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## **Development and Perspectives of the Social Economy or Third Sector in Germany**

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By

Dr. Karl Birkhölzer,  
Interdisciplinary Research Group Local Economy at the Technical University of Berlin

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# Development and Perspectives of the Social Economy or Third Sector in Germany

**Dr. Karl Birkhölzer**

[Karl.Birkhoelzer@tu-berlin.de](mailto:Karl.Birkhoelzer@tu-berlin.de)

Interdisciplinary Research Group Local Economy  
Technical University of Berlin  
Franklinstr. 28/29, 10587 Berlin  
Germany

## INTRODUCTION

The following presentation is based on a joint research project on “Economic, Organisational and Social Aspects of the Third Sector in Germany”, which was funded by the Federal Ministry of Education and Research, carried out between 2000 and 2002 by the Interdisciplinary Research Group “Local Economy” together with the International Institute for Empirical Socio-Economic Research (INIFES) and the Munich Institute for Social Science Research (MISS) (Birkhölzer/Kistler/Mutz 2004).

Although the subject of this presentation – the social economy or third sector – seems to be widely acknowledged, in scientific terms it is still – at least in Germany – a widely unknown territory. On the one hand, the sector is challenged with high expectations of integrating socially excluded people, creating new and additional jobs as well as involving citizens in a more democratic way. On the other hand, there is no adequate evidence from empirical research which could verify, differentiate or falsify these expectations. This contradictory situation results in an unforeseeable amount of work for further research and development, but we – at least in Germany – are still at the very beginning.

In developing adequate structures for social economy or third sector research one of the big difficulties is the fact that we can not built on a common or widely accepted understanding of terms, limitations or underlying concepts. To the contrary, the public as well as the political debate is dominated by a confusing variety of partly overlapping, partly contradictory terms like third sector or system, social, solidaric and/or community economy and so on, a problem which becomes even more complicated if we try to translate these terms into different languages. Therefore, one of our first tasks was to sort out the different meanings and clarify the definitions and limitations we wanted to use. Although this seems to be a very special German attitude, and in danger of fulfilling this prejudice once more, we felt the necessity to create at least a minimum of common understanding of what we are talking about.

## DEFINITIONS AND LIMITATIONS

One of the reasons to start with this problem was the fact that there was nothing like a special German social economy or third sector research tradition. Even the terms were not used or put in totally different contexts which led to a lot of misunderstandings. The most common were to identify the “third sector” with the “service sector” or mix it up with the political notion of a “third way”. In a similar way the term “social economy” was identified with “social services” or mixed up with the German post-war terminology of the “social market economy” or even with a renewed form of the old fashioned “socialist economy”.

Therefore, the issues of social economy and third sector have been introduced into German research more or less only by transnational research projects, but here again we have to

distinguish between a more American dominated approach and a more European one, more or less derived from French taxonomies. The first has been introduced by the well-known Johns Hopkins non-profit-sector comparative project. This approach is deeply rooted in the typical American tradition of philanthropic and civil society commitment under the conditions of a strong economic liberalism with the absence of a welfare state or at least very weak social welfare regulations. Accordingly, the research activities are based on more societal or political questions, focussing on the “civil society” as counterpart to the liberal state. Its main elements are named “non-governmental organisations/NGOs” and/or “non-profit-organisations/NPOs”. Although these NGOs and NPOs have a strong economic impact, their motivation and activities are understood as more or less non-economic. As in (neo-)liberal economics economic activities are always understood as “for-profit”, the alternative can only be understood as “non-economic”. One of the consequences of this approach was that f. i. co-operatives, community development corporations and other collective economic activities have not been taken into consideration resp. included in the “third sector”.

This problem marks the main difference to the French-European approach, represented f. i. by CIRIEC and others. Their understanding of the “third sector” is basically economic, the elements of the sector are consequently called (social, community, collective) “enterprises” (f.i. Borzaga / Defourny 2001; European Network 1997; Pearce 2003).

The alternative to traditional economic activities is not “to make a profit”, but “what happens with the profit” or “what is the profit for?”. In this approach the underlying concept of economics is a pluralistic one arguing that there is more than just one (neo-liberal) economy. This is a special European tradition which goes back to the movements for economic self-help in the 19<sup>th</sup> and beginning of the 20<sup>th</sup> century. Of course, these movements have very often changed their character, according to the political developments in the various countries, but they have definitely influenced the concept of the European social welfare state or other forms of social contracts and partnerships. In some countries, for instance in Germany, they have become a part of the public economy with the effect that economic self-help movements and activities seemed not to be necessary anymore and fell into oblivion. But the recent crises of these European welfare states together with an increasing hegemony of neo-liberal concepts of globalisation brought the economic self-help movements and with them the concept of a “social economy” back on the agenda. Germany is one of the countries where this happened rather late, and it is interesting to notice that the American third sector approach is much better known and more accepted than the social economy approach developed and practised by our European neighbours. Things may change, but Germany in this respect is still a “developing country”.

