For a theory of social enterprise and social finance

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Abstract

On an ideal-typical basis, an enterprise is social when it supplies, under a restricting commitment of governance, *commons*-related services and *merit goods* and uses the majority of possible profits in a non-privatistic manner.

This definition is debated by discussing the features of economic goods, the frame of molds in which social enterprise explicates, its connection with social finance, as well as its possibilities of ramification within the economic system.

Key words: Commons; Merit good; Social Enterprise; Social Finance; Social Economy

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1. Introduction

In this paper we will not examine the wide International literature regarding social enterprise (see Nyssens, 2006; Nicholls, 2006; Amin, 2009; Galera e Borzaga, 2009), nor will we claim to present a complete theory. We will only limit ourselves to proposing some conceptual elements that open, in our opinion, a theoretical perspective and to showing that they are reciprocally coherent. We will follow an expository path that, although may not result very simple at the reader's eye, we reckon is necessary. We will start in §2 by focusing on types of economic goods that social enterprise supplies, namely *commons* and *merit goods*. We will proceed in §3 by illustrating the frame of 5 molds in which social enterprise can explicate. We will, then, arrive in §4 to a precise conceptual definition of social enterprise. On that basis, we will discuss the peculiar economic purpose (§5), the complementary purpose of social finance (§6) and the way social enterprise can branch out in an organizational way within the economic system. §8 constitutes a summary.

2. About the concepts of commons and merit goods

In the recent debate regarding social enterprise and the third sector there is often a regulatory reference to the "common good", meant as an ethical-political category, which is the goal every examined activity should follow. When positive analysis contemplates economic goods, "common goods" often become *commons* that, differently from private goods, are little excludable and, differently from public goods, are highly subtractable (Platteau, 2008). Sliding on an additional and sharper glide, often "common good" refers to the combination of «things whose utilities are functional to the exercise of fundamental rights, conforming with the principle of the intergenerational protection of utilities, as well as to the individual's free development » (Commissione Rodotà, 2007, p.6); in the economists' language, the prior sentence refers to *merit goods*. As we believe bouncing between each of the three meanings is not beneficial for a conceptual clarity, let's reconsider *common* and *merit goods*. Despite both notions being analyzed by a wide literature, and the first having obtained a distinctive luck after the Nobel prize to economic science assigned in 2009 to Elinor Ostrom, it is not excessive nor is it redundant to specify its conceptual features.

A *commons* is a non-produced, shared and free resource for a local community. The first is, in our opinion, its distinctive feature: differently from economic goods and reproducible inputs, common doesn't go through a production process indeed. Let's think about environment, water, landscapes, natural resources, cultural goods, information and knowledge. Either they are gifts of the ecosystem to a human society, as in case of an oil pool or a habitat, or they are collective creations, as in case of language or the internet. In other words, either they are a heritage of low entropy substance-energy for human purposes (according to Georgescu-Roegen's definition), or they are evolutionary paths whose results are myriads of not fully intentional personal contributions (Menger and Hayek call them "spontaneous orders"). *Commons* are never and in any way generated by a (planned, intentional) production process: nobody can produce a river or a forest, nor can s/he produce a widespread and diffused knowledge or a respected institutional rule. It is this rigorous non-producibility that gives *commons* the value of sharing: if, indeed, nobody can be given the credit and merit for its existence, it is therefore presented as spread over, that means those who benefit from it are members of a society, not reciprocally separated individuals. Again, its non-producibility makes it accessible for free: we can obviously calculate in many ways the cost undertaken by an ecosystem to nurture an acquifer, or that shouldered by a society to elaborate and keep a language alive; however, the single water consumer as well as the single speaker do not bear costs in order to receive those *commons* as such.

Nevertheless, as for any kind of goods and resources, the consumption of *commons* is not generally for free. Let's assume, for instance, that a potable water flow is available, or that a technical language takes place and spreads over our collectivity: they are both *commons*; however, the individuals who are willing to benefit from that water or language will have to bear the personal costs related to rooting the canal system or to learning. Moreover, as common goods are free and shared resources a society benefits from in order to achieve its goals, it is important to outline in concrete terms the institutional structure in which they are placed: for instance, using the internet is not the same in Calabria or Guandong, as these areas present different political-legal-technological access modalities. Nontheless, whatever the asset of property rights and institutional rules, the theoretical point shows that what is proprietized (and maybe privatized also) is never the common good as such, but rather the supply of those services that descend from its use. Therefore, accessing tap water from home or a specific provider require given institutional rules; however, what is institutionalized is not water nor the internet as common goods, rather the social path of their fruition.

The last feature of *commons* concerns the fact that they are used, restored and appraised within a "local society". This descends from their economic properties. As we reminded, their indivisibility is similar to that of public goods; however, they are highly subtractable as, just like private goods, an individual's consumption reduces one other individual's possibility of consumption. Indeed, their subtractability implies that they are not managed, used and appraised within enlarged societies, rather mainly within delimited communities, that are, as we would rather call them, "local societies".

