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# **SOCIAL ENTREPRENEURSHIP IN WORK INTEGRATION SERVICES**

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## Labour market failures

In order to understand labour market policies in favour of disadvantaged workers it is necessary to focus on the characteristics and limits of the labour market.

The labour market is not perfect. It is characterised by:

- Imperfections
- Asymmetric information
- Rigidity
- Specific human capital



## Labour market failures

In this context an enterprise that needs to employ someone in order to cover a vacant position, has to deal with selection and training costs:

**Selection costs:** linked to the recruitment and selection of the worker who is the more suited for the job. To reduce these costs an enterprise normally resorts to “signals” and only in a second time it makes a real selection. The risk is, to exclude workers with a real suited productivity but who are bearer of negative “signals”



## Labour market failures

**Training costs:** the worker selected and hired needs both general and professional training. To reduce these costs enterprises normally resort only to professional training or, in a previous step, tend to hire, under the same level of salary, more skilled worker (workers who are expected to learn faster than other).



### **A dualistic labour market is created**

On the one hand, skilled workers, beneficiaries of on the job training, with an open career and real possibilities of improvement of the salary level

On the other hand, workers bearer of negative signals, low skilled, at risk of labour market exclusion and with a high probability to remain at low level of salary



## Labour market failures

In this context a worker results *disadvantaged* with respect to the labour market when, due to some characteristics, he/she is considered as less productive, apart from his/her real productivity, than other workers, who do not have the same “signals”.

The main cause of disadvantage is the physical or psychical disability. Other causes can be linked to limitation to the working activity or low skilled and low education level.

For disadvantaged workers the main obstacle in entering the labour market is:

- ✓ Sometimes due to a real productivity gap
- ✓ Often due to a narrow range of jobs in which they can be fully productive



## Labour market failures

The main aim of the policies would be to find a suited job that allows them to use better their capabilities and to acquire the missing in order to fill the productivity gap.

Work integration difficulties of disadvantaged workers are due to labour market failures, in other words, *this market is not able to deal with the whole labour force on the basis of its real value.*

***Policies have to intervene on this failure.***



## Labour Market Policies

Labour market policies in favour of disadvantaged workers are classified in four types:

1. Regulatory policies
2. Compensation policies
3. Substitutive policies
4. Supported employment



## Labour market policies

### Regulatory policies

The main instrument of this kind of policies, aimed at affecting the employers' behaviour in regard to the disadvantaged workers, is the **quota system**, which means that enterprises are obliged to hire a certain percentage of disadvantaged worker.

The main limit of these kind of policies is that all work integration costs are charged to the enterprises with the consequence that these are driven to evade the employment obligation.



## **Labour market policies**

### **Compensation policies**

Are aimed at compensating the minor productivity of the disadvantaged workers or the major hiring costs, in order to drive enterprises to spontaneously employ these workers. Main instruments are vocational training and guidance.

A limit of these policies is that they are linked to and designed for the characteristics of the disadvantaged workers, and do not take into consideration enterprises' needs. Moreover these policies creates a “stigma effect” and tend to exclude the heavy disadvantaged workers.



## Labour market policies

### Substitutive policies

The State does not intervene on the private labour market but it creates a “out of the market” demand or a substitutive labour market, promoting the work integration of the disadvantaged workers in:

- the public sector
- public sheltered workshops
- enterprises created *ad hoc*

A limit of these policies is that public institutions are not able to reach levels of productivity equal to the potential level and the high costs.



## Labour market policies

### Supported employment

Besides personalized employment services, these new policies try to intervene directly on the selective and training costs of the enterprises. According to these policies selection is made by specialised agents, training of the workers is made inside the enterprise with the support of a tutor and a large investment is made on the job training.

A limit of these effective tools is that they are expensive for both the enterprises and the public administrations and therefore involve only public enterprises or nonprofit organisation.



## Social enterprises

Social enterprises are new, alternative, and innovative tools apt to overcome the failures of both labour market functioning and labour market policies.

Work integration social enterprises, if compared to the other policy measures tend to:

- ✓ create new enterprises aimed at training them and employing directly disadvantaged workers in a stable or temporary way;
- ✓ be based on an entrepreneurial nature, aimed at driving disadvantaged workers towards becoming productive, at least to cover their labour costs;
- ✓ represent tools of supported employment in an environment specialized in integrating disadvantaged workers



## Social enterprises - advantages

If compared to the previously described labour market policies, work integration social enterprises can count on some advantages:

- ✓ thanks to their specific mission and competences coming from a long experience with specific typologies of disadvantaged workers, they can select workers for the available jobs and train those workers at lower costs than “normal” firms and find for them, the more suited job
- ✓ are seen as trusting organisation by community, public institutions and trade unions, thanks to the non distribution constraint and the democratic governance framework . As a consequence they can count on free of charge resources.



## Social enterprises - limits

- *Screening effect*: at the time of selection and at the eventual exit of the disadvantaged workers in the open labour market, social enterprises could screen the more promising workers demaging workers who are more in need.
- *Crowding out effect*: social enterprises, thanks to the minor labour cost per output, can subtract market shares to “normal” firms. This risk has been avoided since social enterprises tend to develop the activity in economic sector where for-profit firms do not work

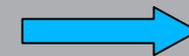


## Social enterprises - models

Within the European countries it is possible to single out at least four models of work integration social enterprises:

- ***Transitional occupation:*** the aim is to offer work experience (transitional employment) or on-the-job training, with a view to achieving the integration of disadvantaged workers in the open labour market. They pay salaries more or less equal to those paid at the “normal” workers
- ***Creation of permanent self-financed jobs:*** the aim is to create jobs which are stable and economically sustainable in the medium term for people disadvantaged in the labour market.

follows





## Social enterprises - models

3. ***Professional integration with permanent subsidies:*** for the most disadvantaged groups, for whom integration in the open labour market would be difficult in the medium term, stable jobs, permanently subsidised by public authorities, are offered. These enterprises do not pay salaries but recognise grants to the workers.
4. ***Socialisation through a productive activity:*** in this last category, the aim is not professional integration in the open labour market but rather the (re)socialisation of the target groups through social contact, respect for rules, a more "structured" lifestyle, etc. These enterprises mainly work with people with serious social problems and people with a severe physical or mental handicap.



## Social enterprises - models

### Models of work integration social enterprises in European countries

- ✓ Among social enterprises offering occupational integration supported by permanent subsidies, we can find sheltered employment (Ireland, Denmark and Portugal), sheltered workshops in Belgium and Sweden;
- ✓ Among work integration social enterprises providing permanent, self-subsidised employment there are Community businesses and social firms in the UK and social firms and co-operatives in Germany;
- ✓ Among enterprises aimed at re-socialize people through productive activities, centres or adaptation to working life in France and sheltered employment centres in Spain or social co-ops in Sweden can be mentioned;





## **Social enterprises - models**

### **Models of work integration social enterprises in European countries**

- ✓ Among the largest group of social enterprises identified there are enterprises offering transitional employment or traineeship. They are:
  - ✓ Belgian on-the-job training enterprises offering qualifying training;
  - ✓ French work integration enterprises providing a real job;
  - ✓ Labour co-ops in Finland;
  - ✓ Intermediate labour market organisations in the UK;
  - ✓ Local community enterprises in Denmark
- ✓ There are some organisations that cannot be classified in any of the previous groups because they implement simultaneously several modes of integration: B-type social co-ops in Italy and neighbourhood enterprises in France.