This statement may sound strange to those who know that Germany up to the thirties of the last century was a country with probably one of the most developed co-operative sectors, but this tradition has been almost submerged on one hand in the period of Nazi dictatorship and on the other hand in the long period of economic prosperity in post-war Germany, reaching its climax in the breakdown of the trade union led “*Gemeinwirtschaft*” under dubious circumstances. Finally, co-operatives and other collective forms of economic activities have been almost discredited by the way how collectivism has been installed and imposed from above in Eastern Germany and Eastern Europe. Nevertheless, as we will point out later in more detail, a lot of these initiatives have survived on a grass roots level without any acknowledgement in the public or political sphere as well as in the academic world. It was the anti-authoritarian movement in the late sixties which gave way to the rise of “new” social movements in the seventies and eighties in Germany. Some of them rediscovered submerged traditions, but the majority tried to re-invent the wheel. This led to a paradoxical phenomenon that the “real existing” social economy sector in Germany is quite big in numbers (organisations as well as employees), but is split up in dispersed “milieus” which do not see each other as belonging to a coherent “sector”, with the result that they do not work together or even talk to each other. Again, things are changing slowly, but so far only very few (out of the much bigger potential spectrum) accept that there is something like a “third

sector” or “social economy” in Germany which needs to be explored, developed and organised as well as supported by scientific research, education and training and other intermediary services.

In achieving this we need to agree (not only in Germany) on a common understanding what we mean by this terms. In 2002 a first symposium on this questions was held in Berlin; the debate and the results will be published soon (Birkhölzer/Klein/Priller/Zimmer 2005).

At this symposium it was pointed out that the existing approaches mentioned above have to be integrated; the civil society aspect and the socio-economic aspect are two sides of the same coin. Taking this into consideration we proposed for the purpose of our survey on size and quality of the third sector or social economy in Germany the following set of terms and limitations:

- The term “third sector” will be understood as the wider term, including all civil society organisations (CSOs), the economically active as well as the non-economic ones.
- The term “social economy” (as well as the sometimes used term “third system”) focuses on the explicitly economic active parts of the “third sector”, but includes – according to the European tradition – also hybrid structures combining elements from the third and the first, private sector (for instance in the co-operative sector) as well as between the third and the second, public sector (for instance in the welfare and/or social services sector).
- The term “social enterprise” will be understood as the overall term for all economic units out of which the “social economy” (or “third system”) is composed.
- Accordingly with the term “social enterprise culture” shall be identified the special “mode of production” (or economic rational) in which the “social enterprises” operate, together with their specific environment of support structures, intermediaries and political frameworks.

The research we started in 2000 focused mainly on the explicitly economic active part of the “third sector”, i.e. the “social economy”, because we were convinced that the most innovative potential of the sector is to be found in its economic activities. This “third (economic) system” can be delimited from the “first sector”, i.e. the private, profit-oriented economy, and from the “second sector”, i.e. the state-governed, public economy, by the following criteria:

- It is a private economic activity (according to private law) to achieve social and/or community-oriented objectives.
- It emerges from voluntary initiatives and organisations of citizens which feel affected from and organise around conflicts and/or unmet needs in the social, ecological, cultural and/or economic sphere.
- Its economic objectives are subordinated (or at least secondary) to its social and/or community-oriented objectives.
- Its economic activities are based on collective, co-operative or community-oriented entrepreneurship.

In other words, the “social economy” (“third system”) could be characterised by the following cornerstones:

- Priority of social and/or community-oriented objectives,
- civil society based entrepreneurship,
- profits for the common good and

- co-operatives structures.

We have tried to find a new methodology avoiding to delimit the sector alongside institutional criteria or legal structures, as it seems to be still the case in European institutions. The traditional subdivision of the “social economy” into the four pillars of co-operatives, mutual organisations, associations and foundations, in short CMAF, created a lot of confusion, because the institutional regulations and legal structures in the various countries of the European Union are very much different and not comparable. To achieve real comparability on a European level it would be necessary to identify criteria which could be applied irrespective of the political, juridical and cultural specialities of the various countries. On the other hand, this methodological approach causes some problems, because we will not find this criteria in the official statistics. Therefore, any quantitative measurement and especially comparative analysis are up to now very difficult, and – from a scientific point of view – we have to be very careful with already existing data.

## **EMERGENCE AND DEVELOPMENT OF A GROWING SECTOR**

Having said that we can nevertheless draw the conclusion from the existing research that we talk about a sector of the economy with above-average growth rates, concerning the number of enterprises as well as jobs. This has been proved not only by the Johns Hopkins project for America and a lot of other countries, but also within the EU-community initiative “Third System and Employment” for the European Union in general (CIRIEC 2000; see also Birkhölzer et al. 1998 and 1999). This could be also confirmed by our recent research for Germany where we could identify a growth rate in employment of up to 4 % (between 1999 and 2000 only). Furthermore, within the EU-programme “Third System and Employment” it became very clear that the employment potential within the sector is not exhausted at all but seems to be blocked by a number of bureaucratic and other obstacles (Campbell 1999), of which the most important in our opinion seems to be a lack of understanding of the special nature of the social economy, how f. i. social enterprises function, how they can be run successfully and what they need for further development.

This remarkable growth potential is based on the ability of social enterprises to open up new market opportunities by serving unmet needs in the environmental, social and/or cultural sector. Although the survey showed a concentration of activities in these three fields, it became also evident that social enterprises are by no means restricted to these fields of activity. To the opposite, social enterprise activities were discovered in almost all sectors of the economy, from agriculture and food production up to industrial manufacturing and high-tech services.

The second and probably more important growth factor is the ability of social enterprises to cope with limited markets in socially or regionally disadvantaged areas. They emerge – like the early co-operative and self-help movement in the 19<sup>th</sup> century – as instruments of economic self-help against economic and social decline, mainly in times, sectors or regions in which the traditional economic forces, the private economy and/or the state for whatever reasons retreat or failed (Birkhölzer 1999a and 1999b).

