

## **Testing the distributive effects of social enterprises: the case of Italy**

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### 1. Introduction

The debate on social enterprises has been stimulated by their spontaneous and haphazard emergence in various niches of activity and in various countries driven by initiatives undertaken within civil society by social activists. The specialized literature has accordingly studied this new category of firms in a rather narrow way, whereas it may be more important to determine its general economic features. Different streams of analysis underline different advantages and disadvantages of social enterprises, mainly linking them to the literature on non-profit organisations. But they do so haphazardly, without a clear and comprehensive framework. The main contributions (Borzaga, Defourny, 2001; Anheier, Ben-Ner, 2003) have been based on industry studies, and on some specific features and types of social enterprises. Legislation has followed the same route by focusing on specific activities and organizational types. An example is the law on social cooperatives in Italy aimed at the regulation of social services and work integration; as well as the regulation of fair trade and micro-finance in various countries, etc...

General legal frameworks for social enterprises have only recently been introduced in some European countries, examples being the Community Interest Company in the United Kingdom in 2005, and the Impresa Sociale in Italy in 2006 (law no. 118/2005 as implemented by legislative decree no. 158/2006). The aim of both reforms is to create a cross-ownership

organizational form which acquires the legal status of traditional cooperatives, mutual societies, and entrepreneurial non-profit organizations, but also investor-owned firms fulfilling the requirements and constraints imposed by law. Social enterprises are required to pursue public benefit aims, although the actual nature of this public benefit is not clearly identified. The non-profit distribution constraint and multi-stakeholdership are governance solutions intended to support the ability of such enterprises to target and solve social problems.

The new legal provisions have wide-ranging scope and cover new areas of operation.<sup>1</sup> However, social enterprises continue to widen their supply of more traditional welfare services, such as health-care and education, predictably in niche areas of expertise, and in the supply of services to limited and marginal social groups in whose regard the State is unable or unwilling to intervene. Given this trend, this study seeks to shed new light on the economic and social effects of social enterprises. More specifically, it analyses their ability to overproduce and distribute resources also to non-paying demand, and to contribute to the accumulation of social capital. Social enterprises can perform a real distributive function that depends on their working mechanisms. In this contribution, the institutional basis of this distributive function will be made explicit and discussed. The importance of this new framework for interpretation of the effects of social enterprises requires empirical support, which has been made available by a national survey conducted between 2004 and 2007 (ICSI2007) on a representative sample of Italian social cooperatives. The study covered 320 organisations and recorded data on their economic, distributive and welfare effects.

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<sup>1</sup> Fair-trade, micro and ethical finance are activities expanding strongly where the severity of market failures makes reliance on purely commercial, profit-seeking firms inadvisable, their possible higher efficiency notwithstanding.

The structure of the paper is as follows: Section 2 summarises the state of the art in study of the economic features of social enterprises. Section 3 examines the main distributive effects of social enterprises in reducing poverty and marginality. Section 4 sets out the main empirical evidence on the distributive effects of a sample of 320 Italian social cooperatives, while Section 5 concludes the chapter with some final remarks and policy implications.

## 2. The state of the art

The most widespread theories that can be applied in analysis of social enterprises concern entrepreneurial nonprofits. They focus on the ability of social enterprises to do the following: reduce transaction costs in the presence of pronounced contract failures due to asymmetric information and reinforce trust relations between the organisation and its users (Hansmann, 1996); alleviate the problems and the costs linked to the incompleteness of labour contracts (Borzaga, 2003); adapt to the relational character of the services supplied (Gui, Sugden, 2005); foster increased efficiency and effectiveness in service delivery, mainly in comparison with the public sector (Borzaga, Tortia, 2009a); supply niche public goods when the state is unable or unwilling to do so (Weisbrod, 1977; 1988); mobilise and use a mix of resources different from more traditional organisational forms, socialising capital and attracting non-market resources, such as voluntary labour and donations, that would remain unused in the absence of social enterprises (Ben-Ner, Van Hoomissen, 1991; Borzaga, 2003); favour the accumulation of social capital by reinforcing trust relations at community level (Borzaga, Tortia, 2009b).

Our analysis starts from the works on non-profit organisations by Burton Weisbrod (1977; 1988), who stressed the entrepreneurial character of many American nonprofits. He viewed the latter, not as merely donative ventures, but as organisations explicitly undertaking

productive activities in an independent way in order to satisfy both private and social needs. Weisbrod recognised that nonprofits produce (quasi)-public goods with a meritorious character, while distributing (implicitly or explicitly) benefits to non-paying demand.

The literature on non-profit organisations continued the line of inquiry begun by Weisbrod by considering government failures in the provision of public and meritorious goods in relation to the prevalence of the median voter's preferences. More recently, since the works by Henry Hansmann (1980, 1988, 1996), research has concentrated on market and contract failures, with limited yet significant overlaps with the literature on traditional profit-seeking and cooperative firms (Borzaga, Musella, 2003). The concept of 'social enterprise' arose at the end of the last century and was developed mainly in Europe (Borzaga, Mittone, 1997; Borzaga, Defourny, 2001; Anehier, Ben-Ner 2003) following major institutional design experiments in some countries. The concept came into being informally, mainly outside academia, within social movements; and as a scientific idea and legal institution it is now mainly linked to social cooperatives in various European and North-American countries and to non-profit organizations in the USA. Since the initial studies, the literature on social enterprises has grown constantly in the same countries, in business and management studies as well, while some international journals now specifically deal with the topic. In this context, the differences in managerial models and motivational drives between entrepreneurial nonprofits and other organisational forms have been highlighted by various authors (Rose-Ackerman, 1996; Young, 1983, 2006; Grimalda and Sacconi, 2005). Furthermore, many sectoral studies (Clotfelter, 1992; Weisbrod, 1998) have singled out the specific areas of operation of social enterprises.