Local societies have generally been interpreted by taking into consideration the spatial proximity of individuals. More recently the interpretative framework expanded, and a similar attention to the analysis of geographical proximity has been given to *cognitive proximity*, when individuals share the same foundation of knowledge; *organizational* proximity, when they lie upon the same hierarchical control; *social* proximity, when members are interrelated by friendly relationships; *institutional* proximity, when they operate within the same institutions. These modalities' common denominator lies in the fact that they express a relational closeness in which the subjects' interaction (either individual or organized) can flow independently from their physical vicinity (Bellanca and Lombardi, 2011). Also basing on this theoretical framework, we can define more specifically *commons as non-produced, shared and free resources for a society who is provided with relational proximity*.

In the tradition launched by Richard Musgrave (1959), *merit goods* (or rather *need goods*) are conceived as socially necessary goods, both producible by private and public enterprises, supplied in inadequate quantities through a pricing system, accessible by everyone independently from their ability to pay. Typical examples are health care, instruction, education or age-related insurance. Their feature of social necessity can descend from paternalistic explanations (the State, indeed, decides which ones all the citizen must use, even in the case, due to a lack of information or rationality, they don't want to), from public reasoned resolutions (as in the path to identify "primary goods" according to Rawls, 1993), from a political opinion prevailing on others (as in the conflictualistic theory of democracy by Acemoglu and Robinson, 2006), or from a mixture of all these three reasons. In order to define *merit goods* we shall recall an effective way of connoting the two main categories of economic goods: while it is not possible nor desirable to ration the consumption of public goods through a pricing system, in the case of private goods the contrary occurs. However, it is necessary to add that some kind of access, use and control rationing of public goods can be introduced through institutional mechanisms that are *different from prices*: for instance, think about the discrimination of certain groups within a mandatory and free public school; or about the cost related to learning a widespread knowledge individually. Similar mechanisms, on the contrary, can loosen the rationing of private goods: like, we can say, when the government enjoins producers of a private good to comply with qualitative standards that extend that good's operational time and safety. What links these cases is that the nature, either public or private, taken by goods on the markets is altered by extra-mercantile institutional relationships. The same phenomenon occurs in the case of *merit goods*. They tend to be sub-produced, namely rationed, on the markets, whether because they don't meet a solvent demand, or because they generate positive externalities that are not acknowledged by prices, or eventually because some consumers, although capable to pay, do not perceive their full utility. As, according to the above-mentioned reasons, such rationing does not seem desirable, institutional paths aimed at attenuating it are launched; and this way, we *define a merit good an institutionally non-rationed good*.

3. Five types of social enterprise

As for *social enterprise*, two acceptations exist: one is Anglo-Saxon and the other one is euro-italian (Kerlin, 2006). The first begins with a top-down initiative where an entrepreneur, a philanthropist, an enterprise, make resources and relations available in order to create a *social business* and "adjust" capitalism (Mendell, 2009). The second, especially in the Italian long historical tradition, tends to promote social enterprise as self-organized bottom up initiative, by connecting it to the worlds of associationism, cooperation, social cooperation, rural cashes, cooperative credit banks, and so on (Defourny e Nyssens, 2008). The latter approach is generated by a society's perception of needs, whom are hacked by using the non-profit's form of enterprise and (also) methodologies (Marcon, 2004). Our pithy overhaul considers both formulations and, as Figure 1 shows, proceeds through following coherent extensions of an initial minimal definition.

The first acceptation includes non-profit entities, whose operating profits are entirely reinvested for organizational purposes. These entities can assume different molds. «Let's take into consideration three emblematic examples: one voluntary association who manages canteens for poor people and is financially based on third parties' donations; one foundation who manages a hospital open to citizens and sustains itself by selling its services to the patients (or to the national health service that pays for them); one sports association who manages a plant (soccer, tennis, and so on) in the exclusive benefit of the members (either them paying a fee or not for using the plant). All these three are typical expressions of the non-profit sector, even though their substantial nature is very different. In the first case the entity carries out a pure charitable activity, whose beneficiaries are not related to the body; in the second case the entity, although operating in the favor of a community, is on the market and supplies its services upon payment; finally, in the third case the entity operates in the benefit of its members – therefore, in that of the dominant group – with pronounced mutual features» (Mori, 2008, p.44).