Therefore, social enterprises are very much related to the emergence and development of social movements which organise around unsolved conflicts or unmet needs. Taking this into consideration, the social economy sector is deeply rooted in a history of more than 150 years, in which new forms of crises, conflicts or unmet needs have always given rise to new types and forms of social enterprises.

In this respect, we felt that the best way to map the social enterprise culture was to start with the questions of who, where and when has started economic self-help initiatives, and why and under what circumstances they have been developed. Starting from this historic-dynamic

approach we could establish not only a chronology but also a typology of the social enterprise culture in Germany (and probably beyond):

In Germany we are able to distinguish between:

- a group of elder social economy movements, consisting of
  - co-operatives (“Genossenschaften”),
  - charities (“Wohlfahrtsorganisationen”);
  - foundations (“Stiftungen”) and
  - traditional associations (“ideelle Vereinigungen”),which date back to the early stages of industrialisation and have, of course, changed its character several times since then –
  
- and a group of younger social economy movements which emerged in the 60s and 70s of the 20<sup>th</sup> century (in other European countries often much earlier) alongside the new phenomena of crises caused by the transformation processes to a post-industrial society, namely
  - integration resp. insertion enterprises for and/or of disadvantaged groups (“Integrationsbetriebe”),
  - volunteer services and agencies (“Freiwilligendienste und –agenturen”),
  - self-managed enterprises of the alternative, women’s and environmental movements (“selbstverwaltete Betriebe”),
  - self-help initiatives (“Selbsthilfebewegung”),
  - socio-cultural enterprises (“sozio-kulturelle Zentren”),
  - work integration enterprises (“Beschäftigungs- und Qualifizierungsgesellschaften”),
  - local exchange and trading systems (“Tauschsysteme auf Gegenseitigkeit”) and last, but not least
  - neighbourhood and/or community economy initiatives (“Nachbarschafts- und Gemeinwesenökonomieinitiativen”).

Some, of course, have taken up submerged traditions of the elder social economy movements and have – to some respect – also contributed to their revitalisation resp. modernisation.

Within this process of setting up new social enterprises we could identify three types of motives which followed each other more or less from one decade to the next:

- social enterprises as a practical tool for societal change (“alternative economy”),
- social enterprises as a response to mass unemployment,
- social enterprises as an instrument for local economic and/or community development.

## **RELEVANCE, IMPACT AND POTENTIAL**

### ***Economic development***

Within the EU-initiative “Third System and Employment” the size of the third sector was estimated up to 8.88 million jobs (in full-time equivalents), as part of it in Germany up to 1.86 million (CIRIEC 2000). Although these estimations are rather cautious, the figures show that we are not talking about a “niche economy” resp. a marginal phenomenon. To the opposite, we can identify an already well established sector of considerable economic importance. Furthermore, it is remarkable that this was achieved with socially or economically disadvantaged groups and/or within disadvantaged communities. In East Germany f. i. social economy organisations are often the biggest employers in areas of economic crisis as well as some of the most important customers for the local industry (Birkhölzer / Lorenz 1998 and

2001b). In fact, in almost all European crisis regions social enterprises are one of the most important actors for local and/or regional economic development. Therefore, in terms of economic development as well as social cohesion the significance of social enterprises for keeping such a locality or community alive can hardly be overestimated.

As social enterprises produce goods and services for unmet needs, they contribute, of course, in macro-economic terms to the gross national product. Unfortunately, we are not able to present exact figures, mainly because the necessary data are not available in the national statistics. All quantitative measurements of the sector are therefore (at least in Germany) rather difficult and the data had to be collected from dispersed sources. Besides the data produced and published by the social economy organisations themselves there is, on national level, only one regular panel of the performance of all enterprises in Germany carried out by the Institute for Labour Market Research of the Federal Employment Agency (Institut für Arbeitsmarkt- und Berufsforschung der Bundesagentur für Arbeit), but there was so far no distinction between social and other enterprises. To identify relevant data for social enterprises by secondary analysis was therefore a rather difficult and time-consuming task, and introducing this category in the panel (as well as in other national statistics) is definitely necessary for further analysis.

Another problem was that not all information which seemed to be relevant for the performance of social enterprises was collected in the panel. For instance, the figures for the turnover per year and capita were only available from a limited number of enterprises. From that social enterprises showed an average turnover per capita of 102.000 DM (nearly 50.000 Euro) which was achieved mostly in health and social services, culture, sports as well as leisure. These figures seem to verify the hypothesis that social enterprises are rather labour than capital intensive.

On the other hand, average figures as well as a purely quantitative oriented analysis are by no means appropriate, regarding the variety and diversity within the social enterprise culture, nor sufficient enough to clarify the real achievements and economic impact of social enterprises. For that we would need to introduce qualitative indicators, f. i. in the way of the social audit measurements as already introduced and tested in some European countries (Pearce 1996 and 2003).

