

# 17 Public policies and social enterprises in Europe: the challenge of institutionalization

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## Overview

The objective of this chapter is to sketch the different types of public policies that have contributed to shaping the institutional environment of European social enterprises. A central assumption is that social enterprises are characterized by socio-political embeddedness. Indeed, these public policies are the results of interactions between the promoters of social enterprises and representatives of the public bodies. However, the accommodation between the views of social enterprises and those of public bodies on the contested nature of the mission of WISEs seems not to be simple. After reading this chapter, the reader should:

- be aware of the different analytical viewpoints available to grasp the nature of relationships between public policies and organizations;
- understand the different ways for public bodies to support the mission of European WISEs;
- identify the impacts of public policies on the goals of European WISEs.

## Introduction

This chapter provides an overview of the different types of public policies that have helped shape the institutional environment of work integration social enterprises (WISEs). It demonstrates that policy models are various, and that different models can coexist within one country.

A central assumption is that WISEs, and more generally the third sector, are characterized by social and political embeddedness. Stated differently, WISEs, which are economic institutions, develop from social constructions embedded in society in general, and in the political context in particular. They therefore reflect the changing regulatory role of the state. Public policies, for their part, develop from interactions among social actors, particularly interactions between WISE entrepreneurs and public authorities.

The chapter is divided into two parts. The first part (section 1) deals with the question of institutionalization and embeddedness, with a view to defining more accurately the analytical framework that has been chosen. The second part (sections 2–5) tests, on the example of WISEs, the heuristic value of this framework.

## **1 Analysis of organizations and institutions**

The relation between economic initiatives and their context raises theoretical problems that we have summarized in three parts (Sections 1.1 to 1.3), each of which corresponds to a distinct conceptual approach.

Historically, researchers have approached this topic through organization theory. From the standpoint of both neo-classical economics and sociology, the choices made within this framework have two limits. First, they view the context as an environment whose pressure is assimilated to a contingency; in this perspective, organizations have no influence on their environment. Second, in a contract perspective, they reduce the subject to an actor whose behaviour within the organization is only strategic.

On a theoretical level, so-called 'neo-institutionalist' approaches improve on organization theory, especially with regard to our present concern, i.e. these approaches analyze the link between organizations and public policies. For example, as Bode *et al.* demonstrate in this book (Chapter 15), the goals and practices of organizations are influenced by requirements linked, among others things, to legal frameworks that encourage the homogenization of organizations.

However, it is important, when analyzing the interactions between community-based organizations and public policies, to include more complex forms of relations that allow for the possibility, however limited, of creativity in public policy making. From this point of view, the socio-political dimension of embeddedness constitutes a relevant concept, in that it allows the analysis to go beyond examining the impact of legal frameworks on forms of reproduction within organizations (an impact that is studied in Chapter 15 of this book). Such an approach, which could be termed the political embeddedness approach, also allows us to consider the role and the limits of democratic innovation – in the present case, democratic innovations supported and brought about by WISE entrepreneurs in the field of public policies.

We will now present a more detailed analysis of the strengths and limits of each of the conceptual approaches that we have just sketched; the third approach will then be tested on WISEs and will constitute the analytical framework of this chapter.

### ***1.1 Analysis of organizations, contingencies and contracts***

Neo-classical economics focuses on the analysis of markets and consumers' behaviour. It reduces the role of the firm to its simplest expression, as a

function of maximizing profit under the constraint of the production function. In this framework, organizations are a black box. Until recently, economic theory thus left very little room for organizations. Recent developments of contract theory (Eymard-Duvernay 2004) analyse relations among economic agents within organizations. In this type of analysis, organizations and standards can be reduced to a set of contracts, held together, within a framework of imperfect information, by the balance of interests among economic agents. While contract theory allows us to analyse a vast array of interactions among individuals, it assumes, at least implicitly, that no institution is required beyond these contracts, which de facto constitute an extension of the market sphere into these organizations. The same system of reference is adopted in strategic analysis, which focuses on 'a set of power relationships expressed as games within the framework of which relatively autonomous actors pursue divergent interests and negotiate their contribution to the whole' (Crozier and Friedberg 1977). However, we need to ask ourselves where the rules of the games originate, and how they are chosen and implemented.

As Bélanger and Lévesque (1992) note in their synthesis, the sociology of organizations emerged as a response to a Marx-inspired sociology of work that dealt with the enterprise in the light of class struggle, with capital ownership dictating the organizational form. For Crozier, for example, what had to be underlined was the autonomy of the system of organizational action such as it emerged from the daily efforts to 'create effective co-operation among the members of an organization within the framework set by certain technical and economic constraints' (Crozier 1989: 46). Finally, sociological analyses of organizations explain that a social system of enterprise is the result of complex collective responses to a contingency: that of its external environments.

With regard to these external environments, the research school dealing with contingency sheds light on the ways organizations confront 'environments that force them to change and adapt' (Piotet and Sainsaulieu 1994: 79). Works on organizational responses to technical and market constraints (Burns and Stalker 1961; Lawrence and Lorsch 1973; Mintzberg 1983) show that contextual variables 'of course allow for the possibility of structural variations, but however establish certain limits to the possible combinations' (Piotet and Sainsaulieu 1994: 83). Contingency analysis focuses on 'the reactions of organizations faced with environmental constraints'. It has two underlying premises: (i) the issue of adaptation to an environment is considered to be a factor that is, by definition, external to the firm, and (ii) it interprets the environment primarily in technical and market terms.

Piotet and Sainsaulieu point out the difficulties inherent in methods employing these types of orientation: they show how the concept of environment inadequately conveys the situations of the public sector and, more generally, of organizations that are highly regulated by legal mechanisms.

Societal dimensions of the environment are also mentioned, and it is noted that 'analysis of the environment is not limited to the analysis of the product's market within a competitive economy' (Piotet and Sainsaulieu 1994: 111). These observations do not prevent the authors from concluding with a diagnosis of structural adaptation in which understanding of the environment remains focused on techniques and markets, and leads to 'the hypothesis of a possible optimisation between the organization and the environment' (Piotet and Sainsaulieu 1994: 112).