The bulk of the literature evidences the ability of social enterprises to produce public and quasi-public (collective and common) goods and services of a meritorious nature (Borzaga

and Defourny, 2001; Anheier and Ben-Ner, 2003; Borzaga and Spears, 2004). Social enterprises are therefore expected to complete existing markets and public welfare systems by complementing both public and private for-profit provision. Given the quasi-public nature (Ben-Ner, Van Oomissen, 1993) and the high relational content (Borzaga and Musella, 2003; Gui and Sugden, 2005) of the services produced by social enterprises, traditional organisational forms would not be able to guarantee their production except at higher costs and/or with lower effectiveness of supply, owing to market imperfections, contract incompleteness, and government failures. The ability of social enterprises to achieve a high degree of efficiency and effectiveness in service delivery depends on fulfilment of the constraints imposed by economic sustainability also in terms of an adequate endowment and renewal of resources. Economic sustainability can also be accomplished by drawing on non-market resources, such as voluntary labour and beneficent donations. The increased availability of resources and the change in the firm's objectives, which shift from profit maximisation to the satisfaction of social needs, are supported by the absence of the profit motive; and they have major implications in terms of welfare effects as well. Higher supply and lower prices depend on the reduced exploitation of market power and on the pro-social motivations of the organisation's patrons (Tortia, 2009). The managerial literature is also exploring these issues (Mair, Robinson, Hockerts, 2006), and in particular the vocation of social enterprises to enact their entrepreneurial profile as institutional void fillers (Mair, Marti, 2009) and as promoters of inter-firm networks undertaking the district-like production of goods and services with a social focus (Bonel, 2007).

#### 4. The economic and distributive impact of social enterprises

Our aim in what follows is to provide a more complete and coherent definition of the economic and social effects of social enterprises, both when they are intentional and when they are mostly unintended external effects. The intentional distributive function can be fulfilled because social enterprises do not exclusively remunerate the production factors (labour and capital), but are able to gather additional non-market resources, such as voluntary labour and financial donations, and to socialise part of their output in collective funds or expenses targeted on solution of specific social problems usually concerning weak social groups or the community at large. In other words, part of the resources available to social enterprises are employed in the over-production and distribution of output relative to contractual commitments with the paying demand. This unique feature of social enterprises distinguishes them from traditional entrepreneurial organisations devoted to the satisfaction of private needs.

The literature on social enterprises has paid insufficient attention to defining their distributive function, and it has often conflated all their beneficial effects under the heading of ‘positive externalities’. The distributive function has been (partially) studied only in the case of donative non-profit organisations, such as grant-making foundations (Cotfelter, 1992; Ben-Ner, 1994), but not in the case of entrepreneurial non-profits. In what follows we show that this is a mistake, because an intentional attempt to solve social problems must be differentiated from unintentional external effects. The ability of social enterprises to influence well-being in the community and to reduce wastage of resources and transaction costs can be measured in terms of higher productivity, with both intentional and unintentional social benefits. The distributive function can be considered an intentional effect insofar as it depends on the organisation’s explicitly stated objectives and on the strategic decisions defining its operation. Unintended effects are linked to positive externalities generated by the firm’s operation in terms of positive impacts on the well-being of an entire local community

achieved by diffusing voluntary actions and social norms, independently of the specific group of beneficiaries of the firm's services. Positive external effects and the accumulation of social capital (Coleman, 1988; 1990; Putnam, 1993, 1996) are indirect, but not secondary, effects of their [di chi?] operation linked to their ability to build networks among mutually dependent and co-motivated actors (Sacchetti and Sugden, 2003), favouring the reduction of transaction costs and the expression of intrinsic and pro-social motivations. The ability to support the accumulation of social capital relates to the way in which social enterprises gather the necessary resources, define their objectives, and govern and involve the relevant patrons; but it should be interpreted as a by-product of the organisation's objectives, not as its main aim.

This framework also makes it possible to evidence the ability of social enterprises to internalise important external effects linked to the pursuit of entrepreneurial objectives. Our working hypothesis is that the commonality of the resources accumulated mainly through locked assets, the organisation's public benefit aim, and its governance structure based on the involvement of different stakeholders, support the internalisation of external effects that in more traditional organisational forms can be generated by both market imperfections and contract incompleteness. Furthermore, the ability of social enterprises to socialise resources may help them overcome free-riding in the private production of public services.

These results are obtained without reducing the well-being of the actors involved, since intrinsic motivations are positively correlated with the patrons' well-being. Furthermore, the absence of a rigid control-based hierarchy favours the implementation of fairer procedures, together with involvement. The level of worker and managerial well-being (Benz, 2005, Borzaga, Depedri, 2005; Borzaga, Tortia, 2006; Tortia, 2008) is equal to or higher than in other organisational forms (for-profit and public) even in the presence of lower monetary remuneration, and especially lower labour costs. Hence, social enterprises have important

competitive advantages in the production of meritorious goods. Relatedly, increased efficiency and cost reduction forestall the possibility of resources wastage and opulent consumption.

Some of the effects generated by social enterprises would not have the same features and intensity in the case of other organisational forms, either public or for-profit. Public bodies must comply with rigid administrative procedures which forestall the possibility of adequately involving the main patrons and enhancing their intrinsic motivations. The possibility of distributing resources for free is also forestalled if not in the presence of rigid regulation, which can by itself increase costs. On the other hand, incentives and strategic decision-making in for-profit firms are directed to the maximisation of surplus and of the organization's economic value for private appropriation. Social enterprises can instead pursue specific social objectives by using limited but dedicated resources. The institutional structure is designed to support this kind of behaviour, because the non-profit constraint attenuates the importance of monetary incentives and curbs the quest for private appropriation. The same constraint also induces a high degree of the socialisation of resources, whose utilisation and distribution is defined by public-benefit objectives, and it enhances intrinsic motivations by favouring involvement in the mission and in decision-making (Valentinov, 2007, 2008).