For example, one big deficit in measuring the economic impact is that the contribution of volunteer or unpaid work is not taken into account at all, although it plays a significant role in the social enterprise culture: The charitable welfare organisations estimate the number of citizens which are voluntarily committed or working as volunteers in their organisations up to 2.5 to 3 million, i.e. twice or three times the amount of their paid staff. In sports and cultural activities as well as generally spoken in all self-help initiatives the contribution of volunteer or unpaid work is even higher: f.i. the National Federation of Sports (Deutscher Sportbund) reports the number of 2.6 million volunteer workers estimating the monetary value of their unpaid working hours up to nearly 9 billion DM in 2000 (i. e. appr. 4.5 billion €). Furthermore, a general survey on volunteer work in Germany, asked for by the Federal Ministry for Families, Women and Youth, finally reported that up to 22 million resp. 24% of the German population are engaged in volunteer work in one way or the other. Most of this work is, of course, spent in the third sector in the wider sense, i.e. in economic activities as well as in non-economic ones. The contribution of all this volunteer work to the production of wealth as well as the national gross product is nevertheless not taken into account, although it seems that its significance will grow in the future as a national enquete commission on the future of civil society commitment (Enquête-Kommission 2002) has recently pointed out. Indications for this hypothesis are at present the growing number of agencies for volunteer workers in Germany (nearly 200 in 2001) as well as a growing number of enterprises which are set up and run by volunteer workers only, like village co-operatives, co-operatives of senior citizens as well as local exchange and trading systems.

## **Labour market and employment**

The German Johns-Hopkins-study identified already in 1995 the number of 1,44 million jobs (in full-time equivalents) as well as the number of overall employed (full-time as well as part-time) up to 2.1 million resp. 4.9% of the total workforce in Germany (Priller/Zimmer 2001). But, according to the methodology of this study, the considerable amount of explicitly economically active social enterprises has not been taken into consideration. With a different approach focussing on the economically active the German CIRIEC-study in 1997 ended up with 1.86 million jobs (in full-time equivalents) resp. 6.5% of the overall workforce (CIRIEC 2000). Our own analysis, based on the already mentioned IAB-enterprise panel could more or less verify these figures, arguing that there is a minimum of at least 1.9 million jobs in social enterprises. Furthermore, we could identify a growth rate in employment of up to 4% between 1999 and 2000, mainly in health and social services, culture, sports and leisure.

Besides its remarkable above-average growth rates in employment and its estimated hidden potential for even more employment the sector is in fact the main actor in active labour market policies, especially in intermediate labour market programmes. Although these programmes suffer from bad reputations and financial constraints it has to be pointed out that without this so-called “secondary labour market” (“zweiter Arbeitsmarkt”) the number of registered unemployed in Germany would increase about nearly half a million<sup>1</sup>. Of course, this type of a job rotation market does not lead to sustainable employment, but this is the result of a misconception in these programmes which tries to keep unemployed in a kind of a parking space or reservoir for to re-integrate them in the existing, but limited or even shrinking labour market, instead of focusing on widening the existing labour market by the creation of new and additional job opportunities. So, all the money was invested in temporary employment, not long enough to turn it into a permanent job, and it was invested in virtual employability instead of real employment in sustainable enterprises. This led to the paradox situation that social enterprises on the one hand were very much involved in these programmes but could not benefit from it. Together with financial and other restrictions using these programmes became even contra-productive, the more social enterprises got involved, the more uncertainties and dependencies increased, and a considerable number was in risk to close down recently.

Therefore, changing the existing framework of labour market and employment policies seems to be one of the preconditions to unlock the hidden employment potential within the social enterprise culture. The argument is nothing new: There is no lack of work, but only a lack of reasonable solutions to organise and finance it. Social Enterprises are already a part of the solution, but they could perform much better, if they could benefit from an appropriate and supportive environment.

Several research and development projects on European level have identified the local level as the most important and verified the principle of “local work for local needs” (Kommission der Europäischen Gemeinschaften 1993, 1995 and 1996; see also Douthwaite 1996; Technologie-Netzwerk / European Network 2001). The fields of activity with a growing employment potential are therefore well-known:

- food and housing,
- decentralised technical systems for energy, transport, water supply and disposal,
- community-oriented social as well as productive services,
- local culture,
- leisure and recreation,
- environmental prevention as well as repair,
- municipal infrastructure.

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<sup>1</sup> Which happened at the beginning of 2005 as a consequence of the so-called „Hartz-Reforms“ when the number of registered unemployed reached its post-war climax of over 5 million



Social enterprises in Germany could be identified as active in all these fields but with a majority working in health and social services, culture, sports and leisure, while in the other fields there seems to be a potential for further development.

Social enterprises are not only relevant as an instrument to increase job opportunities in general, but also for socially and/or economically disadvantaged people:

- Social enterprises offer more job opportunities for women: 72% of the employees in social enterprises are women, compared with an average of 43% in all enterprises of the panel.
- They offer more job opportunities for the elderly: 52% compared with an average of 42%.
- They offer more opportunities for part-time work, not only for women: 40% compared with an average of 20%.
- They offer finally more further education and training opportunities for these groups (see below).

Although social enterprises employ a high percentage out of the so-called “target groups of the labour market”, the qualification standards of their workforce are relatively high, but their salaries sum up to only 90% of the average. The reasons for this are not fully understood, but social enterprises on one hand do have less jobs with high or very high salaries, and on the other hand employees supported by active labour market schemes have by law to be paid less than others.

### **Social policy**

Social economy movements and initiatives emerged – as already pointed out – as a practical attempt of citizens to react to societal challenges and intervene directly in the economic sphere. This is demonstrated by the fact that their respective social or community-oriented objectives have been officially declared as overall objectives of their enterprises (f.i. Birkhölzer et al. 1997), usually written down in their constitutions where you can find f.i. the objectives of

- fighting poverty and social exclusion,
- offering socially useful and/or ecologically sound workplaces,
- integrating long-term unemployed or otherwise socially disadvantaged,
- developing a sustainable local or regional economy.