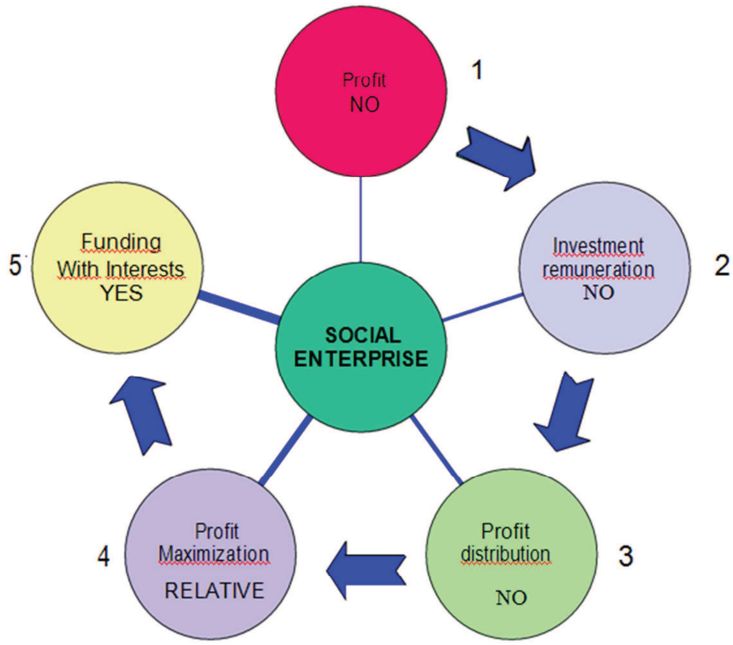

Figure 1

The second wider acceptation basically coincides with the one, more popular, discussed in the last books written by Muhammad Yunus (2008, 2010). The social enterprise is a non-loss, non-dividend enterprise. It only needs to recover the costs; if it makes profits these are reinvested within the enterprise itself, whereas possible investors only recover, in the end of an agreed span of time, the given capital. The social enterprises managers also seek a psychological, emotional and spiritual kind of satisfaction. Investors, often detected amongst people who are already inclined to charitable donations, put money in a stock market where only social enterprises are enlisted. By selling goods or services in competition with both usual enterprises and other social enterprises, these new enterprises fulfill humane goals such as poverty reduction (for example, quality foodstuffs at lower price targeted for kids suffering from malnutrition), health care for disadvantaged people (health insurance at low prices), social justice (by providing electric power to rural areas who are not reached by the national network), environmental sustainability (by recycling waste who increase pollution in the slums).

The same economic agents can simultaneously commit to both for-profit enterprises and social enterprises, as everyone feels limited when pressed under the unidimensionality of a profit-driven world. Moreover, according to Yunus, that should happen without any interaction of the two types of enterprises, in order not to suggest, one more time, the illusion of "domesticating" or "emptying" the capitalistic enterprise from the inside. As a matter of facts, he states, those enterprises widely denominated "socially responsible", "inclusive", "civil", "cooperative", "self-managed", "non-profit", "of the third sector", and so on, all failed when presuming a possible coexistence of both idealistic and profit-based goals, as well as when expunging the latter: when coexisting the stronger takes over the weaker, while the expunction only entails a partial cost recovery, and therefore presupposes a scarce evolutional stability.

In the third wider acceptation, an enterprise can have a social nature also while making profit, as long as the net revenue is not divided among those who wield control upon it. In many circumstances the canonical cooperative enterprise is "social" in this acceptation, as it stores profits in an indivisible reserve and uniquely use them within the enterprise as such. Hence, social enterprises also embrace a part of cooperative enterprises[1].

In the fourth wider acceptation, social enterprises make and distribute profits to the referential juridical subjects (either members or investors). However, they aim at a "relative" profit maximization, yet subject to extra-mercantile constraints: like, for instance, when they renounce producing weapons although being able to gain higher profits through that activity, or when they set any positive actions (philanthropic donations or else) alongside obtaining and distributing profits. This is the "*not only for profit"* thesis.

[1] Very briefly, cooperative enterprises are featured by their collective property, whose ownership is not held by capitalists, as well as by mutual and inclusive goals, as they are run by managers elected by the members. They do not aim at maximizing profit, nor the members' income per capita, rather they seek an organizational continuity, both by storing profits in an indivisible reserve and even by self-exploiting through a reduction of the stakeholders' compensation. Sapelli (2006).

In conclusion, in the fifth and wider acceptation social enterprises seek *low profit*: they produce and trade assets of general utility, but they are content with a profitability who is moderate, long-termed, and suitable to their *mission*. In Great Britain they are called *community interest companies* (CIC), whereas in the United States they are *low profit limited liability companies* (L3C): limited companies who issue transferable stocks, but whose holding is restricted (asset lock) to the pursuit of *public benefit*, and have set a maximum cap of profit distribution (*dividend cap*). An important difference between this type and the former lies in the possibilities of capitalization: here, closed-end Funds (promoted by Foundations, Banks or Public Entities) can intervene by partially financing the enterprise, until the entry of equity capital becomes possibly convenient (Rossi Chauvenet, 2009; Randazzo e Taffari, 2010).

4. A definition of social enterprise

We could possibly attempt to make a summary, as the five above-mentioned definitions, instead of clashing, rather point out a coherent expansion of the concept of social enterprise. Therefore, we shall examine the three characters running through these several definitions, in order to reach the most including, simple and persuasive conceptualization amongst others.

The first character regards the fact that any variations of social enterprise follow goals of collective interest, by dedicating to *production*, *supply and management* of *common goods*-related services. (We remind that *commons* are not producible by a single enterprise, but their related services are). The paths along which social enterprises follow *commons*-related services are environment, information, knowledge, culture and artistic heritage.

Moreover, every social enterprise commits to the production of *merit goods*, who can be catalogued in education, social care and protection, education and work placement, access to finance. Although being an arguable and incomplete taxonomy, not to be necessarily justified in details here, it is useful to outline an area of exceptional asset. Obviously, we are focusing on the ideal-type of social enterprise: hence, not every enterprise necessarily needs to produce both *commons*-related services and *merit goods*.

An enterprise's perimeter of "social purposes", although wide, can be possibly outlined in a rigorous way, as it is originated by the features of two types of economic goods, rather than by a list descending from an ethical-political orientation. We might notice that by recalling the difference between "social purposes" and "social activities". "Social activities" can be also carried out by non-social enterprises – like, for instance, in the corporate social responsibility field – as they represent better management modalities alongside the usual privatistic purposes. "Social purposes", instead, become a *tightened* expression when regarding the supply of *commons* or *merit goods* services: the meaning of §2 lies in it. As a matter of facts, the suggested perimeter allows to sharply distinguish between a social enterprise and miscellaneous other enterprises whom are qualified as ethical or inclusive. If, for instance, we consider an organic farming enterprise who supplies apple to a group of "ethical" consumers, that undoubtedly nourishes an ethical and inclusive economic path, however it cannot be numbered among social enterprises, as it does not supply any *commons*-related services, nor *merit goods*.