Thus, there are two limits to the explanatory capacity of organization theory: (i) the idea of adaptation in contingency analysis, which implies that organizations have no influence on their environment and which, in addition, focuses principally on technical and market environments, and (ii) the autonomy broached in terms of contracts and power games, which fails to take into account the consistency of subjects capable of reflection and action.

Neither economics nor the sociology of organizations resolves questions on the relationship between organizational forms and society. Answering such questions presupposes a shift in focus from organizations to institutions; such a shift is at the core of the new sociological and economic approaches.

### ***1.2 Neo-institutional approaches, networks and reproduction***

The so-called 'neo-institutional' approaches converge around a few points, such as assigning to institutions a major role in economic life or contributing to defining behavioural routines (Rizza 2004: 76–7). According to North (1996), institutions can be defined as the humanly devised constraints that structure human interactions. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms, conventions, and self-imposed codes of conduct), and their enforcement characteristics.

The 'new institutional economy' creates a rupture in the economic analysis of contracts. First, by developing concepts such as limited rationality<sup>1</sup> (following Simon 1996), it calls into question the premise of perfect rationality on the part of individuals. Second, it recognizes that the environment is essentially uncertain. Last, it acknowledges that the market is not the only mechanism for allocating resources. According to Williamson (1975), the enterprise provides an alternative approach to market co-ordination. In this framework, the theory of transaction costs analyses which organizational forms minimize transaction costs among the various stakeholders (see Chapter 1 of this book) in a context of incomplete information (Nyssens 2000). This is an essentially comparative approach, since it asks which institutions are most efficient in reducing uncertainty and transaction costs.

As Eymard-Duvernay (2004: 48) notes, 'the approach of the economics of transaction costs is at a crossroads: it can be based on a contractualist

approach framework . . . it can underline the institutional dimension of transactions'. As a matter of fact, while it moves away from contractualist theories by postulating the extreme uncertainty of the socio-economic environment and by recognising institutional diversity, it resembles these theories in its utilitarian conception of the actor.

The description of institutions introduced by Coase (1937) and taken over by Williamson (1975, 1985), who uses transaction costs to explain them, has been criticized by Granovetter. The latter maintains that enterprises are not more efficient than markets and underlines that, as is common with functionalist analyses, these two authors implicitly assume that every problem raised has a solution, without spelling out which mechanisms make this possible. They only deal with the question of 'Why are they institutions?', but not with the question of 'How do they emerge?' (Granovetter 2000: 214).

Faced with this economism, sociological neo-institutionalism and the new economic sociology defend their conception of institutions as social constructions, emphasising their constitutive dimension, especially through resorting to the polysemic term of embeddedness. Granovetter develops the concept of embeddedness within networks of personal relationships. Reticular embeddedness is based on the social construction of markets and social networks. The aim is to clarify the individual and collective choices and trajectories, within the framework of the market economy. Individual choices are relative to the choices and behaviours of other individuals, and to the personal relationships prevailing in networks; the latter are defined as an ongoing set of contacts or social relationships among individuals or groups of individuals. Embeddedness can be broached from two angles: the 'relational' aspect focuses on 'personal relationships'; the 'structural' aspect is centred on 'the structure of the general network of these relationships'. The second aspect allows us to analyse segments of the social structure that do not belong to primary groups. From this standpoint, far from constituting the unique and necessary solution to problems of efficiency, institutions are constructions of human history. Thus, an institution cannot really be understood without studying the process from which it emerged. Each institution has several potential histories; it results from the crystallization of certain particular personal relationships. Thus, network analysis must be used to understand the factors explaining institutional formation since, for Granovetter, institutions can be defined as 'congealed social networks'.

However, network analysis must not overshadow the contexts within which these networks exist. The phenomenological approach in neo-institutional sociology has examined the relationship between economic action and cultural order. It highlights 'the impact of cultural interpretations on the everyday behaviour of economic actors' (Magatti 2004: 49). This anti-utilitarian and constructivist institutionalism takes into account systems of meaning and symbolic frameworks, and the cultural registers

associated with social practices (De Léonardis 2001). Economic action is framed through practices and standards associated with beliefs, roles, scenarios and habits – and sometimes even myths. ‘Institutions establish cognitive and normative regularities’, and organizations rely on legitimate and socially accepted institutional models (Rizza 2004: 95).

While obliged to respect efficiency criteria, organizations are integrated into environments that are characterized by the presence of institutions exerting a continuous action of standardization on their activities. The institutions accomplish this by communicating criteria of legitimacy that define the operating procedures and margins of success for these activities. This is what DiMaggio and Powell (1983) have demonstrated through the concepts of organizational field and institutional isomorphism. The organizational field is made up of the various actors (such as enterprises, public organizations, associations, unions) that provide reference standards and introduce beliefs influencing various dimensions of the life of each organization. Institutional isomorphism refers to the trend toward homogenization within a given field, (i) by imitation of the prevailing modes of operation, (ii) by pressures exercised through organizations and networks or (iii) by coercion, within the framework of legal rational domination (see Chapter 15 of this book).

With the notion of institutional isomorphism, DiMaggio and Powell (1983) focus on institutional reproduction, which is reinforced by numerous routines and identified at the level of productive units. They contribute significantly to understanding how an organization is ultimately influenced by its environment, irrespective of the organization’s originality or the impetus for change it initially supports. Nevertheless, their framework is of limited use for apprehending the differences between organizations – which may persist, at least to a certain degree – and the emergence of innovations.

Neo-institutional sociology is thus primarily concerned with reproduction phenomena at the micro level. However, it may be complemented by another ‘level of institutionality’, as Magatti would put it (2004), which is more macro since it is based on the type of historical analysis developed by Polanyi.

### ***1.3 Political embeddedness***

For Polanyi (1944), political embeddedness refers to the way the economy is integrated into the political order. The economy is an institutionalized process in the sense that political rules control the forms of production and circulation of goods and services. Polanyi viewed modernity as the trend towards disembeddedness of the economy, which shows through the autonomization of the economic sphere, assimilated to a self-regulating market. Viewing the market as self-regulating, i.e. as a mechanism that matches supply and demand through prices, leads to overlooking the

institutional changes that allowed its emergence and to forgetting the institutional structures that make it possible. In reality, the integrating factor constituted by the system of prices does not emerge only from economic exchange, but from an institutionalized process, i.e. it is socially organized.