If and to what extent such objectives could be achieved, will finally depend on the professionalisation within the sector as well as on the development of a supportive environment. Nevertheless, up to now we are already able to verify that social enterprises

- offer a considerable and increasing amount of new and additional jobs,
- carry the main load of active labour market policies,
- act as main agencies and intermediaries for local and/or community development in crises areas,
- offer target groups of the labour market and otherwise socially disadvantaged (the often one and only) economic chance for real integration and
- contribute to equal opportunities by offering more jobs for women as well as the elderly (i.e. over 50 year old workers).

Furthermore, social enterprises contribute to the improvement of socially and/or locally restricted markets, i.e. they offer mainly goods and services which otherwise would not be available either because of a lack of profitability for private enterprises or because of restricted financial capacities within the public sector.

In this context the public debate in Germany (as well as in other European countries) is heavily dominated by the argument that the level of welfare services and social security can

not be financed any longer and therefore has to be decreased, usually accompanied by the famous phrase: "There is no alternative!" The argument is not only used in the debate about social justice against trade-unions and other civil society movements, it was also raised against the concept of social enterprises, starting from the misconception that social enterprises are predominantly depending on public money. But, the motivation of founding a social enterprise is exactly the opposite: becoming more independent from public subsidies by starting economic activities in the market, redistribute the profits and refinance the costs of the overall social and/or community-oriented objectives. In Germany today, the percentage of public money within the budget of social enterprises is, of course, still relatively high, especially within the traditional charities and welfare organisations. On the other hand there is a increasing number of social enterprises, mainly initiated from the new social movements, which finance its activities to a great extent (some even predominantly) from private sources. But more or less all social enterprises use a specific financial mix of income from market activities, from public services and/or subsidies and last, but not least from private donations either of money or – increasingly – of working time.

From this point of view the social economy resp. the social enterprises contribute actively to the financing and keeping of quality standards of public services, especially in the field of social and/or community-oriented services. In the light of increasing financial restrictions and fiscal crises the social enterprise strategy offers a real alternative for the future of the public sector provided that the social economy sector is seen as a real partner and not as a marginal or subordinate dependent.

### ***Education and training***

Regarding the performance of social enterprises in education and training we could identify differences between East and West Germany: While in West Germany the contribution of social enterprises to formal vocational training ("Berufsausbildung") was more or less corresponding to the average of all enterprises, but with a higher percentage of young women, the number of places for formal vocational training in East Germany was considerably higher. But even more relevant is the contribution of social enterprises in further education and training. The percentage of Social Enterprises which support actively further education and training for their workers is up to 45% (compared with an average of 36%) in West Germany and up to 47% (compared with an average of 40%) in East Germany.

But most important in our point of view seemed to be the qualitative aspects of capacity building within social enterprises like encouraging entrepreneurship, fostering social competences, participative learning in a social context as well as learning by doing in rather unusual or innovative projects. To get more information about these qualitative aspects of work in social enterprises we have – in parallel to quantitative analysis – carried out a series of case studies representing all types out of the above identified "milieus". In almost all interviews with representatives from the management it was pointed out that social enterprises depend heavily and much more than traditional companies on the motivation, the commitment and competences of their workers. Correspondingly the interviews with employees highlighted the opportunities for personal as well as social capacity building, based on a participative management together with a more flexible division of labour system (see below).

### ***Handicaps and prejudices***

One of the most important impediments for developing their full potential is the lack of acceptance of social enterprises in the public and political arena. Although there is a considerable amount of knowledge from recent research on European level, this is only very slightly adopted in German research and academic teaching and finds hardly its way into the public or political debate. Especially the progress which has been achieved during the last decade in other European countries like France, Ireland, Italy, Sweden, Spain and the UK

where we can find well established research institutes for the social economy on national level as well as political supports structures on government level has been almost neglected in Germany.

The public debate in the media is still occupied by the cliché of a marginal and heavily subsidised sector with unrealistic pretensions and economic incompetence. But our empirical data – from the quantitative analysis as well as from the case studies – show that social enterprises are in the long run much more sustainable than comparable small and medium size enterprises. And again, regarding the dependency on public money, what is often overlooked, is that Social Enterprises very often take over responsibilities from the public sector and/or which are at least for the common good. But the public authorities still act in a way as if the payments for these services would be a kind of a grant, donation or subsidy and not equivalent for work delivered in the framework of an ordinary contract. It is strange that this relates more or less only to social and community services. F.i. construction companies building roads or public housing which also depend heavily on public money have never been seen as subsidised entities.

Therefore, social enterprises in Germany are still far away from being accepted as real enterprises in their full right. To the opposite, prejudices still dominate the debate: Employers' associations from the corporate sector f. i. complain about "unfair" competition arguing that social enterprises take away job opportunities from "real" enterprises. Even trade-unions suspect social enterprises to be the gateway for precarious working conditions and the establishment of a low pay sector. But the argument mixes up cause and effect. Precarious working conditions and low pay are already in existence for long in the first, private as well as the second, public sector, and need not to be introduced by the third sector. Of course, precarious working conditions also exist in social enterprises, but they do not necessarily have the freedom of decision-making as f. i. employees supported by active labour market schemes – as already mentioned – are underlying certain legal restrictions. The working conditions of all other employees are – according to the IAB-panel – dominated by so-called "normal" contracts according trade-union standards. The reason behind is that in a lot of social enterprises good working conditions belong to their quality standards, often written down in their constitutions.