The second character regards the fact that an enterprise becomes social when it shapes its own corporate governance system coherently to the declared purpose[2]. In order to discuss this point, we shall ask the reader to follow the thread through a comparison between cooperatives and trusts; if patient enough, we believe the end of the comparison will decisively show the meaning of our argument. Let's consider, therefore, a traditional cooperative enterprise. It should capsize the relationship between capital and labor, as the working members take on the capital as a loan, they pay it back with interests as a fixed remuneration and distribute the surplus among themselves. Moreover, that should be the most democratic form of enterprise, regulated by the principle "one member, one vote". However, the internal allocation of rights and responsibilities is not such, in many cases, as confirming the premises. Through a collective operation (delegated to managers) of the entrepreneurial role, the members tend to maximize the organizational continuity, also by not remitting part of the salaries or drawbacks, and to contrast failure-related dangers for the enterprise, by holding their own assets in an undivided propriety, rather than taking on decisions within indefinite paths of change. However, if the job stability often seems to be the members' primary goal, this implies that cooperative enterprises often appear inferior to the capitalistic ones as for dynamic efficiency and innovative drive. Self-financing wise, members are reluctant to reinvesting all extra profits within

[2] As for Mario Draghi's words, the rules of corporate governance identify «a *checks* and *balances* system where all agents operating and interacting in the enterprise's environment can see their interests effectively protected, while at the same time the control is efficiently allocated, namely to the most suitable entrepreneurs, and with the highest possible grade of separation between the enterprises' management and the ownership of all invested financial means». Quoted by Ippolito (2001, p.473).

the enterprise they already take their salary from and they cannot easily exit from, therefore they prefer diversifying the risk: however, this takes to a chronic sub capitalization. Moreover, right due to the lesser efficiency reminded above, the possibility of solving sub capitalization through the external pursuit of capital is reduced, as the investors will tend not to give place to these enterprises, by rationing their credit and making it more expensive. In conclusion, when a cooperative enterprise makes profits, the *insiders* tend not to include new members, they rather employ simple wage earners; then, if a retiring member does not receive a portion of the enterprise's capital, the remaining members might have the interest of progressively closing the cooperative enterprise, by reducing its size, in order to lessen the number of people who benefit from an acquired status. These weaknesses, peculiar to cooperative enterprises, are *amplified* by a corporate governance system that does not make efforts in dismantling or, at least, controlling the inner organizational hierarchies. Regardless of the workers' formal ownership, that eases the achievement of managerial leaderships whose behaviors can be hardly distinguished by those of the capitalistic managers, while the *empowerment* stays weak and usually members are only asked, once a year, to approve the final balance.
Let's consider, on the other hand, a "privatistic" entity such as a trust, an Anglo-Saxon legal instrument allowing to separate a property's fruition and administration. Why introducing it into an analysis of social enterprises? In order to understand, we shall examine trust *in favor of weak subjects*. This is based on the trustworthy relationship between the trustor (*settlor*), who transfers some of his assets' property to the trust in order to follow a certain goal, and the administrator (*trustee*), who manages the trust's assets according to its purpose. The other key-figures are the guardian (*protector*), who can support the administrator with advices and surveillance, and the *beneficiaries*, who benefit from the trust's purpose. The two characteristics to be remarked regard the *trustor*'s role and the trust's limited nature. As for a first aspect, the *trustor* is the one who sets the trust's operational rules about indicating the *beneficiaries*, the *trustee*'s powers, the *trustee's* replacement, the *protector*'s power, the criteria regarding the administration of the assets, the income's purpose, the assets' destination and furthermore. As for a second aspect, the trust has both restrictions of destination, as the *trustee* cannot operate outside the boundaries set according to the declared purpose, and of separation, as the trust's assets constitute a separate property from the holdings owned by the *trustor*, the *trustee* and the *beneficiaries*. One of the most delicate applications occurs in the case

of a son with severe disabilities who is likely to survive longer than his parents. The trust in favor of a son is a programmatic deed where parents indicate the trust's purpose, the subjects involved and their respective roles, they describe their son's disease, and the therapies and assistance needed. The trustee, bound to the trustor by a trusty relationship, can either be a natural person (such as a relative, or similar, of the disabled), or a legal entity (such as an association operating in favor of the disabled). The trustee acquires the rights and powers as if he was the owner of the assets bestowed on the trust, in order to have them exclusively available for the fulfillment of the trust's purpose, namely to maintain, support and look after the disabled person throughout his entire lifetime. After his death, the trustee will undertake the responsibility of transferring the trust's assets to the ultimate beneficiaries indicated in the trustor's instituting deed.