The rationalistic and atomistic premises of neo-classical economics regarding human behaviour allow us to study the economy using a deductive method. This method uses the aggregate of individual behaviours in the market. Neo-classical economics excludes non-market phenomena from the analysis, except for explaining them – as does neo-institutional economics – as being the result of market failures; other institutional solutions (such as organizations, state intervention, the third sector) are only understood as ‘complementing’ the market, which is considered the first solution (Nyssens 2000). Political embeddedness is a fertile research concept since it differentiates itself from such an approach, embracing an analysis of institutions that does not reduce them to their supposed efficiency, but also emphasizes their role in the constitution of a democratic framework for economic activity.

The question of the relationship between economy and democracy cannot be regarded as secondary; Polanyi suggests a problematization of this question that extends the research initiated by the founders of economic sociology on the relationship between economy and society. Its originality may be summarized as follows.

In pre-capitalist societies, markets are limited and most economic phenomena that can be isolated are embedded in norms and institutions that predate and shape them. The modern economy distinguishes itself by its propensity for disembeddedness, i.e. by the autonomization of the economic sphere, which is assimilated to a self-regulating market. However, this propensity, because it disrupts society, generates a reaction of the latter, implying different forms of ‘re-embedding’. Real markets give way to various forms of political embeddedness.

In addition, the expansion of the market does not necessarily entail the end of economic forms based on redistribution and reciprocity. Redistribution and reciprocity endure in modern economies, in which the very structure of government redistribution demonstrates a certain embeddedness of the economy in politics (see Chapter 7 of this book). Thus, economic disembeddedness is only a general trend; indeed, the existence – besides the numerous market relationships – of non-market and non-monetary economic poles in the economy bear testimony to the persistence of many forms of embeddedness. Consequently, despite the significant impact of the project of a market society, the political embeddedness of the economy has not disappeared – and can be studied – in contemporary society. This political embeddedness is expressed, among other ways, through social rights and legislative and regulatory mechanisms, such as collective bargaining. Market autonomy is a liberal chimera that is periodically updated and thwarted through the creation of regulatory institutions. Societal initiatives

emerge as a response to deregulatory pressures, ensuring that the functioning of the economy is embedded in rules bearing testimony to the respect of the democratic framework.

Thus, if we dialectize Polanyi's approach, we can hypothesize that economies in modern democracies are characterized by two trends. The first is the trend toward disembeddedness, the economy being reduced to a self-regulating market and to a single form of enterprise. The second is the opposite trend: a trend towards the political re-embedding of the economy. Relying on this interpretation with a view to explaining the relationship between third sector organizations and public policies, this chapter is thus based on a conceptualization expressed in terms of political embeddedness of economic activities. It approaches political embeddedness of the third sector through interactions with public authorities – interactions whose mutual effects vary considerably in terms of intensity and modalities over time.

The notion of the political embeddedness of economic activities thus seeks to shed light on all relations between public policies and third sector organizations. While the third sector cannot be apprehended without analysing the public regulation to which it is subject, government regulation alone does not determine the forms that the third sector has taken. We cannot fully understand the social construction of the third sector through an approach that analyses public policies as a separate, autonomous field. Historically, this social construction has been influenced by projects initiated by various social actors who, through their existence, have helped shape public regulation. Thus, the construction of this field cannot be considered as the mere product of a 'public' construction. Rather, it is the result of interaction among heterogeneous third sector organizations and public policies.

We will now refer to this framework of political embeddedness in order to test its heuristic relevance for the field of WISEs in the European Union.

## **2 The pioneering initiatives**

In the European Union, the pioneering WISE initiatives were launched in the late 1970s–early 1980s, without any specific public scheme to support their objectives. In a context of increasing unemployment and social exclusion, social actors did not find public policy schemes adequate to tackle these problems. Initiatives thus emerged as a protest against established public policies and pointed at the limits of institutional public intervention practices towards those excluded from the labour market: long-term unemployed people, low-qualified people, people with social problems, etc.

Most pioneering WISEs were founded by civil society actors: social workers, associative militants, representatives of more traditional third sector organizations, sometimes with the excluded workers themselves.



Table 17.1 Distribution of some types of WISE in the European Union according to type of founders

<i>Groups of citizens, with a general interest objective (1980s)</i>	<i>Excluded persons, with a self-help objective (1990s)</i>	<i>Public-community partnership</i>
COSO Italy	STO Finland	LV Denmark
EFT, ES Belgium	WCO UK	KB Germany
EI, AI France	EI Spain	RQ France
BLUI Germany	SK Sweden	SF UK
EI Spain	EIN France	CB UK
LD Ireland		

Note: See Chapter 1, Appendix 2, of this book for legend.

Most of these initiatives were launched by persons whose main objective was to help persons excluded from the labour market, i.e. they were created in a perspective of general interest. In some countries with a tradition of co-operative entrepreneurship, some pioneering initiatives were launched by the workers themselves, relying on a self-help dynamic. Sometimes, the groups launching the WISEs were linked to public bodies and, in countries such as Germany or Denmark, probably reflected the fact that the third sector and the public sector were closely interwoven. Different types of initiators of WISE can coexist in the same country. In France, for example, 'work integration enterprises' (*entreprises d'insertion*) and 'intermediate voluntary organizations' (*associations intermédiaires*) have been launched by groups including both social workers and associative militants, whereas 'long-term work integration enterprises' (*entreprises insérantes*) rely on a self-help dynamic and some 'neighbourhood enterprises' (*régies de quartier*) have been supported through a partnership between the inhabitants and local public bodies (see Table 17.1).

### 3 WISEs and public policies

The processes of institutionalization of WISEs should be studied in the context of the boom in active labour market policies. During the 1980s, public bodies, faced with high rates of unemployment and a crisis in public finances, developed policies that aimed to integrate the unemployed into the labour market (through professional training programmes, job subsidy programmes, etc.), instead of relying only on passive labour market policies based on a system of allocation of cash benefits to the unemployed. In this context, it seems that WISEs have increasingly represented a tool for implementing these active labour market policies – a 'conveyor belt' of these policies. Indeed, they were pioneers in promoting the integration of excluded persons through a productive activity. The first WISEs actually implemented active labour market policies before they came into institutional existence.