### 3.1. Our hypotheses

A new interpretation of the economic nature of social enterprises and of its distributive consequences can be based on analysis of the relations between the motivational drives behind their creation and the definition of their social mission, on that one hand, and their distinctive institutional structure on the other. The allocation and distribution of resources in social enterprises take place at the intersection between their pro-social nature, which is based

on involvement and non-self-interested motivations, and orientation towards the production of social welfare. While the institutional structure and the motivational drives have already been analysed in previous works (Borzaga, Depedri, 2005; Borzaga, Tortia, 2006, 2007, 2009b), their distributive consequences have yet to be closely examined. Our argument starts from the finding that demand for the services usually produced by social enterprises is often greater than the supply provided by the state and by for-profit firms. We hypothesise that non-satisfied demand can be satisfied through either of two channels. First, social enterprises can intercept quotas of demand for niche public-goods not satisfied by the public sector because of the preferences expressed by the median voter. Second, by increasing output and lowering prices, social enterprises can extend the consumption of collective and meritorious goods. These outcomes arise because of distinctive allocative and distributive mechanisms which favour the fairer distribution of meritorious goods through the lesser exploitation of market power, which induces lower prices and increased production; and through an allocation of resources that by-passes the rule of equivalence characterising market exchanges (Ben-Ner, Van Hoomissen, 1991; Tortia, 2009).

While the provision of quasi-public goods by entrepreneurial nonprofits has already been widely studied by the specialised literature at the empirical level as well, much work remains to be done in analysing the beneficial and redistributive effects in the wider social context. Some studies have examined the distributive impact of non-profit organisations in favour of the poor in the USA (Cotfelter, 1992; Ben-Ner, 1994). However, they have obtained mainly negative results, because nonprofits prove to serve mainly the socio-economic groups that support them financially, with negligible or nil redistributive effects. The exceptions are mainly represented by public-sector subsidised nonprofits, which usually serve a larger number of low-income users. Overall, nonprofits seem largely to serve demand for which financial support has been granted at the outset. These studies, however, have not considered

such important elements as the specific features of the input markets, primarily the labour market, which in the case of nonprofits may be characterised by partial or complete work donations (volunteering), and by lower managerial remuneration (Leete, 2000), which implies greater distributive fairness. Also not properly considered has been the ability of non-profit organisations to socialise resources through the accumulation of locked assets and to use these additional funds to increase supply. Furthermore, the differences in governance structure and motivational drives between nonprofits and other organisational forms have not been considered either, while recent studies have paid greater attention to pro-social and relational aspects in nonprofits relatively to the public sector and for-profit firms (Borzaga and Depedri, 2005; Borzaga and Tortia, 2006). Finally, other institutional elements of a more formal nature should be added, because, under recent European legislation, social enterprises are obliged to serve social goals mainly in the communities where they operate. Hence, their surpluses and assets are often devoted to distributive aims as well.

When these additional elements are considered, the distributive function of social enterprises becomes apparent, and it can also be studied empirically. Social enterprises can produce at lower costs by employing unused non-market resources, or by reducing the remuneration of production factors, both capital and labour, to below market levels. However, social enterprises can devote part of their surplus to social objectives even in the absence of donations and volunteers. This is possible because of their lower costs, but also because of increased efficiency and effectiveness in service delivery. Furthermore, they can discriminate on prices because of their non-profit nature by favouring the revelation of users' private information about their ability and willingness to pay (Ben-Ner, Van Hoomissen, 1992). Hence, at least in some cases, social enterprises can achieve the most efficient and effective organisational form and shift the system from Pareto inferior to Pareto superior outcomes. The accomplishment of cost reduction and increased effectiveness in the absence of

ownership rights and powerful monetary incentives requires that the actors involved, mainly managers and workers, but also clients, be guided not only by self-interest but also by pro-social, altruistic, and relational preferences (Frey, 1997; Ben-Ner-Putterman, 1999; Borzaga, Depedri, 2005; Grimalda, Sacconi 2005; Borzaga, Tortia, 2006). In other words, social enterprises are characterised by motivational complexity. The structure of behavioural propensities and decision-making attitudes becomes much more complex than traditional economic approaches used to assume. Hence, social enterprises are able to increase the supply of public benefit goods beyond the levels achieved by for-profit firms and the public sector, and to reduce poverty and marginality by modifying the distribution of the social surplus. This ability requires empirical support, because it is one of the cases in which the equivalence rule that regulates market exchanges is overcome by private organisations.

#### 4. Empirical analysis of survey data: the case of Italian social cooperatives

The aim of the following empirical analysis is to shed light on the distributive impact of social enterprises. A brief description is given of how social enterprises gather resources and distribute their economic surplus among different purposes, and the procedures followed to achieve these objectives. Also analysed is the contribution of social enterprises to the accumulation of social capital and its relation with the distributive mechanisms.

The analysis exploits the recent ICSI2007 database, which gathered data on a representative sample of 320 Italian social cooperatives, their managers, and about 4000 paid workers employed by the same organisations.<sup>2</sup> Most social cooperatives operate in the social

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<sup>2</sup> The questionnaires administered to workers, managers and organizations had different sections which, for workers, collected information about their level of well-being and attitudes toward the job, and, for the organization, both quantitative data (people employed and turnover, financial data and progress of budget items,

service sector (71.8%), while the rest have the work integration of disadvantaged workers as their main aim. Social cooperatives are on average rather small: specifically, 43.3% of them employ fewer than 15 people, while only 26.3% can be considered large. Social cooperatives also frequently employ volunteers (65.8% of cases) because these represent an important resource for the organization and frequently compensate for the small amount of capital and financial resources.

