

A REPORTING FRAMEWORK FOR SOCIAL ENTERPRISES IN EUROPE EMPIRICAL EVIDENCE AND POSSIBLE CONVERGENCES

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*La Economía Social, pilar de un nuevo modelo de desarrollo
económico sostenible*

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ABSTRACT

The introduction of the «Social Enterprise» form in the Italian legal system is fairly recent. For this actor of the social economy has been stated a financial and social reporting system that is supposed to be able to answer to specific accountability expectations.

In Europe the situation is quite different. The formulas of social entrepreneurship are extremely varied, as there are several kind of activities planned and carried out. Similarly, there is a variety of financial and social reporting mandatory rules.

On the basis of these considerations, the paper aims to investigate the different kinds of social entrepreneurship that characterize the European states by deepening the analysis of the financial and social reporting rules. In the intentions of the authors the consequent overview should allow to describe the basic characteristics of the financial and social reporting systems by highlighting the common elements and the best practices spread in the European union.

RESUMEN

La introducción de la «Empresa social» en el ordenamiento jurídico italiano es bastante reciente. Para este actor de la economía social ha sido declarado un sistema de información financiera y social que se supone que es capaz de responder a las específicas expectativas de la rendición de cuentas.

En Europa la situación es muy diferente. Las fórmulas de empresariado social son muy variadas, como hay varios tipo de las actividades llevado a cabo. Del mismo modo, hay una variedad de normas obligatorias para la presentación de informes financieros y sociales.

Sobre la base de estas consideraciones, el documento tiene como objetivo investigar las distintas clases de empresariado social que caracterizan a los estados europeos por la profundización del análisis de las normas de información financiera y social. En las intenciones de los autores, esta visión general debe permitir para describir las características básicas de la sistemas de información financiera y social, poniendo de relieve los elementos comunes y las mejores prácticas de la Unión Europea.

RESUME

L'introduction de l'«Entreprise sociale» dans le système juridique italien est assez récente. Pour cet acteur de l'économie sociale a été déclaré un système de rapport financier et social qui est censé être en mesure de répondre aux spécifiques attentes de responsabilité.

En Europe la situation est très différente. Les formules de l'entrepreneuriat social sont extrêmement variées, comme des activités prévues et effectuée. De même, il ya une variété de règles impératives sur les rapports financiers et sociaux.

Sur la base de ces considérations, l'article vise à étudier les différents types de l'entrepreneuriat social qui caractérisent les Etats européens en approfondissant l'analyse de les règles sur l'information financière et sociale. Dans les intentions des auteurs cette aperçu devrait permettent de décrire les caractéristiques de base de la information financière et sociale en mettant en évidence les éléments communs et les meilleures pratiques de l'Union européenne.

KEYWORDS

Social enterprise, Accountability, Financial reporting, Social reporting, Reporting harmonization

JEL CODES

M410, M490, M160

1. INTRODUCTION¹

Although many scholars identify social cooperatives – established with Law 381/1991 – as the Italian social entrepreneurship model, the legal form “social enterprise” can be dated 2006 (Legislative Decree, 24 March 2006, no. 155) and has to be considered effective from 2008, due to the issue of the accomplishing ministerial decrees. The new rules include a mandatory reporting system, subdivided into a financial and a social statement, in order to satisfy the various expectations in terms of accountability (Marano, 2007; Maticena, 2007; Knutsen and Brower, 2010).

The “legal” state of art is quite different around Europe². (Cafaggi and Iamiceli, 2008). There are several social enterprise (SE) *formulaes* and various activities run, ranging over from work integration to widened community interest (Defourny and Nyssens, 2008; Borzaga and Defourny, 2001). Consequently, there are also different reporting rules.

To summarize, at the moment we cannot find for SEs the same EU attention that has led – as for cooperatives – to an official European model³.

Considering these aspects, starting from Italy we analyze the different SE legal forms around Europe, focusing on reporting rules.

The paper investigates whether and to what extent the national legislators have decided to regulate accountability and transparency for SE’s financial and social reporting. The aim is to describe the main basics of the outlined reporting systems, pointing out the common characteristics.