However, we can observe, at least at the beginning of these processes of public institutionalization of WISEs, that some countries, such as Sweden and Denmark, which are characterized by a long tradition of social policies, used programmes other than employment programmes to sustain such pioneering initiatives; one example is the 'Social Development Programme' in Denmark. In other cases, WISEs whose main target groups are disabled people have also been recognized through traditional social policies.

In some countries, such as the United Kingdom or Spain, where welfare spending in general is low and labour market policies in particular are underdeveloped, pioneering initiatives received little, if any, public support. This also seems to be the case, in all the countries surveyed, for initiatives that rely more on a self-help dynamic. Indeed, public bodies seem to consider that workers developing their own initiatives should be considered as carrying out 'normal business' and do not need to receive any special support, even though they are at risk in the labour market regarding their profiles of employability.

### ***3.1 The 'second labour market' programmes***

At the beginning of the 1990s, in some countries, such as Belgium, Germany, France and Ireland, WISEs used programmes offering intermediate forms of employment, between employment policies and social policies; the so-called 'second labour market' provided for a substantial reduction, funded by the state, in employer costs. These programmes were based on the observation that, on the one hand, a number of unsatisfied social needs existed and, on the other hand, a large number of people were unemployed. These second labour market programmes thus tried to encourage the creation of new jobs in areas where they could satisfy social needs, as a means of both creating jobs for unemployed persons and curbing mainstream social spending. Examples of such programmes include the 'unemployment reduction programmes' (*programmes de résorption du chômage*) in Belgium, the 'employment-solidarity contracts' (*contrats emploi-solidarité*, or CES) in France, the 'work creation measures' (*Arbeitsbeschaffungsmaßnahmen*, or ABM) in Germany and the 'Community Programme' in Ireland.

In these countries, this framework opened for many WISEs a space in which they could pursue their multiple mission, namely creating jobs for unskilled workers and carrying out a productive activity, and sometimes also producing social services. But the limitations of this kind of programme now appear quite clearly. The major problem from the point of view of the public bodies has been the gradual emergence of a second labour market which did not provide the real 'bridge' between unemployment and employment that the policies' designers had intended to create (Martin 2000). Indeed, evaluations have shown that the probability of finding a

'conventional' job is actually lower for workers who have benefited from these programmes than for those who have not. This is linked to a second problem, at least for WISEs engaged in production with a collective dimension, such as social services meeting needs left unmet by traditional organizations, be they public or private. Indeed, job integration and the provision of collective services are coming to be regarded as one and the same. This 'social management' of unemployment is a mechanism that leads to the devaluation of the jobs created, generating a range of perverse and unintended effects for the promoters of the projects and for users alike.

### ***3.2 From the 'second labour market' to 'activating' labour market policies (after 1994-5)***

We have witnessed, across all European countries, an evolution over time in the kind of active labour market policies public bodies have developed; this evolution has reflected the changing regulatory role of the state. Since the end of the 1990s, there has been a tendency to give unemployed persons more responsibility for improving their own individual employment opportunities. If the first generation of active labour market policies was a kind of mix between employment and social policies, the second generation of policies – which could be referred to as 'activating' – targets much more the employment goal. We have seen the development of a wide range of temporary subsidies conditional on hiring persons belonging to groups who are 'at risk in the labour market'; simultaneously, direct job creation through the second labour market has been declining. These 'second generation' measures are generally open to all kind of firms (for-profit, public or not-for-profit), developing a quasi-market logic in this field. The objective of this kind of measure is to facilitate the transition between unemployment and the 'first' labour market through temporary subsidies aimed at helping the workers overcome their 'temporary unemployability'.

Activating labour market policies find their most significant expression in the different kinds of 'integration contracts'; these are agreements between persons registered as unemployed and the Labour Offices. These contracts include an agreement on the rights and duties of both parties with a view to ensuring the quickest possible integration into the first labour market according to the profile of the unemployed person. If the unemployed person refuses to co-operate, for example by rejecting reasonable employment offers, the labour administrations can reduce social benefits.

In some cases, this 'active welfare state', which suggests a return of the concept of responsibility in the field of social and employment policies, has fostered co-operation with social enterprises, especially at the local level. Indeed, we have to underline the increasing responsibility of local public authorities, whose autonomy to organize training and design and implement work-integration paths has increased. This seems especially to be the

case in countries such as Germany, Denmark or Sweden. In this framework, social enterprises, for-profit enterprises and public organizations are on an equal footing as regards 'integration contracts' and, therefore, a quasi-market logic is de facto implemented.

### **3.3 The accreditation of WISEs**

In some countries, WISEs are officially recognized and a specific public scheme supports their mission at the national level (this is, for example, the case in Portugal, France, Ireland and Finland) or at the regional level (for example in Belgium, Spain and Italy).

This legal recognition, by public authorities, of the mission of integration through work performed by WISEs allows, in most cases, a more stable access to public subsidies, but in a very specific way. Indeed, some temporary subsidies are granted to start the initiative and to make up for the 'temporary unemployability' of the workers. In fact, these public schemes are a tool of active labour market policies. In this sense, they recognize and support the actions of WISEs and, at the same time, they influence their objectives and target groups, as we will develop below.

In some cases, these 'labelled' social enterprises must adopt a new company legal form reflecting their social purpose, such as the form of 'social purpose company' (*société à finalité sociale* / *vennootschap met sociaal oogmerk*) in Belgium or that of 'community interest company' in the UK.

### **3.4 WISEs and public policies: a typology**

As we see in Table 17.2, different models can coexist within one country. However, the analysis of the general patterns of labour market policy expenditures (see Figure 17.1) allows us to construct a typology of the countries surveyed.