Distinction by types of governance shows that one out of three cooperatives is multi-stakeholder - i.e. it is governed by different classes of patrons, such as employees, volunteers, generic financial supporters and clients of the organization. A similar percentage of cooperatives have only workers as members of the board of directors, although the membership also comprises other stakeholders. The percentage of single-stakeholder cooperatives where workers constitute the whole social base is lower (21.2%). On the other hand workers are present to some extent in the membership of 98% of social cooperatives making them an organisational form near to worker run enterprises. This is confirmed by the fact that, although the percentage of multi-stakeholder organisations is quite high, clients are present in the membership of less than one organization out of ten.

Most of the social cooperatives surveyed belonged to formal networks: 77.3% of them were members of national associations; half of them were involved in horizontal networks based on mutual dependence, and specifically in local consortia of social cooperatives (45.7%) or temporary associations of firms (TAF hereafter, in 45.8% of cases). Only 13.3% of the organizations surveyed did not belong to networks. Networks are important because they supply important services to their members, such as the means to access important

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etc.) and qualitative data on self-esteem concerning organizational aims, policies, social responsibility and social capital development.

economic information (as stated by more than 50% of the sample) and financial support for research and innovation (about 50% of consortia).<sup>3</sup>

Table 1 – Some characteristics of the sample (%)

	%
Type of activity	
Social services production	71.8
Work integration	28.2
Size	
Fewer than 15 employees	43.3
15-50 employees	30.4
More than 50 employees	26.3
Geographical area	
North-West	39.0
North-East	18.3
Centre	18.3
South	24.4
Governance	

<sup>3</sup> Obviously, different types of networks respond differently to the needs of organizations. National associations usually supply services for training, planning, and promotion, while TAF and consortia are also (and mainly) producers of financial and productive services.

Single-stakeholder	21.2
Multi-stakeholder of only workers and volunteers	15.8
Hybrid organization (only multi-membership)	29.2
Multi-stakeholder	33.8
Membership of networks	
Members of national associations	77.3
Members of consortia of social cooperatives	45.7
Members of temporary associations of enterprises	45.8
Involved in other networks with organizations operating in the sector	43.9
Involved in other networks with other organizations	14.7
Not involved in networks	13.3

Given these general characteristics of the sample, the following analysis focuses on the ability of social cooperatives to increase social well-being both intentionally by over-producing and distributing services, and unintentionally by influencing social capital development. The questionnaires administered comprised a section which collected information on the additional resources that social cooperatives are able to acquire and distribute over and above the equivalence rule represented by market exchanges. Specifically, the questionnaires gathered information on the resources employed, both market and non-market resources, and data on the tendency of social cooperatives to distribute part of their surpluses for the implementation of social programs and to the benefit of the needy, as

opposed to traditional forms of distribution (e.g. wages and the cost of capital). Another section in the questionnaire instead concerned social capital, evaluated as the ability of social cooperatives to develop trust relations inside and outside the organization and in terms of sharing of values and adoption of practices of corporate social responsibility.

All these issues are likely to be intertwined, since the sharing of values and the adoption of a socially responsible behaviour are probably necessary for social cooperatives to be able to gather the non-market resources needed to pursue social goals. By the same token, shared values and the fulfilment of a distributive function in pursuit of public benefit aims reinforce trust relations and reduce the transaction costs linked to the pursuit of exclusively private ends informed by self-interested preferences.

Hence, the empirical analysis first concentrates on the ways in which social cooperatives gather additional resources beyond market transactions; this will be reflected in the presence of voluntary or underpaid labour, and of financial donations, but also in the accumulation of assets and risk capital. Secondly, estimation will be made of how additional resources are distributed and services delivered for public benefit purposes and to improve the conditions of people unable to pay. Finally, the analysis will focus on the ability of social enterprises to increase trust and to improve relations both inside the organization and within the community of reference. Possible links between distributive effects and the accumulation of social capital will be then analysed in order to determine the intentional and unintentional consequences of the operations of social enterprises.<sup>4</sup>

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<sup>4</sup> The analysis concerns welfare effects more than their explanatory factors, since study of the precise causal linkages between individual and organisational factors, on the one hand, and their welfare consequences on the other presents serious difficulties, and is anyway beyond the scope of this study.

#### **4.1. An estimation of the distributive effects of social cooperatives**

The first step in determining whether social cooperatives are effective in producing and distributing resources at the community level consists in evaluation of the quantity of services produced. However, mere comparison among the numbers of clients served by each organization is not enough, because a precise index should compare the organization's product against its resources, and then with the price fixed by the organization. Hence, managers' and directors' subjective evaluations of employed and distributed resources will be used, because these represent synthetic indexes summarizing numerous objective items of information. Subjective evaluations, of course, also have limitations as behavioural measures because they are not objective records. Nevertheless, they represent a rigorous and accepted methodology with which to compare different organisations of the same type, and they can deliver reliable results. Whether a linkage exists between the economic dimension of the organization (in terms of net assets and value of the production) and the production of distributive effects will be evaluated as the first step in the analysis.