As regards the research method, we support the thesis of SE as an organization that (Borzaga and Defourny, 2001; Kerlin, 2006; Emes.net; Pearce, 2003; Bielefeld, 2008; Bagnoli and Megali, 2011)⁴:

- answers to the community rather than to shareholders and therefore is driven by a social mission;

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² And around the world (Kerlin, 2010).

³ See the Statute for a European Cooperative Society, Council Regulation (EC) n. 1435/2003 and Council Directive 2003/72/EC.

⁴ Despite, and sometimes in contradiction to, such definition, the term SE is also being picked up and used in different ways in various European countries (Evers and Laville, 2004).

- raises earned income by trading in goods or services for a social purpose.

It follows the need to investigate how this definition has been acknowledged in the European countries through a deductive approach.

On one side, we take into account the legal entities terminologically identified as SEs by the National regulations.

On the other, where missing, we pick out the national legal forms - the commercial ones – close to our SE definition.

Once chosen the different legal entities relevant on a national basis, attention goes to the related mandatory reporting frameworks, in order to describe their main characteristics.

2. SE REPORTING MODELS

Reporting takes a special significance for SEs.

Apart from national rules, the co-existing enterprise and mission aims call for a multidimensional reporting framework, that's supposed to deal with three management-reference fields, in other words, with a system that adds consideration of normative-statutory constraints to the traditional double bottom line (Matacena, 2007; Barman, 2007; Emerson and Twersky, 1996). These three fields are:

- economic-financial, both for financial statement disclosure and cost-accounting;
- results-based, referable to the concept of (social) effectiveness; and
- institutional legitimacy.

The first field relates to financial accounting, not taking the entity's legal type into consideration but rather focusing on the activities carried on and therefore on the goods and/or services realized. Although SEs are established for purposes other than profit (Gui, 1990; Valentinov, 2008), it is important to measure financial efficiency and profitability to verify entrepreneurship as a basic component of assessing overall effectiveness (Ritchie and Kolodinsky, 2003).

Social effectiveness reporting should help verifying a SE's capability to answer to the social purpose for which it has been established and managed. It's different nature makes it impossible to use for-profit effectiveness indicators - mostly based on financial data - while quality and social indicators are required (Matacena, 2002; Kerlin, 2006; Defourny and Nyssens, 2010). Also information on environment should be included, in order to turn towards a complete sustainability report suitable to a SE (Cornelius et al., 2008; Gibbon and Affleck, 2008).

Finally, institutional legitimacy is normally reported through

- checks on institutional coherence (encompassing control of the correspondence among activities undertaken, the results achieved, and the goals established in a mission-statement, in the statute of the entity and in the targets set by the board);
- compliance with national and international law.

3. THE ITALIAN SE

The Italian "legal" SE (Decree no. 155) is a private entity that provides social utility goods and services, acting for the common interest. This kind of SE is neither a new legal form, nor a new type of organization, but a category in which all eligible organizations may be included, regardless of the chosen legal form.

Therefore, SEs could in theory be cooperatives (i.e. employee-, producer-, or customer-owned firms), investor-owned firms (i.e. business corporations), or traditional nonprofit organizations (i.e. associations and foundations). This is the so-called principle of "neutrality of the legal forms" adopted by the Italian law. In other words, "social enterprise" is like a legal brand that an organization can obtain and use in the marketplace when satisfying the following requirements:

- being a private organization;
- performing an entrepreneurial activity of production of social utility goods and services (the Law prescribes that this must be the main activity, that is, it has to account for at least 70% of the total revenues of the organization);
- acting for the common interest and not for profit.

The law establish a reporting system based on two reports/statements: a financial and a social one.

Financial statement

The accounts have to give a true and fair view of the SE's assets, liabilities, financial position and profit or loss.

According to the different legal form - commercial or non commercial one - of the organization adopting the "social enterprise brand" there are two different but quite similar reporting frameworks. The following documents are required:

- balance sheet;
- statement of activities;
- profit and loss account limited to the main activities listed by the law 155;
- notes of accounts;
- mission report.