The first group (which includes Denmark and Sweden) is characterized by a high level of active labour market policies (ALMP) and of welfare expenditure in general. In these countries, no public schemes specific to WISEs have been developed, but there is an increasing collaboration between WISEs and public bodies to implement 'activating labour market policies'. As Stryjan stresses for Sweden, the current Swedish labour market is, to a significant extent, the product of active labour market policy. In this context, WISEs are not the result of a shortage of active labour market policies but are, rather, a response to the fact that such facilities either cannot reach significant portions of the population, or are ineffective for certain groups (see Chapter 13 of this book). This is quite a new phenomenon for these countries, where the third sector is traditionally viewed as having an advocacy role and not that of a service provider. This first group corresponds to the 'universalist' group of Esping-Andersen's typology – a group in which welfare has traditionally been delivered by the state

Table 17.2 WISEs and public policies in the European Union countries

Public policies	1980s–	mid-1990s mid-1990s	2000s
Nothing	Worker co-ops (S)		
Social policies	Social development programme (DK)		
Active labour market policies			
Second labour market programme	CES (F)* PRC (B)* ABM (G)* Com. prog. (IRL)*		
'Activating policies'	–	Everywhere in Europe	
Specific WISE policy schemes	COSO (I)**	EI (F) (B)**	Social ent. (FIN) EI (P)**
'Public accreditation'			SEW (IRL)**

\*CES = 'employment-solidarity contracts' (*contrats emploi-solidarité*), France; PRC = 'unemployment reduction programmes' (*programmes de résorption du chômage*), Belgium; ABM = 'Work creation measures' (*Arbeitsbeschaffungsmaßnahmen*), Germany; Com. Prog. = 'Community Programme', Ireland.

\*\*See Chapter 1, Appendix 2 of this book for legend.

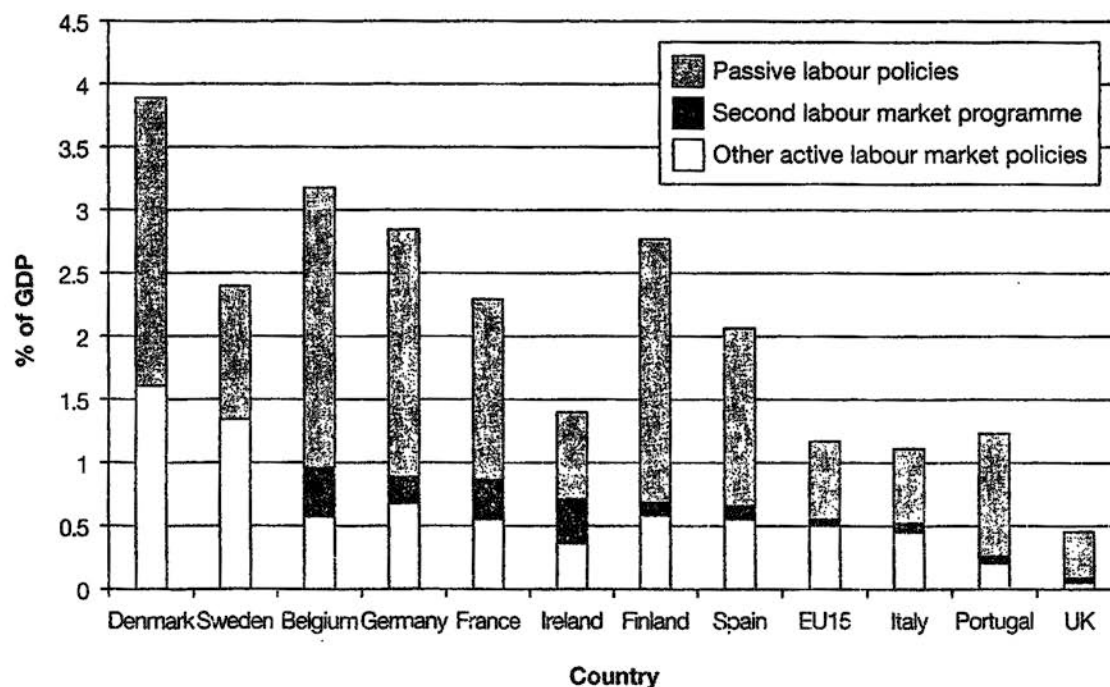


Figure 17.1 Expenditure on labour market policies in the European Union countries in 2001 (percentage of gross domestic product)

Source: Eurostat.

(Esping-Andersen 1999). But, even if there is no official accreditation for social enterprises in Sweden and Denmark, there is in these countries a tradition of a co-operative movement. So it is not surprising to see that there is now a Swedish Minister of the Social Economy rooted in this co-operative movement, and that there are linkages and lines of communication between the co-operative movement and new social enterprises.

The countries in the second group (Belgium, Germany, France and Ireland) still have relatively high levels of expenditure on active labour market policies (although lower than the countries in the first group) and large second labour market programmes. The first WISEs in these countries relied heavily on this latter kind of programme. All these countries, except Ireland, belong to the 'Bismarckian' tradition or the 'corporatist' group of countries, i.e. in these countries, intermediate bodies are important not only for the management of social insurance but also for the delivery of social services (Esping-Andersen 1999). Indeed these countries (Salamon *et al.* 1999) are characterized by a significant presence of not-for-profit private organizations, mainly financed by public bodies, in the field of social services. Not surprisingly, it is in these countries that the 'second labour market programmes' emerged; they relied on this kind of organization. The inclusion of Ireland in this second group may seem rather odd as it does not belong to this Bismarckian tradition. Nevertheless, Ireland has one of the highest shares of employment in the non-profit sector, which relies heavily on public funding. Actually, some research has shown that Ireland is a borderline case between the 'liberal' and the 'corporatist' state (Hicks and Kenworthy 2003). In the 1990s, the countries in this second group adopted public schemes specific to WISEs; the only exception is Germany – which probably reflects the decline of the co-operative movement in this country. In the other countries, the persistence of a social economy sector or a co-operative sector that still maintains some of its original features influences the environmental perception of WISEs and the building of organizational identities within this tradition (see Chapter 15 of this book).

A third group (Finland, the United Kingdom, Portugal, Spain and Italy) appears to be much more eclectic than the other two, but the countries composing it are characterized by a low level of expenditure on active labour market policies and, more fundamentally, by the (near) non-existence of a second labour market programme. Regarding the development of a public scheme specific to WISEs, Italy – as already mentioned – played a pioneering role in the European Union, thanks to the action of its strong co-operative movement. In the countries of this group that do not have such a historical heritage, the situation is in rapid evolution at the moment, due among other factors to the increasing number of interactions – and probably a certain homogenization – between European Union initiatives and national public policies. Portugal and the UK are now experimenting with an increase in their ALMP, and public schemes

specific to WISEs viewed as an ALMP tool have recently been adopted in these countries, as well as in Finland.