Hence, a trust is a legal-organizational restriction who *even guarantees individuals who are incapable of their own self-care*; Peter Barnes (2006) suggests to resort to it in order to protect *commons*, since they, as shared and free resources, cannot self-protect. A similar type of restriction has to exist in a social enterprise, whose purposes, voluntarily chosen, concern – next to the supply of *merit goods* – just the maintenance, recreation and appreciation of *common goods*. As in trust, and for the same reason, it is therefore necessary to introduce in social enterprise a "restricted mandate" for managers and discern them from monitors and beneficiaries. These steps need to be formulated in the "charter" of the social enterprise and represent the path along which corporate governance flows. This, rather than expressing a regulatory application (what we would like to be done), conveys a need related to the enterprise's activities (what would be done anyways).

This paper does not have the duty of discussing, in terms of company regulations, the corporate governance model who is suitable to the social enterprise the most. Nevertheless, it would appear interesting to investigate the transition from a model based on both Administration Board and Board of Statutory auditors, to a dualistic system where an enterprise's administration is assigned to the Management Board and its control to a monitoring Board. The former would be composed by a minimum number of two members, nominated by the monitoring Board, except from the first members named in the charter. The latter would approve the balance sheet and exercise an action of responsibility towards all members of the management Board; it would be constituted by a minimum number of three members nominated by the assembly, except for the first named in the charter. Obviously, the previous observations matter if the social enterprise does not coincide with a small *labor intensive* social cooperative enterprise, and also embraces legal frameworks with higher capital attraction: as known, in the most recent Italian regulation (L.118/05, D.lgs.155/06 and following), the 'social enterprise' label can be extended to legal statuses such as Inc. and Ltd.

The third and last character going through the five definitions of §3 points out that if a social enterprise does not generate profits, it has at least – as a sustainable enterprise – to recover the costs; whereas if it obtains earnings, it has – and that is the essential point – to use them mainly in a non-privatistic manner: by storing them in an indivisible reserve, or by submitting them to extra-mercantile restrictions, or by being content with a modest and long-termed income. In that, indeed, lies the gap between the social enterprise and capitalistic enterprises. The latter is connoted by *the private investors' rights of control upon the economic activities*: these rights mainly consist in the possibility of planning the enterprise's operation, setting its boundaries, obtaining the gap between costs and revenues (Bowles, 2004; Bellanca, 2010). On the contrary, the social enterprise is not capitalistic, even when generating profits[3], as it makes efforts to supply *commons*-related services and *merit goods*, by committing its members to reinvest extra profits instead of sharing wealth amongst the owners through its privatization.

In summary, from an organizational point of view the crucial points regard:

[3] Indeed, a non-profit enterprise faces renown difficulties that restrict its diffusion. That sort of enterprise is formed when the donor, who does not directly consume the goods and services offered to others, face an information asymmetry, namely he systematically ignores the quality of what he funds. In these conditions, if the enterprise is profit-driven, it would gain benefits by reducing the supplied goods' and services' quality; however, even if the enterprise is cooperative, the members might be interested in quality reduction with the aim of increasing the income to be redistributed. Only if it is forbidden to share any kind of benefit amongst the enterprise's members, this can manage the gift through the appropriate incentives (for the donor). The profit's role is carried out by a mechanism that ties inner rewards to specific results: its lack unties managers from controlling demanding shareholders, and makes them less efficient. Moreover, if the quality of goods and services is little provable, as in the case of cultural assets or welfare services, the enterprise finds hard to set criteria in order to self-evaluate its performances, as well as the market finds difficult to generate a competitive selection. That strengthens organizational inactivity, in which multiple interests – administrators, employees, investors, users – are little poked and checked, both from the enterprise's inside and outside, and tend to paralyze each other. Thirdly, if in an initial "heroic" phase the resources are gathered upon a gift logic, especially through voluntary and beneficent service, the institutionalization process raises heavy contradictions. Voluntary service, enthusiastic leap-bearer, cannot be bowed to any employment and is often not adequately qualified; hence, that needs to be replaced in part by a market price-remunerated professional employment, that often expresses different motivations than those who the enterprise was inspired by. In addition, the need of meeting the managerial responsibilities, in order to ensure a daily trustworthy operation of the enterprise, entails the introduction of "rigid" behavioral rules, which lessen the centrality of informal and personal relationships, and distance idealists and innovators. On the other hand, as the enterprise grows in size, or simply as times goes by, the funds donated by benefactors and members are not enough; it is necessary to address external investors, whose sensitivity and purposes might not coincide. Hansmann (1980); Meyer (1989)

1. The choice of supplying *commons*-related services and *merit goods*, as a purpose, is set in the corporate governance system (in the "charter") of the enterprise;
2. The non-privatistic use of possible profits concern the majority of profits, and therefore constitutes the prevailing operational modality of the enterprise;

Therefore, we suggest the following definition: *a social enterprise supplies, under a restricting commitment of governance, commons-related services and merit goods, and uses the majority of possible profits in a non-privatistic manner.*

5. Social enterprise contrasts the "tragedies" of the common goods and of the anti-common goods

Leaving aside *merit goods* for the moment, we shall examine in depth the reasons behind the social enterprises' intervention in the *common goods* economy. Collective action misfires when private incentives of a group's single members are not aligned to mutual results; following personal interests while not cooperating represents the personal advantage-maximizing option, despite what others do; nevertheless, if everyone follow their own interest, the outcome is eventually worse than if they chose to follow mutual interests[4]. This general difficulty articulates in the dilemma related to the *construction* of a public good and in the dilemma of *safeguard/appreciation* of a *commons*.

