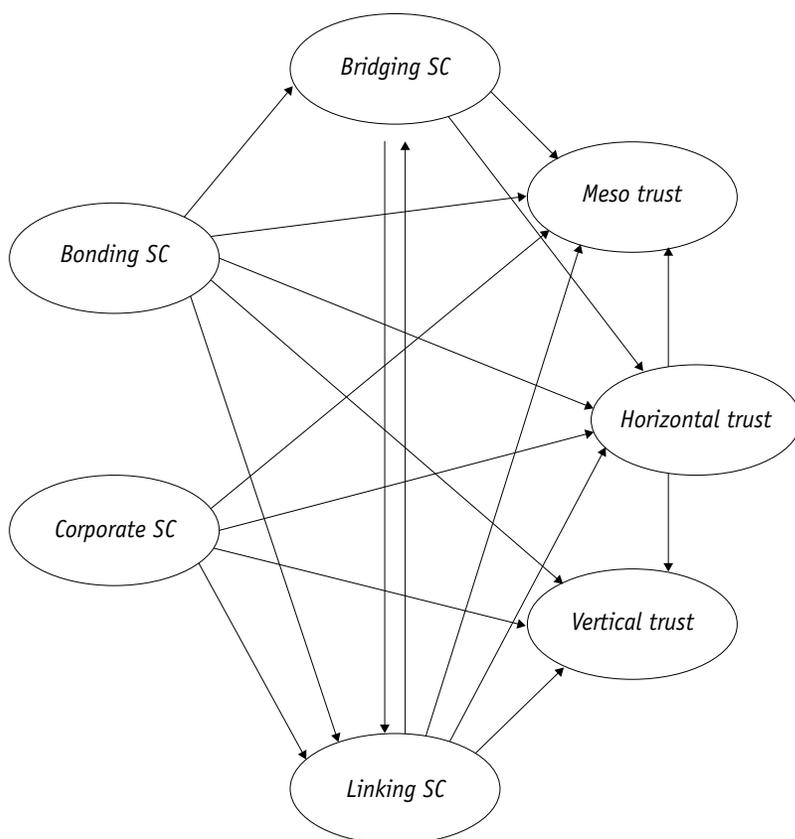
Social enterprises and NGOs intervention and widespread diffusion in the national system are necessary to select and nourish in the society “non instrumental” behavioural motivations, and to promote the accumulation of widespread trust.

Like this, there would be two important consequences: on the one hand, the possibility to produce an amount of social capital as to make up for an incidental lack of aforesaid in the general economic system; on the other hand, the possibility to have positive effects of “contamination” on other economic spheres – as, for instance, the *Corporate Social Responsibility (CSR)* of the for-profit enterprises. In that case, the non-profit sector would become an “ally” for the intelligent enterprises to improve the context where they work.

The connections between trust at different levels (horizontal, *meso*, vertical) and social capital (bonding, bridging and linking) may be summed up as the following figure on the next page.

To realise all that it is absolutely necessary to bet now on social enterprises and NGOs as active subjects in the production of trust, especially through the concept of *linking social capital*.

As assumed by Putnam, Leonardi and Nanetti (1993), social enterprises and NGOs work as “school of democracy”, which activity promotes the spreading of trust and reciprocity principles in the surrounding social environment.



The trust towards institutions will improve if citizens feel that they can affect through their social participation on the *policy makers* actions. At the same time, the membership to social enterprises and NGOs makes more frequent social interactions and establishes the assumptions to develop relations based on trust, which stimulate cooperative behaviours also outside the context of social enterprise or NGO.

These mechanisms play a fundamental role to determine the good functioning of the markets and the sustainability of the economic growth (Sabatini, 2008).

In a social environment with many participation opportunities, people often meet themselves: they better know to each other and talk amongst themselves. The best spread of information and the high probability that the interaction between each couple of agents repeats itself more than once increase the importance of the *reputation*. The behaviour of the agents become more easily foreseeable and it is determined a reduction of the uncertainty, that reduce the transaction costs. At the aggregate level, that process improves the *performance* of the whole economic system took in consideration.

In areas with high equipment of human capital and low levels of intermediate and vertical trust it is fundamental encourage the taking root of social enterprises and NGOs and the social participation of citizens.