Social cooperatives were requested to evaluate, first, their distributive effects defined as their ability to produce above the level of services financed by contracts stipulated with the public administration and/or with private enterprises and individuals, and second, if they direct this excess of production to public benefit aims. The data show that, although the majority of organizations do not acknowledge the presence of a distributive function (61.3%), a significant percentage of social cooperatives do indeed recognise it. Specifically, 17% of the organisations surveyed claimed that they produced distributive effects in a stable and continuous way, 16% from time to time, while the remaining 5.7% acknowledged a systematic distributive function, albeit with a weak economic impact. Surprisingly, the estimated monetary value of these distributive effects was very high: 58 thousand euros on

average per enterprise. Furthermore, when this value was calculated as a percentage of the organization's total turnover, this index amounted to 9.4% on average. This percentage is quite high, and it acquires even more significance on considering that the universe of Italian social cooperatives is made up of more than 8,000 organizations. Consequently, given that statistically almost half of them have a substantial distributive function, the total value of the distributive effects on society is significant.

Table 2 – Self-estimation of the distributive effects of cooperatives by membership of consortia (%)

	Non members	Members	Total
No over-production	68.5	52.7	61.1
Sporadic over-production	12.1	20.6	16.1
Systematic but modest level of over-production	4.7	6.9	5.7
Systematic and substantial level of over-production	14.8	19.8	17.1

Differences emerge when organizations are sorted by their characteristics. The distributive function characterizes more organizations in the North-East of Italy (25% of which develop this activity stably and conspicuously), while in the South social cooperatives frequently produce only in line with their funding (about 70%). This situation is partially explained by differences in the stability of organizations, because, for example, the ability to distribute

resources increases with the age of the organization (31.3% of cooperatives born before the 1980s exhibit a stable and significant distributive function). Distributive effects characterize more organizations involved in networks (especially those cooperatives belonging to consortia), and this finding highlights the importance of networks in supporting the ability of organizations to respond to local needs. Furthermore, having a multi-membership social basis also increases the ability to develop a distributive function: 20.7% of cooperatives controlled by a plurality of stakeholders have strong welfare effects, while about 80% of single-stakeholder firms claim that they do not distribute resources. But the accomplishment of a distributive function does not significantly depend on the reliance of social cooperatives on public contributions. Moreover, when the majority of their revenues derive from sales to private citizens, cooperatives can achieve a distributive function in a stable way.

Few differences among cooperatives emerge in the value of the distributive effects. The highest values are estimated for the oldest cooperatives, for large organizations (i.e. enterprises employing more than 50 workers), and for enterprises which do not belong to consortia. Nevertheless, the ratio between the value of distributive effects and total revenues is not higher in these organizations, while it is higher in the small ones, reaching 18% in the smallest, 12.6% in Southern Italy, 14% in organisations created during the 1980s, and 13% in those involved in networks. Hence, networking appears to be connected with a more stable, but less intense, distributive function.

Inspection of how the distribution of resources is performed reveals that, in half of the organizations that have a distributive function, this is implemented by supplying some services free of charge to all clients. Frequently, social cooperatives also require clients to pay proportionally to their income and therefore supply free services to poor people (41.7%), or

they distribute resources to all clients at less than the costs (35%). These various policies of distribution among clients are planned differently by cooperatives according to their characteristics. Single-stakeholders and cooperatives in Central Italy frequently supply free services to all of their clients (respectively in 72.7% and 57.9% of cases). Social cooperatives in the South and small organizations distribute free services only to specific classes of clients (respectively 45.5% and 42.9%). The supply of services at less than cost price especially characterizes North-Eastern (66.7%) and multi-stakeholder cooperatives (48.4%). Consortia instead encourage social cooperatives to distribute more services also to people not directly involved in the organization (42.9%), while less frequent is the provision of services at less than cost price (a policy which characterizes only 14.3% of cooperatives in consortia, against 38.2% of independent cooperatives). Differences are also apparent between cooperatives financed mainly by sales of services to public authorities and cooperatives whose revenues derive mostly from private citizens and enterprises. The former mainly produce new types of services for all their clients (65.9% of cases), while the latter tend more to supply services free of charge also to non-clients (44.4%).

Table 3 – Distributive effects by size of social cooperative (%)

Distribution carried out through...*	Small-sized (<15 employees)	Medium- sized (16-50 employees)	Large-sized (>50 employees)	Total
Services at less than their price	19.0	38.6	36.4	33.2
Some services free of charge for all clients	47.6	54.5	57.6	52.4

Some free services for poorest classes	42.9	40.9	36.4	40.1
Some services free or under the cost level	14.3	29.5	33.3	27.4
Other kinds of services and policies	14.3	20.5	3.0	13.3

\* More than one answer accepted

Since many social cooperatives exhibit an effective distributive function exerted through non-market policies, it is possible to state that they have a significant impact on social well-being. Now to be evaluated are the possible explanations and sources for this function.

#### **4.2. Possible sources of the distributive function**

The first interesting point in understanding the intentionality of the distributive function consists in a cross-tabulation analysis with the organizational mission. The data show that social cooperatives with a stable and significant distributive function more frequently pursue social-interest aims (83% of cases compared with 70% in organizations not performing a distributive function) and characterised by a democratic style of management (53% against 27%). It therefore seems that the broader the mission, the more the distributive function is an explicit goal of the organization and has a significant impact on the community's social well-being. It is thus possible to conclude that the distributive function is a recognised method with which to increase the social impact required by the mission of social cooperatives.

But what explains the distributive function beyond the explicit or implicit decisions taken by individual organizations?

Generally speaking, the accumulation of socialised risk capital and resources is a distinctive feature of social cooperatives and one of the possible sources for development of a distributive function. The relevant data therefore concern the structure of assets. Specifically, on average,<sup>5</sup> member's shares amount to 37 thousand euros and locked assets to 130 thousand euros per organization, for a total amount of 167 thousand euros. Most organizations have a capital worth less than 200 thousand euros (66.7%), and 26.8% range from 50 to 200 thousand euros, while only 18.5% show a figure above 400 thousands euros. The amount of capital worth is considered by 77.5% of cooperatives as enough to ensure the ordinary management of the organization, while it is sufficient for planning the increase of their activities in 51.1% of cases. Consequently, it is also possible to state that the level of capitalization of social cooperatives is a first factor? in the adoption of distribution policies different from market provision.