### **3.5 Support to WISEs through public contracts**

Another way for public authorities to support the mission of WISEs is through the contracting out of the provision of goods or services. Indeed, public bodies can organize their purchases in different ways: that of traditional market purchases (when the bid with the lowest price, for the level of quality required, is chosen) and that of purchases motivated by social or socio-political criteria (see Chapter 7 of this book).

Socio-politically motivated purchases can be made, on the one hand, when small amounts are involved, in which case public bodies are allowed to contract directly with WISEs without issuing a call for tender. The purchases occur in a discretionary way: when they have to buy a product or service, the (usually local) public bodies simply 'privilege' WISEs they know in order to support them and their social mission. On the other hand, in the case of larger purchases, when for instance the public bodies have to issue public calls for tenders, some social dimensions can be included in these public procurement procedures, for example in the form of social clauses that take into account types of criteria other than market ones, such as the importance of integrating disadvantaged workers. These are ways – formalised or not through regulations – to support both the production and the work integration goals of WISEs.

Figure 17.2 illustrates the share of sales to public bodies in the total resources of the WISEs of the PERSE project sample in 2001 as well as the motivations for these sales. Irish and Portuguese WISEs' resources are not very dependent on contracts with public bodies, whereas a relatively important part of the resources of Danish, Italian and Spanish WISEs is constituted by sales of goods and services to public bodies.

In Spain, public-sector customers tend to be important to WISEs, for whom winning a public contract has been, on a number of occasions, a decisive factor in the WISE's success, but the majority of these sales are on a traditional basis. In Denmark and Italy, public contracts are very important for WISEs and, conversely to what happens in Spain, the majority are motivated by socio-political criteria. In Italy, where active labour market policies were not as developed as in other European Union countries (see Figure 17.1), the mission of social co-operatives has long been sustained by public contracts. Indeed, the Italian case is the oldest in the European Union concerning the introduction of a social dimension into public purchasing: in 1991, a law was passed which reserved certain public markets to social co-operatives. But this law had to be re-examined following objections from the European Commission; as we will see in the next section, it is at the level of European legislation that the principal debate in this matter occurs today.

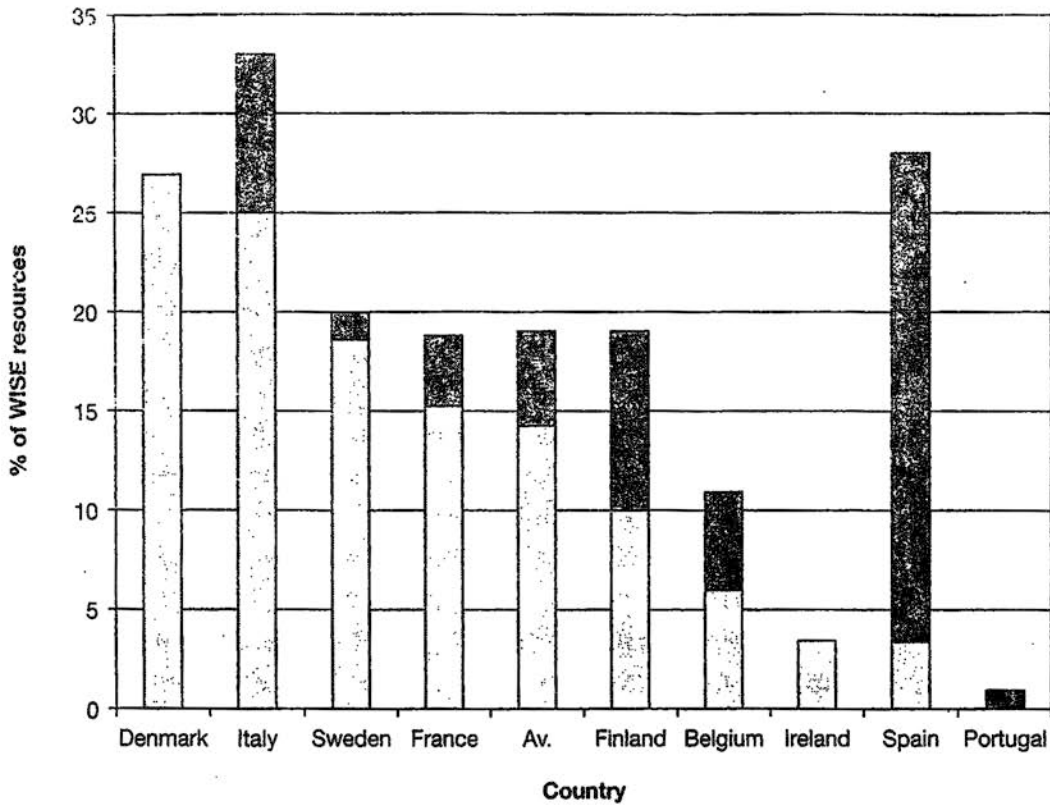


Figure 17.2 Sales of WISEs to public bodies in 2001\*

Black: traditional contracts with public bodies for the sale of goods or services.

Grey: contracts with public bodies for the sale of goods or services motivated by socio-political criteria.

Av.: average of the results for the sample of the PERSE project.

\* In nine of the eleven countries of the PERSE research project; for the two remaining countries, data were not available.

Source: Eurostat.

The main difficulties WISEs experience relate to their need to combine specific social purposes, such as creating jobs for disadvantaged persons, with the need to generate financial resources from the market. It thus sometimes seems difficult for WISEs to compete in the market with for-profit companies solely on the basis of financial criteria, and some WISEs demand that public authorities take their social dimension into account when awarding public contracts. The practice of inserting social criteria in public contracts is not yet very extensive in the European Union. They do not exist in countries such as Ireland, Portugal, the United Kingdom and Spain; legislation is evolving in other countries (such as Belgium), which are considering introducing social clauses into public tenders. National and regional practices in this matter are relatively diverse across the European Union.

### 3.6 The role of European public policies

What is the role of the European Union, if any, in supporting the development of WISEs? The share of WISEs' subsidies that comes from the



European Union level is quantitatively low, ranging from 0 to 10 per cent of the total resources of the WISEs in the PERSE project sample; such subsidies come mainly from the European Social Fund.