### 3.2.2 Social Return on Investment (SROI)

When we talk about the development of an area caused by social enterprises an important issue to consider is the way to measure the impact of their work: indeed, it is absolutely limited create social value and do not measure it, as every business enterprise does with other types of created values. Nevertheless, the difference between measuring social value and other types of created values is a quantitative problem: indeed, if on the one hand we talk about values that we can somehow measure with monetise indicators, on the other hand we talk about another type of value not immediately quantifiable.

The question is linked to the difference between *outputs* and *outcomes* of a process (Lawlor, Neitzert, Nicholls, 2008): outputs are the direct, tangible and often easily quantifiable products from the activity, e.g. participation rates, number of training courses delivered, etc.; outcomes are the medium to longer-term changes that happen as a result of a project's activities, e.g. wider social and environmental benefits (less easily to quantify).

A possible way to measure social value and the impact of social enterprise in its working area is using the so called *social return on investment (SROI) analysis*: it is a process that allows to understand, measure and report on the social environmental and economic value created by an organisation. SROI measures the value of the benefits relative to the costs of achieving those benefits (Lawlor, Neitzert, Nicholls, 2008). An SROI ratio is a comparison between the value being generated by an intervention and the investment required to achieve that impact. It presents a framework for exploring an organisation's social impact. SROI is a tool that translates the social value created into data that can be understood by a range of stakeholders.

The SROI process involves:

- talking with stakeholders to identify what social value means to them;
- understanding how that value is created through a set of activities;
- finding appropriate indicators or "ways of knowing" that change has taken place;
- putting financial proxies on those indicators that do not lend themselves to monetisation;
- comparing the financial value to the social change created to the financial cost of producing these changes.

To understand the difference made by a social enterprise or its initiative, SROI analysis provides the method for taking into consideration what would have happened anyway (*deadweight*), any unintended negative consequences, displaced benefits (*displacement*), and the extent to which outcomes are the result of the social enterprise as opposed to other factors (*attribution*).

At the same time SROI is a tool for proving and improving: in terms of proving, SROI provides a powerful means of demonstrating and communicating social value. It allows organisations and investors to see how much, and where, social value is being created. In addition, SROI enables employees to take a step back from day-

to-day operations and examine the work they undertake from a new perspective. The insights this generates can shape future decision-making, thus continuously improving how a project or organisation runs.

## 4. SOCIAL ENTERPRISES IN DENMARK:

### A COMPARISON WITH ITALIAN ONES

#### 4.1 DANISH HISTORICAL PATH

As in the Italian background, also in Denmark the historical development and background is important in understanding Danish social economy. Social enterprises have played a significant role in the formation of the Danish welfare state and also in more recently in its modernisation.

The *farmers' co-operative movement* started as a means to protect farmers' rights and interests, but became closely affiliated with the social movement of the Danish Folk High Schools and Grundtvigianism (Grundtvig's, the founder of the schools, philosophy of life-long learning). The social and practical integration that took place in this institution became a catalyst for many co-operative organisations.

The other important institution was the *workers' movement*, which – despite its initial reluctance towards co-operatives – established two types of co-operatives: one that produced and retailed inexpensive housing, and the second type that established workplaces for people unable to find a regular job (Borzaga et al., 2001).

In the late 1990s there were approximately 890 co-operative enterprises with an annual turnover of 345 million € (24.2 billion DKK) and they occupied 15.000 employees (Hulgård et al., 2004). According to the Danish Co-operative Movement, the number of enterprises, employees and the turnover is roughly the same today. Out of a population of 5,5 million, it was estimated that 1,2 million people lived in co-operative housing in 2000 and this level is also unchanged.

From 1960s most social work was taken over by the *public system*, as the expansion of the public sector continued with the formation of the welfare state. The new social enterprises that emerged after this period were primarily bottom-up activities that were formed on local initiative.

After 1985, development policies and programmes have supported social enterprises in the areas of social service and community development (Hulgård et al., 2004).