Finally, the social economy in Germany still suffers from the negative image caused by the breakdown of the trade-union owned co-operative sector ("Gemeinwirtschaft"), but the acceptance of social enterprises within trade-unions is growing recently. There are also currently changes in the attitude of public authorities, but acceptance does mostly exist on local level, and is decreasing from lower to higher levels, from East to West and from crisis areas to prosperous regions.

For the future we are somewhat optimistic that the social economy in Germany will be able to overcome these reservations and prejudices. But there is still one handicap caused by the sector itself which is still separated in different sections or "milieus" and does so far not have a common understanding of belonging to an independent social economy sector.

## **INTERNAL AND ORGANISATIONAL STRUCTURES**

### ***Legal forms***

As there is nothing like a formalised social economy in Germany, social enterprises are not restricted to any legal form. To the opposite, almost all existing legal structures are used. The reasons for choice are usually very pragmatic as the character of a Social Enterprise does not depend on the legal form in itself, but on the respective regulations within their statutes or constitutions, regarding the overall aims and objectives of the enterprise as well as the

utilisation of profits, especially the prohibition (or at least restriction) of private profit acquisitions.

The most often used legal structures are the co-operative (“eingetragene Genossenschaft / eG”), the limited company (“Gesellschaft mit beschränkter Haftung / GmbH”) and the association (“eingetragener Verein / e.V.”), while the association is on the top, used by nearly three quarters of the existing social enterprises. The reason is that its foundation and handling is relatively easy which is why almost all social economy initiatives start with the foundation of an association and decide later to reorganise themselves or add other legal entities. Therefore, within the development process of such an initiative rather complex combine structures have been established, existing f.i. out of an association, a co-operative, a limited company, a foundation etc.

It is interesting to mention that the association (according § 21 “Bürgerliches Gesetzbuch/BGB”) was originally restricted to so-called “idealistic” and not meant for economic activities (Münkner 2000). In fact, during history the opposite has happened, but this basic assumption is still underlying the present rules within financial institutions, especially of what is understood as “for the common good” and therefore privileged to receive tax exemptions. At present this is determined in a rather arbitrary list of activities, where f.i. constructing model aeroplanes is seen as for the common good, but not advice and consulting for the unemployed, just because it is for whatsoever reason not on the list. These regulations are of course outdated and cause a lot of problems for social enterprises. Necessary would be not only a reform of the law of associations in general, but also and possibly more important new definitions and regulations of what is understood as “for the common good” (“gemeinnützig”). We propose that this should be structured around the utilisation of profits, possibly alongside the “not-for-private-profit-distributing” principle.

### ***Quality of work***

As already mentioned, the existing empirical data are neither representative nor detailed enough to give a full picture of the quality of work, the working conditions and other organisational aspects. Of course, we would need definitely more detailed research to answer these questions. On the other hand we have a number of indicators for the hypothesis that the way of work resp. “the mode of production” in social enterprises differs significantly from enterprises in the first and second sector. Taking into account their preliminary character we come to the following conclusions:

The work in social enterprises is characterised by a special tension between high expectations and demands on one side and a rather permanent underprovision with capital and material resources on the other side. This is experienced and assimilated in different ways: On one hand it is a source of permanent uncertainty about job security and steadiness of income which leads to a higher burden of work and possibly stress. On the other hand it leads to more motivation and better identification with the given tasks and more satisfaction at work.

But here we have to distinguish between two groups of employees, those which are more or less free in shaping and/or negotiating their working conditions, mainly salaries and restrictions, and those of which the working conditions are limited to external regulations. This is the main conflict in most work insertion companies as well as in all organisations which are engaged in active labour market schemes. Of course, the working conditions between these two groups differ considerably: Lower salaries and limited contracts for the second, while the first enjoy “normal” or even better working conditions than in ordinary companies, like more opportunities for further education and training, improved social security especially for the elderly and a higher degree of internal democracy and participation. Surprisingly, and against all trade-union reservations there were even more job stewards or staff council committees than in other enterprises.

To overcome this two-class-system is one of the major challenges for social enterprises today. But as long as the legal restrictions exist, social enterprises cannot do much about it, instead of avoiding to use these schemes at all. The present labour market reforms in Germany (the so-called “Hartz”-laws) seem to move in the wrong direction.

But, despite all these handicaps staff people as well as employees reported in our interviews unanimously of a relatively high proportion of identification and satisfaction with their work. This seems to be the result of compensational activities in the internal management by a co-operative style of leadership, distinct structures for participation and communication, agreements on internal norms of behaviour, a culture of non-monetary recognition and so on. Such types of social management strategies more or less have been already introduced by the people who founded the social enterprises or managed it from the very beginning, based on the recognition that social enterprises depend highly not only on the human capital of its workers, but also on the careful use and maintenance of their social capital (CONSCISE 2003).

The term “social capital” is not very popular in Germany, neither in the academic nor in the public debate. Therefore, the term itself did not mean anything to our interview partners in the very beginning but this changed dramatically when we described the indicators out of which we believe the social capital is composed:

- trust,
- mutual reciprocity,
- shared norms and behaviour,
- identity and commitment,
- social networks,
- information channels.

These indicators instead meant a lot to them and all agreed that they are of high value. In most cases the partners realised only within the process of the interviews to what extent they actually use social capital or have been depending on in the past, f.i. surviving periodical shortcomings or situations of internal economic crisis, and last not least within the process of founding and building up of their own enterprise, which retrospectively without the investment of social capital would not have come off the ground or survived the difficulties of the start-up process. In general this seems to be a key to understand the question, why certain organisations are able to cope with inevitably occurring difficulties and crises, and not only to survive but possibly grow with them – while others fail in the same situations.