This statement is confirmed by a cross-analysis where the capacity to exert distributive effects seems to depend upon the financial dimension of organizations.<sup>6</sup> On average, capital worth amounts to 140 thousand euros in cooperatives without a distributive function, while it progressively increases in organizations that claim to distribute resources, reaching more than 220 thousand euros in cooperatives with a stable and high distributive function. Moreover, 52.2% of these latter have a capital worth of over 200 thousand euros, while 26.2% of organizations without a distributive function have a capital worth of less than 20 thousand euros. This significant difference is first explained by paid-up shared capital, the level of which is on average 30 thousand euros in organizations without a distributive function, while

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<sup>5</sup> The data presented exclude some of the organizations interviewed, which must be considered outliers since their economic dimensions are significantly above the average (and always more than 1 million euros of net property).

<sup>6</sup> Also in this analysis outliers are excluded.

it is 45 thousand euros on average in other organizations. Also loans from shareholders are double in cooperatives which develop a distributive function (33 thousand against 18 thousand euros in organizations not distributing services), but the main difference in absolute values emerges in regard to locked assets. While organizations with no distributive effects have locked assets of 115 thousand euros, on average, organizations with a stable and significant distributive function have locked assets amounting to more than 185 thousand euros.

The financing of the distributive function therefore depends on the accumulation of profits to locked assets. As regards the amount of profits, the variability of the data, measured by the standard deviation, is quite high,<sup>7</sup> since many small organizations frequently break even. Furthermore, the percentage of organizations with nil profits has increased in recent years, and 44.2% of social cooperatives stated that in the three years before the interview their profits had diminished (although in one-third of cases profits had increased). These data can be partially explained by the distribution of services also free of charge. In fact, the average amount of profits is higher in cooperatives not distributing services (over 9 thousand euros compared with a total average of 6 thousand). Nevertheless, as emerged from the analysis of locked assets, also the policy of accumulation of profits to reserves is different, and profit accumulation seems positively correlated with the carrying out of a distributive function. In the year before the survey, social cooperatives with distributive aims had assigned on average 93% of their profits to locked assets, while the percentage decreased to 85% in other

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<sup>7</sup> Furthermore, the average profit of social cooperatives changes significantly according to whether the outliers are included in the sample, with averages of respectively 12 thousand and 1.4 thousand euros achieved in the year prior to the survey.

organizations.<sup>8</sup> It is therefore possible to claim that a higher accumulation of positive residuals to locked assets is functional to the accomplishment of distributive effects.

Moreover, the financial capital allowing the development of a distributive function may also come from organizational liabilities. The amounts of debts are higher in social cooperatives which pursue distributive aims (about 550 thousand euros on average, against less than 400 thousand in other organizations). The trend of debts and investments for the period 2003 to 2005 shows a significant increase in both items of about 40% in all cooperatives, but this percentage is higher in firms supplying free services, where debts grew significantly in 30% of cases (against 12% in organizations with no welfare effects); total investments increased significantly in 42% of cases (compared with 20.6% in other organizations), and innovations of services concerned 73% of social cooperative with a stable distributive function (compared with an average of 37.7%). The data seem therefore to support the idea that social cooperatives distributing conspicuous amounts of services free of charge tend also to invest more than others and to innovate their services.

The objective information used heretofore<sup>9</sup> allow only general conclusions to be drawn on the linkage between the organization's financial resources and its ability to implement a distributive function. More interesting results arise from subjective measures of the importance of the different sources of the distribution. Social cooperatives were first asked to

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<sup>8</sup> In general, the bulk of profits are not distributed to members. Over 60% of social cooperatives have assigned all their profits to locked assets in recent years and another 22% have accumulated half of them.

<sup>9</sup> The only interesting finding from other indexes of the financial stability (and well-being) of organizations is that social cooperatives distributing resources also more frequently recorded (in the years prior to the interview) an increase in their revenues from supply to private citizens (75% of cases against 43% of positive trends in social cooperatives without welfare effects), while less marked is their dependence on public bodies and contracting out.

evaluate the importance of profit-distribution policies in achieving distributive aims. The firms stated that an important source for their distributive effects was the forfeiting of (reduction of?, BUT I THINK YOUR REVISION IS CORRECT) their profits, since they distributed the economic value generated by the organization ex-ante among their clients.

Table 4 – Sources of the distributive function by membership of consortia (average weight of each aspect on the total value of production)

Distribution carried out through...*	Non-member	Member of consortia	Total
Voluntary work	34.7	18.7	23.0
Overtime not paid or under-paid	20.1	2.7	12.4
Wages below the market level	0.8	1.9	1.4
Donations from private citizens	0.5	4.2	2.7
Contributions from public and nonprofit organizations	5.2	9.1	7.4
Accumulation of profits to locked assets	35.5	25.4	33.9
Savings of costs in general	3.2	38.0	19.2

\* More than one answer accepted

Also the analysis of different sources of cost savings is of interest in describing the capacity of these organizations to collect economic resources from the local community. When organizations were asked to single out the sources of their distributive function, the

most important one cited was the contribution by voluntary workers (who on average contributed to the creation of 23% of the total value). The presence of volunteers is especially important in the enterprises of Southern Italy (with a contribution in value estimated at 32.3% of turnover), in the youngest organizations (38.4%), in cooperatives not involved in networks (34.7%), in multi-stakeholder organizations (31%) and in cooperatives whose revenues derive only to a small extent from public bodies (33%). Interestingly, the presence of non-remunerated workers is strictly correlated with the possibility of distributing services. Only 57.4% of organizations which do not declare distributive aims employ volunteers, against 80% of organizations with distributive effects.<sup>10</sup> Furthermore, the hours of work put in by volunteers are higher in cooperatives with a distributive function (on average 64 hours per week, against 28 hours in organizations with no distributive effects), and the turnover of volunteers is higher in the former than in the latter (amounting respectively to +5.5 persons and +3 persons in the year prior to the survey).