In the 1990s, *pilot and action programmes* have played an important role in the area of social work. A series of programmes (the biggest was the "Social Development Programme" with approximately 47,050 million € (350 million DKK) from 1988-1992) provided funding for a variety of very different social enterprises, and only limited monitoring and regulation accompanied the grants. This allowed for experiments with entrepreneurial activities for social enterprises, especially in the areas of work integration. It helped facilitate a movement from a "passive" to a more "active"

policy towards unemployed people, as the enterprises in this field promoted a strategy of activation and job training as a means of fighting unemployment. Thus, in the rapport on “Work integration social enterprises (WISEs)” it is argued that “The programmes can be understood as a special Danish way of experimenting with the social enterprise model and the role of Third-Sector organisations in fighting social exclusion” (Hulgård et al., 2004).

This is why social enterprises are important agents in the development of the social system in Denmark (Borzaga et al., 2001).

#### 4.2 FORMS AND FEATURES

In Denmark we can find 4 main types of social enterprises:

- a. organisations providing voluntary social support, for example crisis centres and refuges for battered wives, “self-help groups” in all areas of social and/or psychological crisis (divorce, suicide, serious illnesses etc.) or thrift shops related to ecclesiastical communities;
- b. cooperatives and companies with membership democracy, where members do not necessarily work in the company, but influence decisions and planning through their vote;
- c. work-integration social enterprises (WISEs), which offer education or on-the-job training to vulnerable groups of unemployed people (Hulgård, 2006);
- d. local development and urban renewal projects (partnerships between public, for-profit, third sector), which set up local partnerships between representatives of the public, the for-profit private and the Third Sector (Bisballe, 2006).

In Italy, at least five kinds of subjects exist (Colozzi, Bassi, 2003):

- a. voluntary organisations defined as “a freely created body [...] which it prevalently avails of personal, voluntary and free services by its supporters” (Outline Law on Voluntary Service, n.266/91, art. 3);
- b. social promotion associations defined as “registered and not registered associations, movements, groups or their coordinations, federations, which are established in order to carry out social utility activities in favour of members or third parties, with nonprofit aim and at the height of the respect of members freedom and dignity” (art. 2, Law n. 383/00 – Regulation on social promotion associations);
- c. social cooperatives regulated by the Law n. 381/91 and defined (art. 1) as cooperatives that “[...] pursue the aim of common interest of the community towards human promotion and social integration through:
  - a. sociomedical and educational services management (type “A”);
  - b. carrying out of different – agricultural, industrial, commercial or services – activities with the aim of disadvantaged people working reintegration (type “B”);

- d. civil foundations, which have not a univocal definition. To have a characterization of them we take into account that one of European Foundation centre (EFC): “Civil foundations are nonprofit bodies with an own income source that usually – but not exclusively – results from a property. This body has got its organ of government and it uses its own financial resources to pursue educational, cultural, religious and social aims or other aims with public utilities, both promoting people and associations, both organizing and directly managing its programmes”;
- e. other non-profit bodies – subjects not attributing in the aforesaid categories.

Danish social enterprises (from now on DSEs) can take part in raising public debates, and thereby influence the political agenda. In Italy, also if there are representative subjects of the Third Sector, they are not a strong part of the welfare system as in Denmark. In Italy social enterprises have got a marginal role, nowadays: everything that both the State and the market – as for-profit private – is not able to produce, it is provided by Third Sector organisations. There is not a real *civilian’s constitution-alisation* of the Third Sector.

There are no comprehensive records of the *organisational and management characteristics* of social enterprises in Denmark. The *sources of income* also vary: some organisations are financed by investments, often from inherited money or real estate, but most of the organisations (85%) have income from membership fees. 75% of them receives public funding and 80% receives public funding and/or other forms of public support (such as office housing).

*Volunteers* deliver the main part of the organisations’ efforts, and only 15% of the organisations have a limited dependence on voluntary work. 35% are run entirely by voluntary workers (Danish Ministry of Social Affairs, 2001). In Italy the non-profit sector depends by public funding and volunteers (80,2%) too (ISTAT, 2008).

The lack of visibility of the Danish social enterprises can be identified as the major problem. As politicians and other decision-makers are often unaware of their existence, there is presently very little chance of further development. The Danish politicians have showed an interest for new possibilities in the social field, but so far the attention has been focused on voluntary social work, charities or commercial solutions.