Although quantitatively quite low, European subsidies have in some cases constituted an important factor in the emergence and development of WISEs, sometimes opening new channels of resource mobilization at the national level. The influence of the European Commission also appears through the elaboration of the 'National Action Plans for Employment', in which active labour market policy recommendations occupy a major place and explicit reference is sometimes made to social economy organizations in the field of work integration. This has contributed, in some countries (such as Portugal or Ireland), to the development of public schemes for WISEs.

Social clauses in public tenders are regulated by different rules inside the European Union (Navez 2005). Below certain thresholds, national law prevails, but must respect the general principles of the Treaties, such as non-discrimination, freedom of circulation, etc. Above these thresholds, the Member States have to apply the European directives for intra-community purchases and the Agreement on Government Procurement, concluded within the framework of the World Trade Organisation, for other purchases. The debate in the European Commission seems to be underpinned by the general idea that the interest of public bodies is to follow strict value-for-money criteria when choosing a provider. The Commission does not prohibit any ethical, social or environmental consideration but the pre-eminence of short-term financial aspects strongly limits the possibilities of taking social criteria into account. Since March 2004, the main debate has concerned the evolution of the European legislation and the possibility of taking social and ethical dimensions into account in public procurement. More particularly, the issue concerns the latitude that the new European directives will leave to the diverse national practices and legislations in this matter.

#### **4 Institutionalization paths: convergences and divergences in national contexts**

When talking about the political embeddedness of WISEs, we refer both to their contribution to the development of public policies and, conversely, to the influence of public policies on their development.

The first wave of European WISEs emerged in contestation of traditional public policies, in some countries with no WISE-specific public scheme and with no public support, and in other countries with support obtained through social policies or second labour market programmes. Generally, these pioneering WISEs relied on a wide mix of resources: market resources, resources coming from reciprocity and an eclectic range of public subsidies. As we have also already noted, in the 1980s WISEs played a pioneering role in developing active labour market policies. In Italy, for example, the level of expenditure in the field of active labour market policies was near

zero at the beginning of the 1980s and nowadays is still quite low; social co-operatives can be considered to have implemented, through a bottom-up process, the first active labour market policies.

In a second phase, of 'dialogue', the development of some pioneering initiatives led, in some countries (such as Italy, France and Belgium), to new public schemes specific to WISEs. We can underline again the pioneering case of Italy, where a new legal form, the 'social co-operative', was recognized in 1991, beside the traditional legal forms of commercial companies, co-operatives and non-profit organizations. The really innovative feature lies in the recognition of a legal business form with a social purpose, rather than in the amount of public money received in itself. Indeed, these social co-operatives receive *de facto* much less public financing than some WISEs in other countries. If some pioneering initiatives led to the public recognition of WISEs, at the same time, this recognition stimulated a boom in these initiatives.

However, this phase of dialogue has not always been smooth. Indeed, the accommodation between the views of WISEs and those of public bodies on the contested nature of WISEs' mission does not seem to be easy (see Chapter 15 of this book). This explains, on the one hand, why some pioneering initiatives chose not to use these WISE-specific public schemes; this is, for example, the case of the 'local development' initiatives in Ireland, which did not adopt the 'social economy' framework. On the other hand, it should be noted that, if public schemes encourage some initiatives, they also exclude others. In France, for instance, the institutionalization process recognized and favoured initiatives launched by professional and associative militant actors aiming at the integration through work of disadvantaged populations, whereas the initiatives originating from these populations themselves were, in most cases, neglected.

In other countries, such as Portugal, WISEs emerged as a result of a specific public scheme, partly under the pressure of the 'National Action Plans for Employment' developed in dialogue with the European Commission. These WISEs are only weakly embedded in the social fabric and rely on a public scheme that appears to be somewhat artificial (see Chapter 12 of this book).

In other countries still, no public schemes and/or legal forms of this kind were set up. It seems that particular cultural experiences in these countries (such as, for example, the decline of the co-operative movement in Germany) impeded WISEs from becoming a model with an identity of its own. The situation in these countries contrasts with that in countries such as Italy, France, Spain and Belgium, where the idea of a social economy or a co-operative sector that co-exists with a for-profit sector is widely acknowledged.

Beyond the existence or non-existence of public schemes specific to WISEs, we can observe, in every country surveyed, the increasing influence of activating labour market policies that are used by WISEs. These schemes, as explained, tend to give temporary subsidies to compensate for

the temporary 'unemployability' of the workers and are, generally, open to all kinds of enterprises. They locate, de facto, WISEs in a quasi-market logic of placement of target groups in the 'normal labour market'. We will analyse the impacts of this kind of public scheme on WISEs in the next section.

Quite often, we observe that WISEs use a mix of different public policies to pursue their multiple-goal mission. For example, a WISE can take part in a WISE-specific public scheme and receive the public money attached to it and, at the same time, hire some workers in the framework of other active labour market schemes and mobilize social policies to sustain its mission, whether of social integration or otherwise.

Finally, it should be noted that a 'private' path of institutionalization can coexist with the public one described above; it works through self-accreditation and self-networking processes outside any legal framework. In this case, a group of WISEs develop, among themselves, a set of criteria to be fulfilled in order to be accredited.

## **5 Public policies and the goals of WISEs**

Social enterprises usually have a complex mix of goals (see Chapter 2 of this book). For WISEs, we have distinguished between the goals linked to the work and social integration of their target groups and those linked to the production of goods and services.

What are the impacts of public policies on these goals? Indeed, if public policies recognize the existence of WISEs and some of their roles, public regulation also entails a risk of reducing the autonomy and the innovation capacity of WISEs.

### ***5.1 Regarding the work and social integration goal***

The dominant model of public policies tends to recognize only one kind of benefit, namely those benefits linked to the work integration goal, in the framework of active labour market policies. The final goal of all these measures is the placement of the worker into the 'normal labour market'. In this sense, the goal of the social integration of the workers does not fit well into this kind of measure.

