
Social Economy and SME in European Union

Concept of social economy

The social economy is a grass-roots entrepreneurial, not-for-profit sector, based on democratic values that seek to enhance the social, economic, and environmental conditions of communities, often with a focus on their disadvantaged members.

Social economy refers to a third sector in economies between the private sector and business or, the public sector and government. It includes organisations such as cooperatives, non-governmental organisations and charities.

Economies may be considered to have three sectors: (1) the business private sector, which is privately owned and profit motivated; (2) the public sector which is owned by the state and (3) the social economy, that embraces a wide range of community, voluntary and not-for-profit activities. Sometimes there is also reference to a fourth sector, the informal sector, where informal exchanges take place between family and friends.

The third sector can be broken down into three sub-sectors; the community sector, the voluntary sector and the social enterprise sector:

- The community sector includes those organisations active on a local or community level, usually small, modestly funded and largely dependent on voluntary, rather than paid, effort. Examples include neighbourhood watch, small community associations, civic societies, small support groups, etc.
- The voluntary sector is commonly described as including those organisations that are: formal (they have a constitution); independent of government and self-governing; not-for-profit and operate with a meaningful degree of volunteer involvement. Examples include housing associations, large charities, large community associations, national campaign organisations, etc.
- The social enterprise sector includes organisations which are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Examples include co-operatives, building societies, development trusts and credit unions.

The social economy spans economic activity in the community, voluntary and social enterprise sectors. The economic activity, as with any other economic sector, includes: employment; financial transactions; the occupation of property; pensions; trading; etc. The social economy usually develops because of a need to find new and innovative solutions to issues (whether they are socially, economically or environmentally based) and to satisfy the needs of members and users which have been ignored or inadequately fulfilled by the private or public sectors. By using solutions to achieve not-for-profit aims, it is generally believed that the social economy has a distinct and valuable role to play in helping create a strong, sustainable, prosperous and inclusive society.



Successful social economy organisations can play an important role in helping deliver many key governmental policy objectives by:

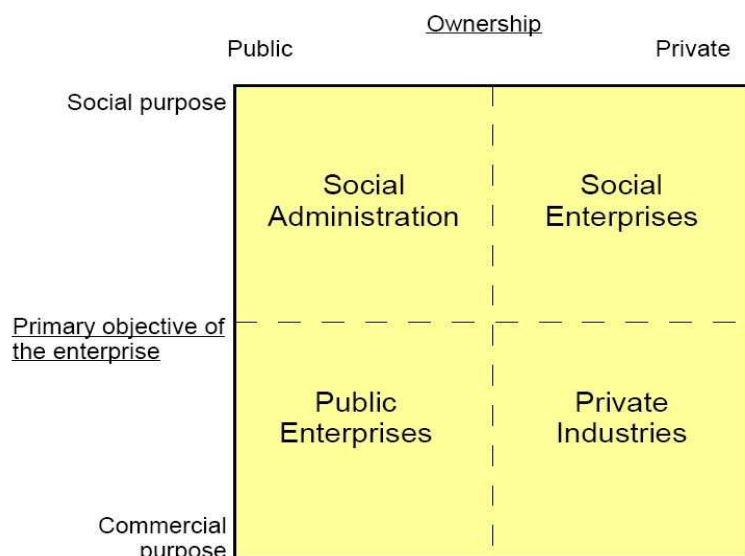
- helping to drive up productivity and competitiveness;
- contributing to socially inclusive wealth creation;
- enabling individuals and communities to work towards regenerating their local neighbourhoods;
- showing new ways to deliver public services; and
- helping to develop an inclusive society and active citizenship.

Nevertheless, defining the limits of the **social economy** sector is made especially difficult by the ‘moving sands’ of the political and economic context. Consequently organisations may be ‘part in, part out’, ‘in this year, out the next’ or moving within the social economy’s various sub-sectors. There is no single right or wrong definition of the social economy.

One solution can be the **Social Enterprise Compass** that locates enterprises and organisations in the field between the business private sector and the public sector. The social enterprise compass is easily illustrated, as following:

The horizontal axis

On the horizontal axis each enterprise / organisation is categorized by its ownership. On the left side the ownership lies with the public authorities whereas on the right side the ownership lies with private people. So the distinctive feature is the ownership of the enterprise. Is it private¹? Or is it public²?



The vertical axis

On the vertical axis, each enterprise / organisation is categorized by the primary objective of the enterprise. The dimensions range between social purpose on the top and commercial purpose at the bottom of the axis. In this axis an organisation reaches the top,

¹ The term “private industry” contains all economic activity that deals with the capital of one or many private owners with a view to making profits. The capital owners bear the risk.