It is also argued that the *development in the general attitude* towards the social system and social services is very important. The politicians’ interest in the ability of public-private partnerships to provide solutions in the social area might leave room for the social enterprises. On the other hand, the tendency to what can be defined as the “new-right” thinking might promote the development of commercial enterprises instead (Borzaga et al., 2001).

Owing to narrow relationship between the Government and social enterprises, in Denmark the term social enterprises has often been used as metaphor for parts of the labour market policy and social policy aimed at increasing the social responsibility of “normal” private enterprises and rarely as a concept for combined social/

participatory and economic activities within the social economy (Hulgård, Lundgaard Andersen, 2008).

Several reasons account for the lack of interest for understanding and enhancing the impact of the social economy and social enterprises (Hulgård, Bisballe, 2004):

1. the lack of legal framework for social co-operatives;
2. an inadequate rhetoric and scepticism towards the combination of “social” and “economy”.

This is, however, gradually changing and both private enterprises and the public sector have become much more aware of the potentials and possibilities in the concept of social enterprises in Denmark: social enterprises and social economy are important contributors to the production of social services and to the promotion of a broad range of integrative activities – both integration into the labour market, into everyday life and the civil society.

Furthermore, social enterprises often combine different motivational structures and incentives with empowerment objectives as well as competence and skill-building.

Danish WISEs (Work Integration Social Enterprises) are both similar to and different from European social enterprises in that they have a strong entrepreneurial component, while remaining strongly embedded in the associative or co-operative world; indeed, most WISEs in Danish sample were founded by local actors, often in close co-operation with Third Sector organisations.

On the other hand, many Danish social enterprises distinguish themselves from most European WISEs as regards the extent of public sector involvement: Danish WISEs, though formally autonomous, are under pressure from public authorities, which often determine their objectives (Riis, 2003).

In Denmark, there is not a specific legislation for co-operatives or social co-operatives, and WISEs only rarely adopt an associative (non-profit organisation) legal form. Among the variety of legal forms adopted by Danish WISEs, the prevailing one is that of the *self-owning institution*.

The term “self-owning institution” refers to the legal status of a wide range of cultural, environmental, educational and social institutions and organisations providing various public goods under subcontract, especially within the field of welfare provision – day-care, cheap meals, work integration, rehabilitation, nursing homes, hostels, emergency centres, etc. – and within the private school sector. Riis (2003) estimated that there were 9.000 self-owning institutions operating in the social area in Denmark.

In Denmark, Third Sector-oriented legal forms (associations and foundations) come in second place, whereas legal forms connected to the private sector area rarely found.

Here there is a big formal difference between DSEs system and the Italian one: in Italy, there is a legislation for each different types of NGOs; as well Italy was the first country to pass the bill on Social Enterprise (Law n. 118/05, brought about with

the next Legislative Decree n. 155/06). Nevertheless this flourishing of legal interventions does not mean a real consideration of these socioeconomic subjects by the Italian government. Unfortunately also the so innovative Law on Social Enterprise is not a real form of change yet. This is because of the lack of clearness of the Law in the context of reference with the result of the presence of an “empty box” in Italian legislation.

Finally, in Danish WISEs, as emerging by PERSE research project<sup>6</sup>, there is no clear connection between the ownership structure and the decision-making structure, since the only privately owned enterprise is also an enterprise with one of the most participatory decision-making structures in planning the activities of the enterprise as happen also in Italy.

#### **4.3 DANISH AND ITALIAN SOCIAL ENTERPRISES AS DEMOCRACY AND DEVELOPMENT PROMOTERS**

As above-mentioned DSEs have got some peculiarities that are also related to the improvement activity of the level of democracy and development in the country.

By the way, in my opinion DSEs are limited because of their narrow dependence by the public sector. Both on the side of fundings and on the side of governance, DSEs are closely linked with the welfare state policies.

In Denmark, health and social care are available on a universal basis, dependent on need and not on age or ability to pay. Denmark was one of the first countries to adopt a community care policy (Platz, Brodhurst, 2001). Widespread deinstitutionalization has taken place, with priority given to the provision of domiciliary care. The funding for and provision of health and social care is based in Denmark on a structure of counties and municipalities: most of the welfare services are provided by the latter, but e.g. some of the nursing home and attached day care facilities are run by voluntary or non-profit organisations.