In the first one (*give-some dilemma*) the public good is supplied thanks to single contributions and then redistributed amongst all members of the collectivity (Messick and Brewer, 1983). In the second one (*take-some dilemma*) the *commons* already exists and the cooperative commitment consists into appraising it for a community's good without over or under-using it (Dawes, 1980). The first trap is known as "the tragedy of the *commons*" and occurs when the usage rate is too high, as every new user does not take into consideration the cost imposed to other existing users when reducing their fruition of the resource (Hardin, 1968). "The tragedy of the anti-commons", instead, occurs when too many owners can claim usage rights upon *commons*, whereas nobody can use it completely, namely without being subject to partial restrictions from other owners (Heller, 1998). We are in the presence of a fragmentation of coordination, where the coexistence of several rights owned by many

[4] The wider is the group, tinier is the time horizon of interactions, poorer are other the preexistent collective assets, the more the dilemma gains complexity. See Bellanca (2007).

individuals prevents a socially desirable outcome from arising[5]. While the tragedy of the *commons* is about over-using a resource that no one owns, this tragedy is about under-using resources owned by many, namely when too many individuals have the right of exclusion upon a scarce resource[6].

We have already recalled Barnes's (2006) suggestion about forming a "*commons* sector" in support of the mercantile enterprises sector. In such sector, the property of *commons* would be assigned to trusts that are bound to administrate them on behalf of future generations. In the event of scarcity or threat of *commons*, their usage should be limited and, thanks to the prices set in order to access their use, the trust would generate a profit to be distributed amongst citizens, and would therefore assure a minimum income and lessen the capitalistic tendency to inequalities. On the other hand, when they are unlimited, as in the case of culture or the internet, the trust would give, at the lowest possible price, the highest benefit to the maximum number of people, even improving everyone's equality and wellness. This way, the sector regulated by trusts would contribute to weakening both the tragedy of the *commons*, and that of the anti-*commons*. «The advantage [...] is that, behind the trust, there will be the rise of a community of individuals who will work, together with the *trustee*, in order to reach the goal, by having at their disposition the means obtained by the common good's exploitation. In the event of privatization instead, the shortage of income goes to the private citizen who bought the asset. In case of taxation, followed by a sale of the rights of pollution corresponding to the tax, the obtained means go to the State, and will shape themselves in the typical universalistic frame of the public sphere. Commons are rather generated by forms of mutual sharing, related to a limited group of people (members of a specific community), that overtake the simple private sphere, without reaching the depersonalizing universality of the public sphere, where rights either count for everyone or no one» (Rullani, 2010, p.120).

Barnes's proposal is not to be meant as a "turnkey" institutional plan; it is restricted to sketch the outlook where *commons*-related services are not to be given

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[5] An example regards the *commons* of knowledge: the demand and achievement of pure closing licenses become, in the genetics field, an obstacle to research, as it would be necessary to bear royalties to anyone who hold licenses upon portions of genetic material who will be subject to experimentation. Heller e Eisenberg, (1998).

[6] Buchanan e Yoon (2000) have shown the perfect formal symmetry between the *commons* dilemma and that of the anti-*commons*. An implication is «if mutual property is on one extreme, private property is *not* the other extreme. Privatization can be pushed beyond the idea of private property, up to paralyzing competition and getting stuck in the idea of anti-mutual property. A well-functioning private property can be meant as a fragile balance between the tragic extremities of excessive use (or commons tragedy) and insufficient use (anti-commons tragedy)» (Pretto-Sakmann, 2007, p.119).

out to an undifferentiated community nor to a single owner, but rather to a local society (defined by relational proximity) who is represented by the technical *trustee* and receives the outcome of their appreciation. Social enterprises, as conceptually identified here, can start a path of mutual sharing of *commons*, strictly similar to that possibly based on trusts with, in Europe, two peculiar strengths: while trust is a legal instrument yet to be introduced, social enterprises already exist and operate *out there*; while the trust should be legitimated as a community representative, social enterprises are already rooted in local societies. The socio-economic role of social enterprises consists, therefore, in creating value for a local community from the usage of *commons*, while lessening the "tragedy" related to their over or under-exploitation.

6. The complementary role of social finance

Social finance is, in theory, an institution whose role is that of collecting and utilizing debt capital, risk capital and their hybrid forms, even including shares of liberal disbursals, in response to the needs that ordinary credit and financial markets tend to neglect or partially grant. These non-satisfied needs concern single and collective vulnerabilities (such as poverty, diseases, low education, gender discrimination and disability), as well as, in a more specific way, unexpressed entrepreneurial potentialities (that are nothing but, in all their forms, individual's and groups' pushes towards innovation). A system of self-regulated markets does not notice nor measure vulnerabilities and potentialities (Bowles, 2004). As for the former, microcredit sometimes turned out being an institution able to integrate ordinary markets, by making weak individual financeable (Armendáriz and Morduch, 2010). As for the latter, it is rather social finance that can sometimes carry out a crucial role, recently denominated *impact investing*, by taking to the experimentation of economic possibilities that would stay latent otherwise (Bugg-Levine and Emerson, 2010). In order to better illustrate this aspect, we shall recall Schumpeter's consideration about the nexus between innovative entrepreneurs and banks (De Vecchi, 1993).
When the entrepreneur plans a change, that does not appear very sound next to the uncertainty related to new processes and products, not only he submits it to a cost-benefit analysis, but rather he faces oppositions from the social institution who is designated to the evaluation of such attempts: the bank. The credit concession or refusal regulates, in the name of the society, the entrepreneurial initiatives by only promoting some potentialities. However, what tends to happen is that, on one hand,

banks "bureaucratize" and become more rigid in their protocols and unable to seize the most explosive and shattering ideas (Schumpeter, 1942; see also Randall *et al*., 2010) and, on the other hand, they carry out an adverse selection that provides investment means to routine project and that, most of all, is limited to those initiatives oriented to meet the solvent demand already existing on the final markets, rather than facing the needs of who owns less resources and facilitating, together with the citizens-consumers, the rise of unexpressed necessities.