The contribution of remunerated workers is also essential to guarantee distributive effects. The organizations asked to evaluate this aspect stated that workers frequently forgo payment for overtime work, and they estimated this contribution at 12.3% of the value of distributed resources. These data are particularly significant in social cooperatives of the South, in the youngest enterprises, and in those whose revenues derive mainly from the private consumption of their services. These findings are confirmed by the data on workers' activities. Although the percentage of people working overtime is largely the same in all types of organizations, independently of the level of their distributive function (about 40%, which reaches 50.3% only in social cooperatives with a stable but modest distributive function), the

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<sup>10</sup> Calculation of the opposite linkage shows that 46% of organizations using volunteers achieve stable and high distributive effects, against only 22.2% of organizations without volunteers.

ways in which overtime work is performed differ significantly. In organizations with a stable distributive function, workers supply their overtime more frequently for free (about 18% of the total against 8% in social cooperatives without welfare effects) or by only partially recouping overtime hours or being paid for them (about 14% against 10%).

#### 4.3. Social capital development

The contribution made by social cooperatives to the accumulation of social capital can be analyzed mainly in terms of relationships, enforcement? of trust with stakeholders, and implementation of social norms. Descriptive figures have already shown that relationships with other organizations are important because of the involvement of cooperatives in networks. Furthermore, 80% of the organizations interviewed stated that the networks in which they were involved were based on trust and long-term relationships, and half of them believed in the importance of geographical proximity with other member organizations. Consequently, networks are important sources of transaction cost reductions. However, they also support social capital development in other ways, because they diffuse information, develop skills and capabilities, improve training, and increase trust among their members. The impact is greatest at local level, where most organizations and networks operate.

However, accurate description of social capital accumulation requires examination of the qualitative dimension of relations, especially with consumers (both private citizens and the public administration). Proxies have been created for different typologies of interaction with the focal stakeholders. First, organizations stated that relationships were very important for ensuring effectiveness and efficiency of production in general (average of 5.6 on a scale from 1 to 7). Social cooperatives mainly stressed the quality of relationships with users (6.4) and with public authorities (6.0), where both represent the clients of the services and require clear

and cooperative transactions. Also relationships with external stakeholders and in particular with other—both for-profit and non-profit—organizations are important (average scores of respectively 4.8 and 5.4). These results serve to index the ability of social cooperatives to produce external effects and to form networks and social capital, given that relations were perceived as very important by all organizations interviewed, regardless of their distributive effects.

Very similar results emerge from the analysis of trust. The organizations interviewed stated that it was very important to build trust relations with all their stakeholders (average score of 5.5 on a scale from 1 to 7) and especially with their clients (6.3), with public authorities (5.9) and also with other non-profit organizations (5.3). The linkage with the reputation enjoyed by cooperatives is evident, because all of them considered it important to have a good reputation, both among their clients (average score of 5.8), with public bodies (5.7) and with the local community in general (5.5). Furthermore, the correlation between the two groups of variables concerning trust and reputation is significant (Rho of Spearman equal to .260). It is therefore possible to conclude that social capital, in terms of trust-based networking, has an important impact on the long-term sustainability of the service.

This is confirmed by the record concerning the advantages enjoyed by social cooperatives, because 44.6% of the organizations interviewed stated that the reputation acquired in the local community was a major strength of the organization (for 49.8% it was important). Among other advantages of social cooperatives, the exchange of information and trust with other organizations ranks second (with 34.5% judging it a very important advantage and 59.5% as an important one). Slightly less important are relationships with volunteers, friends and people irregularly involved in the organization (recognized as a major strength by only 18.4% of the sample and as a quite important by 48.4%). By the same token, the ability of

organizations to attract and motivate volunteers is quite or very important only for 43.6% of interviewed organizations. Consequently, the data show that trust and reputation represent behavioural responses crucial to social cooperatives, and that they are regarded as competitive advantages that can increase their competitive potential. The effect on social capital is perceived indirectly, especially in terms of the enhancement of local values and conformism with the organization's social aims.

Furthermore, both trust and reputation are increased by the involvement of stakeholders in the organization's membership. As reported when the sample was described, 33.8% of the organizations interviewed were multi-stakeholder. Although clients are involved in the membership of only one social cooperative out of ten, informal networks substitute formal ones in ensuring client involvement, the transmission of information, and the sharing of goals and social norms. Indeed, internal norms frequently have consultancy and informative roles (44.2% of cases), and these cooperatives tend more to promote advocacy activities and meetings. Interestingly, the development of networks and the ability to diffuse information and social norms within the local community or specific classes of citizens also supports the possibility of becoming a member of the cooperative.

When organizations are distinguished by their internal characteristics, it emerges that the importance of reputation is emphasized especially by cooperatives in the North-East (where also some social capital indexes are over the national average, and consequently the network of trust-based relationships is widespread), by medium-to-large organizations, and by enterprises belonging to local consortia. Also relationships with other organizations are considered more important by cooperatives in the North than in the South of Italy, and their importance is greater for old and large organizations. As expected, the variable with the

strongest impact on the importance of relationships with other organizations is involvement in networks, because organizations belonging to consortia or TAF assign higher value to the development of relationships. Younger and small cooperatives instead pay more attention to the development of internal relations, and particularly to improving relationships with volunteers, friends, and people involved in networks.