It is not maybe wrong say that in Italy, also if there is a huge dependence by the public funding too, there is a more independence – almost on the original idea – of the concept of social enterprise or NGOs as civil society representatives and it depends by the concept of *horizontal subsidiarity* content in an article of the Italian Republic Constitution (Title V, art. 118, paragraph 4):

“State, regions, metropolitans cities, districts and municipalities promote citizens autonomous initiative, individually and in combination, for activities of general interest, based on the principle of subsidiarity”.

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6 PERSE is the acronym of *Performance socio-économique des entreprises sociales d'insertion par le travail* and it is an EMES' four-year project ended at the end of 2004.

Instead, for the dependence by public funding and also for the lack of a specific social enterprise law in Denmark, the public sphere has got a big influence on DSEs. This affects the type of governance of this subject: the sought *multistakeholdership* by EMES or others EU countries is less present in Denmark. According to PERSE project on WISEs (Campi, Defourny, Grégoire, 2006), in a structure formed by users/customers, volunteers, staff, participants, business, government, NGOs and other (private individuals – other than consumers –, local community representatives, private financing bodies, experts, etc.), DSEs have got a 25% of *government representatives*. This is a meaningful percentage of the influence that public subjects have got on DSEs.

As we can imagine, this more or less formal control can influence the path of the DSE and the idea that citizens can have about them.

Nevertheless, even when there is a network structure with some partners things not always go right, as in Landliv a/s having four partners<sup>7</sup>: it is possible to have a conflicts inside the network both because of it happens to have a common amount of money to share between different partners and also for the *leadership* conferring.

On the other hand, there are obviously also benefits in a multistakeholder network: partners can share know-how and skills and mutual aid, as in Landliv a/s. Maybe they could do the same work alone, but the saying “better together” suggests that a network allows to save time and money and to create a more democratic way of working and living, because it teaches us to respect others and to share with others what you have and know.

Because of the control by public sector on goals and funds, DSEs, that are substantially small realities, do not unfortunately co-operates many times and are not usual recollect them under an “umbrella” subject (e.g. as CGM – Gino Mattarelli Consortium – the largest social co-operative consortium at national level in Italy).

At the same time in Denmark the Government must pay attention to social enterprises both because they are fundamental for the welfare system and because they are the “voice” of citizens: indeed, people sometimes try to establish a dialogue with the State through social enterprises.

Settlementet, for example, is a voluntary organisation really involved with the municipality of Copenhagen for funding. This is why it needs to find a balance between pursued goals, at the same time influenced by municipality policies, and identity-making values as representation of citizens needs. Indeed, Settlement needs to be true to its *mission* avoiding conflicts with the municipality.

By the way, from a democracy improvement point of view, in my opinion DSEs have an effective efficiency lesser than their potential one.

They need to develop that type of social capital so called *linking*, which allow them to create social networks and a more powerful system. This could also allow to improve the level of (both economic and human) development of the country, as we

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7 Bp-u Consultancy, a farmers’ organisation, a local business corporation, and a research and development center

have already seen before. In Denmark, social enterprises are holders of *bonding social capital* yet, but not as well – or better at the same level – of *linking*, probably for the narrow dependence by the State.

This is a real pity, because on the other hand DSEs are real drivers of the development of the country: they bring with their innovation and work integration and are a fundamental part of the socioeconomic system. But it is not enough.

Danish system is characterized by a potential developmental approach to democracy assistance (Carothers, 2009): it means e.g. a structure based on local-level service delivery activities and other developmental projects.

Also in Italy there is a potential opportunity for social enterprise to grow as social problems solvers in collaboration with the welfare state, also if the latter is quite different in Italy then in Denmark: indeed, Italian welfare state is both universalistic and particularistic, on the basis of the type of services. And even if in Italy there is probably a greater amount of *bridging social capital* then in Denmark, I think that I can assert that Italy is lack in *linking social capital* too.

Anyway, DSEs are oriented to improve local/regional development more than in Italy and play a role in this way: many times, as it was once in the area where Landliv a/s is working now, there are people with energies and skills but at the same time e.g. with low level of education. So they need a figure as an entrepreneur able to organise work and people and link them. This is why DSEs can be considered as hubs of a network composed by different types of actors, but at the same time I think that they are really limited by the inexistence of a national legal arrangement that allows the State to exert its informal power to address social enterprises.