Social finance can be conceptualized as an institution whose attempt is to widen support to some of the entrepreneurial innovations that would be rejected by traditional banks and finance. Obviously, the theoretical point lies in establishing the way social finance evaluates and reduces those initiatives that address it: a first doctrinaire and operational orientation states that it should choose a moral selection-based criterion, by questioning about what entrepreneurial project follows common goods the most, and from this perspective, social finance coincides with ethical finance; a second stance concerns the entrepreneurial commitment's purpose instead, and in particular, proposals are rated according to their congruence to the goals set by the politic sphere (for instance, to the Millennium Development Goals formulated by the United Nations) or according to the intellectual debate (for example, to the critic economists' conception about the occurrence of progress only as a consequence of a fair and sustainable increase of wellness); a third method considers the modalities (or implementation means) of the entrepreneurial commitment, for example: according to the "threefold approach" the entrepreneurial activities are to be evaluated and measured as a function of the combined contribution to prosperity, social capital and quality of the environment; a further point of view affirms that the criterion is generated within a specific collectivity through a public and reasoned decision, and therefore it cannot coincide with an axiological platform nor with a political program, but rather it can emerge from the tightened and debated comparison of multiple opinions and vary endogenously as the terms of comparison develop; finally, a fifth thesis emphasizes the dimension of conflict. Indeed, social finance is one of the paths that less advantaged groups in the power structure follow in order to try accessing investment tools to capsize their subaltern condition (Erturk *et al*., 2007; Arjaliès, 2010). In this paper we intend to remark only the idea that combines these justifications: social finance gathers resources from non-traditional markets in order to address categories of innovative entrepreneurs that would not receive them in any other way, or that would only be able to access them at prohibitive conditions through traditional finance. It is in this sense that its role is, in the economic system, complementary to that of the social enterprise.

7. From Third Sector to Social Economy

Let's summarize part of the argument debated so far. In negative terms, social enterprise is not identified as a non-profit organization (there is nothing "bad" in making profit indeed); nor is it characterized as an organization who does not distribute its profits (as that disadvantages those who make efforts to fund it); nor it is defined by "social purposes" determined by any social-political criterion (these purposes rather descend from the economic nature of the assets offered by the social enterprise); nor, lastly, it is defined in accordance with its respect to the so-called "corporate social responsibility" (which is often nothing too different from a noble label pasted *ex post* on what has been done anyways). In positive terms, social enterprise can (beyond the actual regulatory framework) be placed in any economic sector and have any legal form. It is featured by (1) the non-privatistic use of the majority of possible profits; (2) the democratic operational rules. If generating an income, the ideal-typical social enterprise employs its extras to (i) improve the workers' conditions, wages increases included; (ii) reinvest on the enterprise itself, especially with the aim of educating/qualifying its own human capital; funding a common cash held by the consortium or network of other social enterprise it is possibly part of; (iv) appreciate the capital invested in it. Point (1) – which articulates in (i)-(ii)-(iii)-(iv) – needs to be interpreted and implemented from time to time by democratic organisms, and leads therefore to point (2). Every ideal-typical social enterprise is provided with a "charter" that, as well as for trusts, establishes its mission and operational modalities in a strict and irrevocable manner.

Mainly referring to the italian debate, we now try to outline the institutional coordinates within which we can enclose our argument. As it is known, the "third sector" has been residually outlined in relation to the institutional sector of market and profit-driven organizations ("first sector"), and broadly speaking to the public sector ("second sector"): it includes cooperation – organized in traditional and social cooperative enterprises – and non-profit entities. The third sector should exclude any kind of enterprise, because all enterprises would be included in the first sector. However, yet social cooperative enterprises constitute an anomaly as "non-profit *enterprises*", who privately produce goods and services of collective utility without distributing any profit share to members nor to employees (Defourny, 2001).

With the concept of "social enterprise" the old classification of three sectors is scattered. A social enterprise not only includes social cooperative enterprises but, as we have seen, also other types of enterprises offering *commons*-related services and *merit goods* and employing the majority of possible profits in a non-privatistic manner. While fair trade, ethical finance, organic farming and ecotourism are all included in the ethical-inclusive Economy field, social enterprises Economy includes sectors such as those concerning environment, information, knowledge and culture, artistic heritage, education, social care and protection, work training and placement, access to finance (see §4). We can further widen the framework in regard to social Economy, where all enterprises are committed on supplying *commons*-related services and *merit goods*, but not all of them employ the majority of their possible profits in a non-privatistic manner. Hence, social Economy does not coincide with the Third Sector field, nor does it with that of social enterprise Economy, but yet is important to be outlined as indicating a wider perimeter where, in several manners and shades, occurs the attempt of «recomposing the gap between economic behaviors and social dimension, in a perspective of environmental sustainability» (Pianta, 2009)