² The term “public authorities” contains all economic activity where the public authorities possess the capital on either European, federal, regional or local level. That includes all nationalised and public industries.

i.e. the social purpose is the primary objective of the enterprise, if you fulfil the following criteria:

Criteria	
A Ethical concept	Core and ideal definition for enterprises / organisations of the social economy Only these enterprises / organisations belong to the social economy whose ideal is a clearly defined ethical concept
B Mission	key identification The primary objective of the enterprise is the improvement of the life situation and the chances of disadvantaged people as well as social cohesion and support.
C Social economic creation of value and appropriation of earnings	Qualitative key identification The profits and the resources are verifiably reinvested for the benefit of disadvantaged people.

If the criteria A, B and C are totally fulfilled, an organisation can locate itself on top of the vertical axis.

There is one last criteria which is not definitional but a describing feature:

D Intermediary function	Social economical enterprises / organisations have an intermediary function between public and private.
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If none of the criteria above is fulfilled or the primary object of the enterprise is the commercial purpose then an enterprise/organisation is located on the bottom of the vertical axis.

If the criteria above are only partly fulfilled the enterprise is located between the top and the bottom of the vertical axis according to its self-definition, between **social and commercial purpose**.

Importance of social economy

In a world growing ever more complex and diverse, governments are increasingly turning to community-based processes and initiatives to address local problems with local solutions. The Social Economy is important because it:

- contributes to efficient competition in the markets
- offers the potential for job creation and new forms of entrepreneurship and employment
- is largely founded on membership-based activities
- meets new needs
- favours citizen participation and voluntary work
- enhances solidarity and cohesion
- Contributes to the integration of the economies of the candidate countries.

What benefits does the social economy bring to communities?

The social economy is important because it contributes to a range of community goals and has the potential to create collective wealth through the production of goods and services. Social economy enterprises provide a flexible and sustainable tool that can help communities to achieve their own objectives, such as:

- stimulating job creation and skills development;
- enhancing community capacity for social supports;
- supporting economic growth and neighbourhood revitalization;
- protecting the environment; and
- mobilizing disadvantaged groups.

Is the social economy important at EU level?³

The European Union includes the social economy in its entrepreneurship pillar. Social Economy represents, through its four large families⁴ a major activity sector. Quantitatively, the sector is important as to its economic weight: 8% of the European enterprises and 10% of the European employment and covers a wide range of activities: social protection, health social services, banking, insurance, agricultural growth, crafts, employee ownership, supplying, proximity services, education and training, cultural, sport and leisure activities, insertion through work of disabled persons, etc.

Moreover it has been noticed that certain activity fields are mainly managed by the social Economy Enterprises (i.e. additional Health Insurances).

³ Memorandum from the European Parliament Social Economy Intergroup by Ms. Marie-Hélène GILLIG – Member of the European Parliament

⁴ i.e. the Co-operatives, Mutual Societies, Associations and Foundations



The Social Economy is permanently looking for a balance between economic growth and social cohesion and therefore organises the activities of its enterprises around the following principles:

- precedence of the person,
- voluntary and open membership,
- democratic control by the members,
- conjunction of interests between user members and general interest,
- defence and implementation of solidarity and responsibility principles,
- management autonomy and independence vis-à-vis the authorities, and
- re-investment of the benefits either for the development of their own activities or the interest of the Community.

This way the social economy is fully in line with the priorities and objectives of the European Union strategies as they were set up in the Lisbon Summit.

The European Union

- Believes that the social economy plays an active role in the strengthening of the European social model;
- States that social economy constitutes one of the instruments to reach full employment, conciliating quality employment and employment for all, including the most vulnerable ones;
- Believes that it is necessary to support the development of social economy as a work integration tool, so to put forward its potential in the fight against social exclusion;
- Points out that the social economy enterprises can contribute with a key added “societal” value, through the participation in the economic development of our societies, by facilitating a better democratic functioning of the enterprises’ world (through an equal participation of the users/members and the employees) and by implementing concepts of corporate social responsibility (CSR) and proximity services;
- Notes that if certain social economy activities and enterprises supply real interest services and must have the possibility to count upon public financial resources, others operate within the “classical” market; moreover, although subject to competition they are profitable and have benefits which are reinvested in the development of their activities or allotted to the development of activities concerning the community.
- Assesses within this context that social economy enterprises fall within the scope of the objectives of sustainable development while representing a specific entrepreneurship model.
- Points out that they can be portrayed as a model in the seeking to bring globalisation under control, for their opposition to the achievement of uniformity of the capitalist enterprise model. Hence requests that their specific characteristics, including the organisational freedom, be recognised, so as to allow them to be recognised as economic actors in their own right, and refuse to confine them to the non-profit areas, experimenting fields, or charity organisations.

Importance of social economy enterprises⁵

The importance to the Social Economy, as previously referred, is now receiving greater recognition at Member State and European levels.