Another problem is related to a following step, the measuring of outcomes produced by social enterprises: as the influence exerted by the State, it becomes also difficult to independently measure outcomes of the social enterprise, as it may impose (more or less publicly) to follow public policies. This situation exists because of many times the State is the main backer (and in consequence the main stakeholder) of a social enterprise or NGOs and for this reason it wants to control how money is used, as it happens in Settlementet.

By the way, other problems raise from measurement perspective: indeed, as we are in social problems field as in Settlementet, it is not always good to implement a measure of the social impact as this means to ask people about their life, both before and after the fulfilment of the programme in which they are involved, with the result of that could make people controlled.

At the same time there are other social enterprises that, even if they think that social capital has got a very important role for an area, they do not feel the need to have a quantitative measure of their social work yet, as for example Landliv a/s. They believe that the successful working of the system is an enough measure of their work. So they did not implement an accountability system or use an indicator as Social Return on Investment (SROI) and will not do that in the near future.

## 5. CONCLUSIONS

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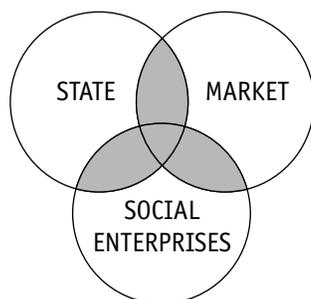
With the developed analysis it has been highlighted the main features of social enterprise, both in general and in Danish – and Italian – sample. These comparisons have allowed to understand that the main widespread studies on social enterprise (e.g. EMES studies) are more a suggestion for the future than an already implemented model, especially in European countries.

Even if each one has got its own characteristics, it is possible to assert that during the analysis are emerged some similarities between Danish and Italian social enterprises, as already highlighted. In particular, the lack of a system based on *linking social capital* is one of the main problem that afflict both the two countries. Also the less importance give to *accountability and social impact measure systems* is a weakness point of both the two countries. That is because (according to Diderot):

“It is not enough to just do good, the good must also be done well.”

At the same time in Denmark there is a lack of specific legislation on social enterprise, as social rights are considered as civil basic rights: nevertheless, I think that is extremely important have a legal guardianship for these subjects, especially when they have to hold a dialogue (and this is more and more a real need) with other subjects (State and market) having their own legal rights. Nevertheless, even if in Italy there is already a law on social enterprise, it is not operative yet, because of an unready system as the Italian one.

The general perspective for the future is a growth of the social enterprises, both in their dimensions and in the number, and a trend to a more and more integration between State, market and civil society, as following:



One of the main reasons of this shift of tasks between State, market and social enterprises (as representatives of civil society) can be the partial failure of the welfare state. In Italy that is already happened; in Denmark it is really possible now because of the international financial crisis.

Indeed, there will probably be consequences also in Danish welfare state system, maybe more than in Italy (that is already in a not so good situation). I mean that in this particular historical period the social base will change in Denmark because of the increase of poor people, and maybe also Danish welfare system will show traces of the worldwide crisis.

As pointed out by the interviews, the feel of the workers of the social enterprises goes in two direction: on the one hand, it will perhaps be less money (investment/risk capital) for funding, but, on the other hand, especially for voluntary organisations (closely connected with municipalities), there will be more fundings as the growing social base to satisfy.

Nevertheless, this belief could be undeceived by the policies of the present type of government (Neoliberal) in Denmark; indeed, in Italy because of the crisis the same type of government has cut the support to social economy subjects to cover the inefficiencies of the biggest for-profit firms.

As the uncertainty is by now a component of our daily life, I suggest to social enterprises to do everything is in their possession, first of all try to find a more independence and tutelage.

In my opinion only after a formal revisiting of social enterprise role in the system, that allow it to guarantee that clearness of roles and activities that citizens more than ever need in this moment, social enterprises should play a full and absolutely necessary social role in their country of belonging (and not just in that).

As this is the current situation, I think that only establishing a social network based on *linking social capital* (widespread trust) as well as understanding the importance of social outcomes measurement, in a world where now like never before is important be clear, DSEs will find their necessary freedom by the public policy and DSEs system will be successful in the way to be democracy and development promoters.

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