To summarise the main difference in the working conditions as well as the management strategies between social enterprises and others is to be found in the significance of the individual capacities as well as the social cohesion, in other words in the significance of human capital and social capital. In this context social enterprises developed good practice strategies, mainly in the field of

- internal management and participation,
- use and cultivation of social capital and – as pointed out earlier –
- capacity building in social competences.

### ***Co-operation versus competition***

Social enterprises generate business activities mainly in sectors or areas, out of which private companies as well as the public sector have retreated or in which they never have been engaged so far. Therefore, social enterprises act as competitors only, where and when they want to achieve a profit in “normal” markets to redistribute it in other business activities which are in deficit. But, in doing so they are underlying the same conditions as all others.

The argument of “unfair” competition is always raised if potential competitors assume a subvention of labour costs by the government. Of course, the regulations under which public authorities finance and control social and/or community services gives reason for such misunderstandings, as explained earlier. In fact, if social enterprises in delivering social and/or community services employ long-term unemployed or otherwise disadvantaged, they do not receive a subsidy but a regular payment for their integration services, which otherwise would have to be carried out by the public sector itself. Social enterprises are therefore often called “hybrid” enterprises which receive payments for at least two different products or services. “Real” subventions occur to the opposite mainly in the first sector (agriculture, coal, shipbuilding etc.)! To avoid these misunderstandings it would be necessary to change the subsidiary regulations (“Zuwendungsrecht”) into ordinary contractual regulations (“Leistungsvereinbarungen”). And, of course, the regulations for tax exemptions have to be revised towards the principle of “not-for-private-profit-distributing”, as mentioned before.

Another argument in this debate is that social enterprises contribute to job losses. In fact, jobs have been cut in the first and the second sector almost continuously. Such jobs have sometimes been taken over or revitalised by third sector organisations. This may sometimes lead to the impression of a zero-sum-game, but without these substitutes the labour market statistics would be much more negative. Furthermore, social enterprises generate definitely jobs in markets or business activities which have not or not to the full extent been served before. These have in many cases been foundations out of the shadow economy transforming informal neighbourhood and/or self-help initiatives into formal enterprises. It is mainly in this sector where we expect a large hidden reservoir for the foundation of new social enterprises and the creation of new jobs.

To open up this potential it would be certainly necessary to bring this mainly ideologically dominated competition between the sectors to an end and replace it by mutual co-operation from which all sectors would benefit. Positive examples exist already throughout Europe in “local partnerships promoting social cohesion”, some of which could be recently explored in Germany as well (Birkhölzer/Lorenz/Schillat 2001; Birkhölzer / Lorenz 2001a).

Partnerships of this type are working almost only on a lower local level, because a consensus on shared interests seems to be only possible to be based on a shared commitment or responsibility for the vitality and sustainability of a certain locality or region. The more these co-operational structures, partnerships or territorial pacts depart from this level, the more they are in danger to become fixed in interest conflicts and bureaucratic structures. The recent experiences with the different “alliances for work” on national and regional level offer a lot of illustrative material.

A special aspect of our survey was also dedicated to the relationship between the social economy and the corporate sector. Again, we could identify working co-operations more or less only on the lower local level resp. with locally rooted small and medium size enterprises, but only exceptionally with big companies or global players. The often acclaimed corporate social responsibility of American and British companies is in Germany still observed with considerable reservations because most business leaders in Germany are still convinced that social obligations are only in the responsibility of the state.

Nevertheless, the significance of partnerships between the social economy and the corporate sector will definitely increase. The reasons seem to be rather complex: There is on one hand the growing political debate on corporate social responsibility, but there are also internal reasons of developing human and social capital in the corporate sector. On the other hand social enterprises need to get better access to private investment and other material resources. One possible option is to establish programmes for mutual exchange of staff and/or employees to learn from each other and develop their social competencies.

## **Volunteer work**

In the German language we do not have the distinction between voluntary and volunteer work, the term “freiwillig” has both meanings. To be engaged or work for as well as in social enterprises is, of course, voluntary in the sense that it is done without any formal obligation. But voluntary work is not necessarily unpaid although voluntary work as well as social enterprises depend heavily on volunteer or unpaid work, not only for economic reasons, but also as a practical link between the enterprise and the community for which it is working or in which it is located.

Voluntary commitment as well as volunteer work have undergone considerable changes in Germany. The traditional understanding of an honorary post (“Ehrenamt”) is not appropriate any longer. In the past an honorary post was something for people who could earn a living otherwise and therefore could spend an honorary post “for nothing”. In times of increasing unemployment and precarious working conditions people want or need to get something in return: experiences, qualifications or direct access to products and services. Volunteer work, especially in social enterprises, has therefore changed its character to a relationship of mutual benefit. This is increasingly based on non-monetary exchanges like

- the exchange of working time in local exchange and trading systems,
- the right to get access or use products and services directly in kind of a user community (children and parents, young people and senior citizens, employed and unemployed etc.),
- the “social dividend”, i.e. benefits in kind of improvements within the neighbourhood, the environment and other aspects of quality of life.