Not only are they significant economic actors, they also play a key role in involving their members and European citizens more fully in Society. Social Economy enterprises are helping to meet the demands of a changing Europe. They are important sources of entrepreneurship and jobs in areas where traditional "investor driven" enterprise structures may not always be viable.

Social Economy entities spring from the economic and social needs of their members, and shared in common certain characteristics, as following:

- Their primary purpose is not to obtain a return on capital. They are, by nature, part of a stakeholder economy, whose enterprises are created by and for those with common needs, and accountable to those they are meant to serve
- They are generally managed in accordance with the principle of "one member, one vote"
- They are flexible and innovative
- Social Economy enterprises are being created to meet changing social and economic circumstances
- Most are based on voluntary participation, membership and commitment.

The Social Economy is found in almost all economic sectors. Cooperatives are particularly prominent in certain fields, such as banking, crafts, agricultural production and retailing. Mutual societies are predominantly active in the insurance and mortgage sectors, whilst associations and foundations figure strongly in the provision of health and welfare services, sports and recreation, culture, environmental regeneration, humanitarian rights, development aid, consumer rights, education, training and research.

Some Social Economy bodies work in competitive markets while others work close to the public sector. Cooperatives, for example, which are formed on the basis of fulfilling the interests of their members (producers or consumers), play important roles in several markets and contribute to effective competition.

⁵ In <http://ec.europa.eu/enterprise/entrepreneurship/coop/index.htm>

The main characteristics of the Social Economy enterprises are:

Co-operatives	<ul style="list-style-type: none"> • voluntary and open membership • equal voting rights • resolutions carried by majority • members c • ontribute to the capital which is variable • autonomy and independence • particularly important is the sector of agriculture, manufacturing, banking, retailing and services
Mutual Societies	<ul style="list-style-type: none"> • voluntary and open membership • equal voting rights • resolutions carried by majority • members' fees based on insurance calculations (where relevant) • no capital contributions • autonomy and independence • medical, life and non-life insurance; guarantee schemes; home mortgages
Associations/ Voluntary Organisations	<ul style="list-style-type: none"> • voluntary and open membership • equal voting rights • resolutions carried by majority • members' fees • no capital contribution • autonomy and independence • service providers, voluntary work, sports and advocacy/representative • important providers in health care, care for elderly and children and social services
Foundations	<ul style="list-style-type: none"> • run by appointed trustees • capital supplied through donations and gifts • financing and undertaking of research, supporting international, national and local projects; • providing grants to relieve the needs of individuals, funding voluntary work, health and elderly care.
Social enterprises	<ul style="list-style-type: none"> • no universally accepted definition • have a social and societal purpose combined with an entrepreneurial spirit of the private sector • reinvest their surpluses to achieving a wider social or community objective • are registered as private companies, as co-operatives, associations, voluntary organisations, charities, or mutuals; some are unincorporated.

What are social economy enterprises?

Social economy enterprises are run like businesses, producing goods and services for the market economy, but they manage their operations and redirect their surpluses in the pursuit of social and community goals. Typically, social economy enterprises grow out of broad-based community development strategies involving citizens, governments, the voluntary sector, businesses, learning institutions, and other partners. Social enterprises are part of the social economy sector. They constitute a collection of organisations that exist between the traditional private and public sectors. Although there is no universally accepted definition of a social enterprise, its key distinguishing characteristics are social and societal purpose combined with an entrepreneurial spirit of the private sector.

Social enterprises devote their activities and reinvest their surpluses to achieving a wider social or community objective either in their members' or a wider interest. Its economic and entrepreneurial nature of initiatives can be characterized as:

- Continuous activity of producing goods and/or selling services
- High degree of autonomy
- Significant level of economic risk
- Minimum amount of paid work
- Social dimension of the initiatives
- An initiative launched by a group of citizens
- A decision-making power not based on capital ownership
- A participatory nature, which involves the persons affected by the activity
- Limited profit distribution
- An explicit aim to benefit the community.

Social enterprises exist in all Member States. However, there is no single legal model for these enterprises. Many social enterprises are registered as private companies, others are in the form of social co-operatives, associations, voluntary organisations, charities or mutuals, and some organisations are unincorporated.

Despite their diversity, social enterprises operate mainly in the following three fields:

- Work integration (training and integration of unemployed persons);
- Personal services (e.g. childcare services, services for elderly people, 'proximity' services, aid for disadvantaged people) and
- Local development of disadvantaged areas (e.g. social enterprises in remote rural areas, neighbourhood development/rehabilitation schemes in urban areas).

Actions taken by the European Commission

The action plan: The European Agenda for Entrepreneurship (COM (2004) 70 final, 11.02.2004) introduced the Commission's action on promoting entrepreneurship in social sectors.