Table 5 – Strengths of social cooperatives (% of organizations considering the aspect as very important)

Factors	%
Reputation	44.6
Involvement in the local community	33.2
Network with other organizations based on trust and knowledge	34.5
Relationships with clients, volunteers, etc.	18.4
Organizational climate of trust and willingness to cooperate	42.0
Employee motivations	31.7

In order to determine whether the development of social capital is stronger in organizations which also perform a distributive function, the correlation between the two dimensions was first estimated by applying Spearman Rho indexes. Data showed a positive correlation only between distributive effects and the importance assigned to both trust (coefficient estimated at .163) and good relationships (coefficients of .125). However, the

correlation with the other dimensions of social capital was not significant. Nor was a significant correlation between the distributive function and social capital found when well-being was one of the main components of the organizational mission. In-depth study of these data shows that the attitude of social cooperatives towards the development of high-quality and trust-based relations is quite independent of their ability to develop a distributive function. Frequently, the organizations most sensitive to good relationships and trust are those with a low (although stable) distributive function. Moreover, enterprises showing positive distributive effects more frequently state that they have intensively sought to develop sentiments of trust, altruism, and sharing of the mission in the local community (as asserted by 20% of interviewed organizations against 10% of cooperatives with no or low distributive effects). The presence of networks instead characterizes a greater number of enterprises developing a moderate distributive function (60% of which claim that relationships and trust with other organizations are very important).

On looking at the average scores assigned to the importance of trust, relationships, and reputation, the only significant differences to emerge among the different types of organizations concern the importance of trust and good-quality relationships, especially with non-profit organizations (values assigned to the importance of trust 5.9 on a scale from 1 to 7 in enterprises with medium welfare effects against 5.1 in organizations not distributing resources; values assigned to good relationships respectively of 5.9 and 5.2), but also with other enterprises (on average, 5.3 in the former group and 4.8 in the latter). Having a good reputation in the local community is considered more important by organizations with a systematic distributive function. By way of a conclusion, the linkage between distributive effects and social capital is not highly significant, although it is somehow present, and this finding reinforces the hypothesis that the accumulation of social capital is not explicitly planned by social cooperatives. The distributive effects on clients' well-being and the effects

on social capital depend more on the internal workings of the organisation than on the explicit decision to consider these aims.

Instead, social cooperatives seem in most cases to have an important intended effect on the social well-being of their community. For 56.4% of the enterprises surveyed, this was the primary aim of the organization; and another 34.6% considered the well-being of the local community to be a very important aim (although not the primary one). The mission is totally endorsed by the members of 56.6% and by the workers of 43.6% of the organizations surveyed. Diffusion of the organization's ideals is stronger in the enterprises of Southern Italy (where the mission was endorsed respectively by 74.6% of members and 65.7% of employees) and in small organizations (respectively 76.8% and 66.2%). Geographical differences seem to mean that, where social capital can be considered, as in Southern Italy, social cooperatives have an important role in the diffusion of norms. The size of the organization instead supports the ability to diffuse social norms especially in environments characterized by strict relationships and frequent communication.

## 5. Conclusions and policy implications

While the theory of social enterprises has studied their appearance in the presence of government and market failure, much work remains to be done in understanding the nature of their social and economic effects, and the institutional mechanisms supporting these effects. This study has sought to shed new light on these matters by exploring the way in which social enterprises over-produce and distribute resources for the satisfaction of social needs. The detailed description of the intentional effects of social enterprises at the social level has yielded new insights into their indirect and unintentional effects on the reinforcement of trust relations and on the accumulation of social capital.

The distributive effects of social enterprises have been tested by analysing data collected by a recent survey carried out in Italy on a representative sample of social cooperatives. Their role emerges as significant, because half of the organizations interviewed stated that they had a distributive function, and a quarter of the total stably distributed resources and for a value representing a non-marginal part of their revenues. The distribution mainly took place through the provision of services free of charge or at less than cost. This shows the importance of analysing non-market allocation mechanisms. The ability of social enterprises to extract and distribute economic and social value mainly from non-market resources has been confirmed by analysis of the sources of their distributive function: on the one hand, capital resources are socialised to a great extent through locked assets and channelled to social and non-pecuniary aims; on the other hand, human capital (both volunteers and remunerated workers) are motivated to donate time and redistribute part (or the total) of their wages to users and beneficiaries or to the community at large. Although the importance of these dynamics varies from organization to organization, it is possible to state that the entire population of 8000 social cooperatives in Italy distribute a conspicuous part of their resources to employ marginalised classes of workers, such as women and the young, and to other weak socio-demographic groups. The unintentional effects on the accumulation of social capital appear weaker, and they enter mainly as indirect by-products of their operation in terms of improved relations, trust, and recognition of common norms and values with the other main actors in the territory. Finally, social capital development and distributive effects appear to stand in a more complementary than a substitutive relation.

Relevant policy implications are likely to ensue when the true contribution of social enterprises to the creation of economic and social welfare is highlighted. While social enterprises cannot be expected to operate in all sectors of activity, especially in the most traditional, industrial ones, a wide range of the service activities that represent a growing slice

of contemporary market economies exhibit a high degree of compatibility with their institutional features. Where market imperfections are marked, and the services produced have a high degree of non-rivalry and non-excludability linked to their meritorious character, social enterprises, more than profit-seeking and public organisations, can perform an important role in development patterns based on the delivery of quasi-public and social services. Indeed, it is likely that national and local economic systems will be able to withstand increased international competition only if they are adequately equipped with a network of organisations able to improve the social performance of the industrial sector and to deal with the negative effects of economic downturns. Policy interventions and institutional reforms by governments should not overlook these potential factors in development.

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