



IRENE.T – WP5 GLOSSARY

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IRENE.T WP	WP 5. Research Method
Subject	WP5 Glossary, draft
Annex	none
Version and date	13/02/2009
NOTE	

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Third System GLOSSARY

Social Economy.-

In most industrialized countries, Social Economy enterprises and organizations may be grouped into three major categories: cooperative enterprises, mutual societies and those organizations which might generally be described as associations, whose legal form may vary considerably from one country to another.

This third component, associations, include a lot of advocacy organizations which may also be seen as providers of services to their members, to other people (as Save the Children, for example) or to the whole community (for instance, Greenpeace). More generally, it includes all others forms of free associations of persons for the production of goods or services where making a profit is not the essential purpose. Obviously, these organizations have a wide variety of names, such as: associations, non-profit organizations, voluntary organizations, non-governmental organizations, and so on. Foundations and some other country-specific organizations (such as charities in the United Kingdom) are also often considered under this heading.

The definition which is used in several countries, states that:

The social economy includes economic activities carried out by co-operatives and related enterprises, mutual societies and associations, whose ethical stance is represented by the following principles:

- The aim of serving members or the community; rather than generating profit;
- An independent management;
- A democratic decision making process;
- The primacy of people and labor over capital in the distribution of income.

Third Sector. - It is a set of entities that emphasize to be non a profit organization: by law they cannot distribute benefits. Not necessarily they develop enterprise activities. The more frequent legal forms in the Latin tradition are: associations and foundations.

Third System.- In European Commission (2000) we can find a Third System definition. This definition is the following:

The organizations belong to Third System are private and autonomous that:

- The aim is not profit – maximizing behavior
 - Limit profit distribution;
 - Paid work;
 - An explicit aim to benefit the community or a specific group of people
 - A participatory nature, which involves the persons affected by the activity.
- Multistakeholder organization

Social Enterprise.- In Borzaga and Defourny (ed) (2001) we can find a common criteria which would be used to identify social Enterprise in each of the IRENE member states. This definition distinguishes, on the one hand, between criteria that are more economic and, on the other, indicators that are predominantly social. Let us begin with the economic and entrepreneurial dimensions for which four criteria have been put forward:

A continuous activity producing goods and/or selling services

Social enterprises, unlike the traditional non-profit organizations, are normally not engaged in advocacy activities as a major goal or in the redistribution of financial flows (as, for example, grant-giving foundations), but they are directly involved in the production of goods or the provision of services to people on a continuous basis. The provision of such goods or services represents, therefore, the reason, or one of the main reasons, for the existence of social enterprises.

A high degree of autonomy

Social enterprises are voluntarily created by a group of people and are governed by them in the framework of an autonomous project. Accordingly, they may depend on public subsidies but they are not managed, directly or indirectly, by public authorities or other organizations (federations, private firms, etc.) and they have both the right of “voice and exit” (the right to take up their own position as well as to terminate their activity).

A significant level of economic risk

Those who establish a social enterprise assume totally or partly the risk of the initiative. Their financial viability depends on the efforts of their members and workers.

A minimum amount of paid work

As in the case of most traditional non-profit associations, 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:

An explicit aim to benefit the community

One of the principal aims of the social enterprise is to serve the community or a specific group of people. To the same end, a feature of social enterprises is their desire to promote a sense of social responsibility at local level.

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 shares a certain need or aim and they must maintain such a dimension in one way or another.

A decision-making power not based on capital ownership

This generally means the principle of “one member, one vote” or at least a voting power not distributed according to capital shares on the governing body which has the ultimate decision-making rights. The decision-making rights are shared with the other stakeholder.

A participatory nature, which involves the persons affected by the activity

Representation and participation of customers, stakeholder orientation and a democratic management style are important characteristics of social enterprise. Multistakeholder enterprise

Limited profit distributions

Social enterprises not only include organizations that are characterized by a total non-distribution constraint, but also organizations, like co-operatives in some countries, which may distribute profits only to a limited extent, thus avoiding a profit-maximizing behavior.

Comments:

Which such social enterprise definition, it is clear that the fulfillment of these criteria would vary greatly and that social enterprises would appear in each country more as a wide spectrum than as a clear-cut set of well-identified organizations. At the same time, it seems quite important to link the analysis of social enterprises with the other parts of the third sector or

social economy and with the whole socio-economic context of each country (in some countries even the notions of social economy and third sector remains unclear).

Although the term itself may not be used in some countries, several categories of organizations clearly could appear to correspond with the concept of social enterprise that Irene Project is interested.

References

- Borzaga, C. and Defourny, J. (editors) (2001), *The emergence of social enterprise*, Routledge Studies in the Management of Voluntary and Non-profit Organizations
- Comisión Europea (2000), *Troisième système et emploi: rapport à mi-parcours*. Dossier pour la Conférence au Parlement Européen, Bruxelles, June 29 and 30.