The policy should take account of the differing needs of entrepreneurs, who run businesses ranging from university spin-outs to family-owned SMEs to social enterprises. Social economy enterprises already provide examples of delivering services in sectors alternative to, or complementing, the public sector. In the Communication on the promotion of co-operative societies in Europe (COM (2004) 18 final, 23.02.2004) the European Commission emphasizes the role of social co-operative enterprises. The effectiveness of cooperative forms in integrating social objectives has led certain Member States to adopt specific legal forms to facilitate such activities.

In order to promote social enterprises across Europe, the Commission launched a project⁶ and a study⁷, aiming to collect information on relevant specific measures adopted

⁶ 'Promoting social entrepreneurship in Europe' in 2004

⁷ Study on national policies and good practices concerning social enterprises in Europe in 2005. The study covered 25 countries of the EU, the EFTA member countries (Norway, Liechtenstein and Iceland) and the applicant countries (Bulgaria, Romania and Turkey). Duration of the study: 18 months.

by public authorities at national, regional or local level to promoting social enterprises in European countries (legal and organisational structure of social enterprises, their sectors of activity, their regulatory environment and access to finance or any other special policy measures supporting social enterprises).

Based on this information, a number of measures were selected as good practices in each country focusing specifically on good practices in the new Member States of the European Union.

SME definition⁸

SME definition: Commission Recommendation of 06 May 2003

Background:

Micro, small and medium-sized enterprises are socially and economically important, since they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship and innovation. However, they face particular difficulties which the EU and national legislation try to redress by granting various advantages to SMEs. A legally secure and user-friendly definition is necessary in order to avoid distortions in the Single Market.

According to the Commission Recommendation 2003/361/EC published in the Official Journal of the European Union L 124, p. 36 of 20 May 2003 a new SME definition was established which took effect on 1/1/2005.

“The new SME definition represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals”⁹.

The new definition introduces three different categories of enterprises. Each corresponds to a type of relationship which an enterprise might have with another. This distinction is necessary in order to establish a clear picture of an enterprise’s economic situation and to exclude those that are not genuine SMEs. In general, most SMEs are autonomous since they are either completely independent or have one or more minority partnerships (each less than 25%) with other enterprises. If that holding rises to no more than 50%, the relationship is deemed to be between partner enterprises. Above that ceiling, the enterprises are linked.

⁸ In http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

⁹ Günter Verheugen, Member of the European Commission, Responsible for Enterprise and Industry

Is this an enterprise? (Art. 1)¹⁰

The first step to qualify as an SME is to be considered as an enterprise. According to the new definition, an enterprise is 'any entity engaged in an economic activity, irrespective of its legal form'. Thus, the self-employed, family firms, partnerships and associations regularly engaged in an economic activity may be considered as enterprises. It is the economic activity that is the determining factor, not the legal form.

What are the new thresholds? (Art. 2)

Once verified that the organisation is an enterprise, it should be establish the data of the enterprise according to the following three criteria:

- **Staff headcount,**
- **Annual turnover,**
- **Annual balance sheet.**

Comparing data with the thresholds for the three criteria will allow determining whether the organisation is a micro, small or medium-sized enterprise. It is necessary to note that while it is compulsory to respect the staff headcount thresholds, an SME may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status.

The new definition offers this choice since, by their nature, enterprises in the trade and distribution sectors have higher turnover figures than those in manufacturing. Providing an option between this criterion and the balance sheet total, which reflects the overall wealth of an enterprise, ensures that SMEs engaged in different types of economic activity are treated fairly.

As the next table shows, the category of micro, small and medium-sized enterprises consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro.

Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro.

¹⁰ http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf

The article numbers refer to the annex of the European Commission's Recommendation of 6 May 2003 (see Annex II, p. 32)

The New Thresholds (Art. 2)

Enterprise category	Headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	<10	≤ € 2 million		≤ € 2 million

Staff headcount (Art. 5)

The staff headcount is a crucial initial criterion for determining in which category an SME falls. It covers full-time, part-time and seasonal staff and includes the following:

- Employees,
- Persons working for the enterprise being subordinated to it and considered to be employees under national law,
- Owner-managers,
- Partners engaged in a regular activity in the enterprise and benefiting from financial advantages from the enterprise.

Apprentices or students engaged in vocational training with apprenticeship or vocational training contracts are not included in the headcount. Nor do you include maternity or parental leave. The staff headcount is expressed in annual work units (AWU). Anyone who worked full-time within the enterprise, or on its behalf, during the entire reference year counts as one unit. The part-time staff, seasonal workers and those who did not work the full year are treated as fractions of one unit.

Annual turnover and balance sheet total (Art. 4)

The annual turnover is determined by calculating the income that the enterprise received during the year in question from its sales and services after any rebates have been paid out. Turnover should not include value added tax (VAT) or other indirect taxes. The annual balance sheet total refers to the value of the company's main assets.

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