Given the temporary character of public support, WISEs tend to provide transitional jobs, supported by temporary subsidies, and/or try to create permanent self-financed jobs, after a possible temporary subsidy. The temporary nature of the subsidies can lead to the phenomenon of skimming. This means that there is an incentive for the enterprises to hire only the workers most likely to be 'cost-effective' by the end of the project and to retain only those who have attained this level of 'cost-effectiveness' when the subsidized period ends. With the process of institutionalization, WISEs would tend to adopt a single-goal structure, with the (re)integration of their workers into the normal labour market becoming their only aim.

However, we have undetlined (see Chapter 11 of this book) the diversity of the profiles of WISE beneficiaries. There are some workers who most probably suffer from 'temporary unemployability'; for those workers, short-term subsidies can be a springboard either to integrate into the normal labour market or to stay in the social enterprise without any public financing. But other groups may suffer from a variety of problems that have long-lasting effects on their productivity. These people might be unable to find work because of a shortage of jobs adapted to their profile. The question is then whether the social enterprise can either develop their human and social capital sufficiently to allow them to find a job in the normal labour market or develop stable jobs corresponding to these workers' profiles. This diversity in the profiles of the workers targeted by WISEs leads to the conclusion that the types of public scheme (length and level of public financing) supporting the work integration goal cannot be uniform for the different groups of workers.

There remain, in the European landscape, WISEs targeting the most disadvantaged groups in the labour market; public bodies accept that they should give these WISEs permanent subsidies in the framework of a specific public scheme. However, this is a residual model in the landscape of WISE-specific public schemes. In this case, WISEs are operating in a 'sheltered labour market', and they are better able to socially integrate their workers.

## **5.2 Regarding the production goal**

WISEs value their production goal, at least as a means of support for their work and social integration objective. Indeed, carrying out a continuous activity of production of goods and services, facing a certain level of economic risk and pursuing the integration of their workers through a productive activity are all parts of WISEs' identity (see Chapter 2 of this book). 'These tasks allow the disadvantaged people to work under conditions close to those of the "first labour market" – in comparable work situations, fulfilling meaningful tasks, but with a recognition of their disadvantages' (Davister *et al.* 2004). All WISE-specific public schemes valorise this mission of WISEs – the production goal – as the main support for work integration.

Moreover, a subset of WISEs also provide quasi-collective products (for example, social services) and valorise this kind of production in itself, as being important for the collectivity, not only as a means of achieving their integration goal. The choice of this kind of production is sometimes indirectly imposed by public schemes regulating these social enterprises (as in the 'integration companies' in Portugal or in the 'Social Economy Programme' in Ireland), which state that WISEs can only develop products that are 'additional' to already existing types of products and services, i.e. that are not provided by a state actor nor by a market actor. In most cases, this leads WISEs to explore and test new concepts and products,

with a low profitability but with a collective dimension: social services, services linked to the environment, etc. But public schemes do not generally recognize this collective dimension of WISEs' production and these policies provide no specific financing for this type of production goal.

To overcome this problem, WISEs develop practices of partnership with local public authorities for the contracting out of public services. In some countries, these sales to public bodies, as we saw, are important and are a sign that public bodies recognize WISEs for their productive activity and not only through active labour market policies (see Figure 17.2). But, as underlined in Chapter 15, the way of contracting out these services – or, more broadly, the style of public governance in this arena – has changed the rules of the game for many WISEs. 'While it holds true that the handing over of these services has initially provided WISEs with a (sheltered) market in which disadvantaged people could experience real work settings, public bodies have increasingly devolved economic risk upon private agencies. As some country reports (Italy, UK) point out, the practice of competitive tendering, applied to markets in which WISEs are active, has obliged the latter to behave more like their for-profit competitors and to risk neglecting their social missions' (Chapter 15, pp. 250–1). This points to the importance of developing a socio-political motivation in public bodies' contractual relations with WISEs.

## **Conclusions**

The concept of embeddedness put forward by the new sociological approaches to the economy enriches the potential of research, as compared to contingency analysis. This is particularly true when studying the third sector which, since it is the result of different forms of interaction processes between heterogeneous initiatives and public policies, cannot be studied without taking the analysis of the public regulation into account. That is why we followed Polanyi's problematization of the relations between economy and democracy – which cannot be considered as secondary. Polanyi suggests a conceptualization in terms of the political embeddedness of economic activities, the latter being defined as the set of interactions between public bodies and initiatives, interactions that lead to mutual effects whose intensity and modalities vary over time.

The study of WISEs in the European Union has confirmed their embeddedness in the political context. We have analysed the multiple interactions between WISEs and public policies through the progressive institutionalization of these organizations; the nature of the interactions between public bodies and WISEs has proved a key element in WISEs' development.

The first European WISEs emerged 'in contestation' of traditional public policies, in some countries with no WISE-specific legal scheme and with no public support, and in other countries with support obtained by mobilizing social policies or second labour market programmes. They played a

pioneering role in developing active labour market policies in the 1980s, implementing the latter before their institutionalization.

In a second phase, of 'dialogue' between public policies and WISEs, some countries developed new public schemes specific to WISEs. But such dialogue has not always been smooth and has not resolved the debate about the contested nature of WISEs. If public schemes encouraged some initiatives, they also excluded others, for instance the WISEs characterized more by a self-help dynamic in France. More generally, active labour market policies increasingly constituted the framework in which WISEs developed and which, to some degree, framed their objectives and actions. WISEs are thus socio-politically embedded organizations, and as such they reflect the changing regulatory role of the state – including the development, since the end of the 1990s, of so-called 'activating labour market policies'. These have in some cases fostered the co-operation of the public bodies with WISEs.

As has just been mentioned, accommodating the views of WISEs with those of public bodies on the nature of the mission of WISEs does not seem to be easy. We can understand, then, why some WISEs choose not to embark upon such a path of institutionalization, but prefer to take private paths of institutionalization that can coexist with the public one.

#### Review questions

- Why does the embeddedness concept permit us to enrich the potentialities of research compared to the contingency analysis?
- Why has the dialogue between social enterprises and public bodies not always been smooth?
- In your country, which are the different channels through which public bodies support the mission of WISEs?

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#### Note

- 1 That is, the limits to human mental capacity that make it impossible to predict all possible contingencies and to determine, for each of these contingencies, the optimal behaviour (Milgrom and Roberts 1992).

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