Voluntary commitment and volunteer work is also increasingly seen as a way back into regular paid work. This is a way which has been developed by so-called self-help enterprises set up by unemployed or other disadvantaged people. The idea is that people invest unpaid work in their own future, f. i. by establishing an enterprise, building up work places, accumulating resources and build the ground for getting employed and earn a living. Again, this is based on the idea of investing social capital, develop and turn it in the long run into physical and financial capital. Although the number of such initiatives is rather small, this model seems to be rather successful and definitely more sustainable than the officially supported individual start-ups. The reasons are quite simple: mutual support and a collective distribution of risks. To support such collective start-ups could become a key in future employment policies.

## **Evaluation**

As already mentioned, social enterprises have been called “hybrid enterprises” (Evers/Rauch/Stitz 2002) because they have economic as well as social and/or community-oriented objectives which are even prioritised or at least of the same importance. In this respect, the available accounting measurements are able to evaluate the economic objectives, but not the social and/or community-oriented ones. To evaluate this we need to develop appropriate measurements like social accounting and social auditing as it was mainly developed within the community economy sector of the UK (Pearce 1996 and 2003). Furthermore, the social and/or community-oriented objectives affect also the indicators for what is meant by economic success and how to achieve it. F. i. the top value in social enterprises is not necessarily the rentability of invested financial capital, but the most efficient way of covering the costs in achieving the overall objectives. Therefore, the success of social enterprises has to be assessed differently, and the internal strategies to achieve this success have to be different as well. To conclude, social enterprises need to develop special micro-economic strategies and establish consequently a special school for-micro economic teaching.

## PERSPECTIVES AND RECOMMENDATIONS

Finally, what are the perspectives of social enterprises in Germany? Without a radical change in the political framework the sustainability of the existing social enterprises depends heavily on a careful balanced financial mix. Recently the charities and welfare organisations, the work insertion companies as well as all organisations which use active labour market schemes to a high degree are too much dependent on the continuity of public money flows and will be certainly affected by the discontinuities we have to expect in the near future. On the other hand the traditional co-operatives are too much dependent on the mechanism of the world market which forces rationalisation and concentration processes which endanger, if not to say abolish their original social economy and/or regional economy orientations.

This is why we believe that a balanced strategy of financial mixes is the key composed out of

- income from trading within the market economy,
- income from public contracts, carrying out public services or services of public resp. general interest and
- investment of working time and/or money by other stakeholders.

To achieve this what is mostly needed for social enterprises are

- a strong imbedding in the local community,
- a broad variety of offers serving needs at the local and/or regional level and
- the establishment of local support structures like local alliances, partnerships and development agencies.

It has been pointed out in this study that in Germany there is already a large and differentiated social economy sector in existence which is certainly able to create new and additional jobs as well as to integrate economically or socially disadvantaged people. It was also pointed out that there is a big hidden potential within the social economy sector which is blocked by a number of obstacles:

- a general deficit of information about the real size, structures and achievements of the third sector and the social economy in Germany,
- the lack of an appropriate legal and fiscal framework,
- the inadequacy of a number of legal and administrative structures as well as
- support structures and aid programmes which need to be adjusted to the need of the social economy sector.

In this context we would like to recommend the following actions:

- First and above all there is a need to build up acceptance of the social economy as a legitimate part of the economy in its own right.

Furthermore, a German social enterprise strategy should include the following:

- improving information and the collection of data about the size, the structures and achievements of the social economy sector,
- adjusting legal and administrative regulations concerning legal entities, public procurement and the tax system, especially what is “for the common good”,
- developing a separate legal framework for social enterprises (a variety of models exist already in Belgium, France, Italy, the UK and recently in Finland),
- establishing support and development agencies to advice and accompany social enterprises in the foundation process, the internal micro-economic strategies as well as the co-operation with other sectors and stakeholders,
- promoting co-operative relationships with equal rights between the social economy and the corporate sector (corporate social responsibility),
- promoting and fostering multi-sectoral partnerships on local and/or regional level,



- establishing separate education and training systems for professionals in the social economy on academic as well as vocational level, f.i. in competence centres for the social economy,
- and last but not least the development of appropriate financial services and public funding schemes.

In all these fields we need not to re-invent the wheel. There are enough good practice models around on European and international level, and not at least in Germany itself.

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## SUMMARY

The presentation is based on a joint research project on „Economic, Organisational and Social Aspects of the Third Sector in Germany“, which was funded by the Federal Ministry of Education and Research, carried out between 2000 and 2002 by the Interdisciplinary Research Group „Local Economy“ together with the International Institute for Empirical Socio-Economic Research (INIFES) and the Munich Institute for Social Science Research (MISS).

The paper starts with a discussion on definitions and limitations, distinguishing between a more American, civil society based and a more European socio-economically based approach, and develops an integrated concept of measuring the social economy as well as social enterprises using operational criteria beyond institutional or legal definitions.

Based on this methodological concept the paper outlines the emergence and development of the social enterprise culture in Germany, and offers a respective chronology as well as a typology of the sector. This includes not only quantitative, but also qualitative aspects, demonstrating how and why social enterprises externally and internally act or perform different from traditional private sector as well as public enterprises.

The results of this research – based on special case studies following the developed typology - will be presented in two sections, starting with the external impact in terms of

- economic development,
- labour market and employment,
- social policy,
- education and training,

reflecting also further potential as well as handicaps and prejudices.

The internal aspects include

- legal forms and institutional structures,
- quality of work including paid and volunteer work,
- social capital, social management and social marketing,
- financial strategies,
- partnerships and multi-stakeholder-involvement,
- evaluation and social auditing.

The paper concludes with recommendations for further research and action.