Can the sphere of ethical-inclusive Economy, that of social enterprises Economy and that, more extended, of social Economy, all articulate within the economic system, by debating and forming a coalition, upon specific conditions, with for-profit enterprises? It is, as known, a thorny and insidious question, which yet cannot be eluded, as autarchy (or "dancing alone") does not appear as a less dangerous strategy in a long term. A possible element of response might be found in that part of the economic theory who studies enterprise as a group of bilateral contracts between the inputs' owner and holders. These contracts regulate the use of services supplied by holders in order to obtain an input, however the owner has the right of separately renegotiating them, as he can reward or sanction anyone based on their actual contribution to production. In this perspective the enterprise is formed through the establishment of a "contract nexus", that is a *very dense set of mercantile agreements*[7]. Obviously, the relationship between employer and employee is not the same as, we could say, the one between a farmer and his clients: when a client "dismisses" the farmer, the latter still has resources, assets and other clients at his disposition: whereas when an employee leaves an enterprise, he no longer has access

[7] This approach was initiated by Alchian e Demsetz (1972).

to the work instruments. Other than these two extreme cases, there are many other meaningful ones. If, staying still on the previous example, a group of clients give the farmer their capital in advance, they face an entrepreneurial risk, because if the harvest is damaged by a hailstorm the consequences will affect them as much as the farmer. Hence, in a rigorous and not-metaphorical acceptation, *consumers and producers can form together a "contract nexus", namely an economic enterprise*. In the hypothesized case, the aware consumers become co-producers and assume a direct responsibility in the production cycle. It is even possible to say that the group of clients is owner (*principal*) of the enterprise, as it performs the role of controlling the inputs' owner's behavior (von Hippel, 2005; Zwick et al., 2008; Di Maria e Paiola, 2011).

If, in a local society, a contract nexus is established amongst enterprises, workers, consumers, traders, money savers, investors and public institutions, then is generated a *second level enterprise*, within which *first level enterprises* operate alongside the other subjects enlisted above. In Italy the recent experiment conducted by the Inclusive Economy Districts (IED) is suitable to be interpreted this way: as mercantile agreements in a local society become more frequent, and inclusive consumers associations take on the ownership role, there is no longer a contrasting relationship between suppliers and buyers, as when an enterprise accepts to enter a IED it is, as a matter of facts, choosing to "make business" together with its own clients[8].

Let's now move on to the case – pertaining to our subject the most – in which a for-profit enterprise creates an external social enterprise as a *spin off*, maybe configuring it as a company (Inc. or Ltd. with limited profits distribution); this social enterprise, in turn, is structured in a cluster if it generates other enterprises, even for-profit ones. «This option prefigures a "holding social enterprise" which triggers an operational dependence through (even for-profit) enterprises that become subject of interest for private investors in addition to the enterprise that generated the spin off. […] The "cluster" structure can be *simple* and uniform if the II level of enterprises is composed by only for profit ones; *mixed*, if the II level is composed by both for-profit and non-profit ones» (Fiorentini, 2010, pp.57-58). We see here that the third level enterprise is for-profit, the second level one is social and, lastly, the first level one can be either for-profit or non-profit.

[8] This enterprise is inclusive or ethical, but not social: see §4. In regard to IED see the important theoretical contribution by Orazi – Belletti – Montevidoni, (2011).

More generally, we can therefore have a second level social enterprise that includes non-social first level enterprises, or that can be generated by non-social third level enterprises. This way of rethinking a wide portion of the economic practices concerning *commons*-related services and *merit goods*, cannot be translated into a simple reclassification. It is rather a theoretical setting that helps getting a glimpse of those practices: a social enterprise is not an experience limited to the first level – one or many entrepreneurs investing and coordinating (their or others') skills and resources in order to supply, through a restricting commitment of governance, *commons*-related services and *merit goods*, and employ the majority of possible profits in a non-privatistic manner – as it can structure itself on higher organizational levels where it puts multiple stakeholders of a local society together. In a recent Guiding Act (n.72/2011), the Italian Agency for the Third Sector establishes that socially useful NPOs can hold the participation in controlling limited companies, although these need to have the qualification of social enterprise. A further step, yet to be done, will be the possibility for a social enterprise to hold a for-profit trading company. If there is any perspective according to which social enterprises will not keep on staying on the borders of the economic system, in our opinion this is it.

However, the potential expresses new traps. When a "second level" social enterprise is formed, are the adhering enterprises (or do they need to be) social enterprises? Obviously, it is not automatic nor is it predicted. If the second level enterprise hails from the mere aggregation of first level social enterprises, although these being bound by "contract nexuses" with other subjects, there would not be an expansion of those paths along which this kind of entrepreneurship flourish, but rather the usual consortium or homogeneous network of enterprises. The challenge regarding "contract nexuses" of superior (inferior) order, instead, is significant only because it also connects inferior (superior) level enterprises who are not necessarily "social". That leads to the problem concerning who controls who: it is not about repudiating these promising joints, due to the danger of seeing a for-profit enterprise holding the final control, but rather about exploring ways of lessening the trap. We believe the conceptual structure of §§2-4 helps moving forward alongside this perspective.

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