There are simplified rules for small SEs, limiting the mandatory reporting to a cash basis statement of activities and an asset summary

To sum up, let's highlight the main changes - the most of them mandatory for the SE - npo's in connection to the company reporting rules::

- net assets have to be subdivided into endowment, restricted and unrestricted assets;
- the statement of activities differs from the companies profit and loss account, adopted only to report the main activities;
- revenues are subdivided into earning income and others;
- the note of accounts include some special information about the SE;
- the mission report replaces the annual report;

Social report

It's the only mandatory social report in Italy, living out of consideration the bank foundations mission reporting

At least the following information have to be included (Social Solidarity Ministerial Decree 24th January 2008):

- introduction and methodology;
- section A – general information on the organization, and the board;
- section B – organizational structure, management and governance;
- section C – aims and scopes, run activities;
- section D – financial situation;
- section E – other information.

4. THE EUROPEAN SCENARIO

4.1. Methodological introduction

The lack of both European legislation on the SE and a process of convergence between different national models⁵, introduce the need of discretionary choices for the identification of the SE's model for each European country analyzed. More specifically, it has been primarily assumed as SE the one nominally defined by the single legislator, and, only if missing, it has been assumed the legal form considered uniquely similar to general acceptance. It is useful to distinguish between three different models (Cafaggi and Iamiceli, 2008): the "co-operative model" (France, Portugal, Spain and Poland), the "company model" (Belgium and United Kingdom) and the "open form model", with no specific legal form selected (Italy, Finland).

Without any claim to statistical representativeness, the model of SEs analyzed are:

- a) the Portuguese *Cooperativas de Solidariedade Social*;
- b) the French *Société Co-opératif d'intérêt Collectif*;
- c) the Spanish *Cooperativas de Iniciativa Social*;
- d) the Polish *Spółdzielni Socjalnej*;
- e) the Belgian *Société à finalité sociale*;
- f) the British *Community Interest Company*; and
- g) the Finnish *Sosiaalinen yritys*.

After briefly describing the main approaches in each legal system, an attempt will be made to identify the properties of a common model for financial statement, social and mission report for SEs across these countries. The analysis will be focused on the attempt to highlight possible areas of overlap between the different model (Travaglini, 2008).

Establishing a "regular" reporting model, we assume the following documents:

- a) Balance sheet: a report document with an account form (assets listed on the left-hand side, liabilities and equity on the right-hand side) in which assets are classified by function, liabilities by the source of funding;
- b) Profit and loss account: a report with a report form (running format), classified by nature.

4.2. Analysis across some European countries

- a) *Portugal* (Cooperativas de Solidariedade Social - CSS)

⁵ "Legal frameworks reflect the specific legal tradition, welfare regime model and main social and economic issues dealt with at national level" (Galera and Borzaga, 2009:218).

These co-operatives have been introduced with *Lei* of 22.12.1997 and are defined as those which work for the satisfaction of social needs and for the promotion and integration of disadvantaged or vulnerable people or group, in a co-operative and non-profit way. In fact, it is not allowed any kind of distribution among members, both in terms of distribution of profits and devolution of residual assets in case of winding up (Cafaggi and Iamiceli, 2008:11).

The governance is characterized by the presence of two categories of members: effective (including workers and beneficiaries) and honorary (people who contribute to social development of the cooperative with the supply of products and services, including voluntary work). Even if it may be established a general consulting body with the aim of involving the honorary members, these normally have only information rights (art. 4 and 5, *D-Lei* n. 7/98).

With regard to the financial statement, the documents required for CSS are the same required for other kind of co-operatives (*D-Lei* n. 262/1986 and *D-Lei* 158/2009)⁶:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of changes in equity;
- statement of cash-flow; and
- annual report

which guarantee the assess both of economic efficiency⁷ and of financial situation. For CSS qualifiable as "small business", it is possible to set abbreviated accounts and omit the presentation of statement of changes in equity and of statement of cash-flow⁸. Assets of balance sheet are classified by a current and non-current criterion, while liabilities is based on a liquidity criterion. The profit and loss account may be integrated with a report according to a function-based accounting.

Regarding the social effectiveness, the CSS which have more than 100 workers are obliged, by the *Lei* 105/2009, to annually report about the way they meet their social goals and to send the social balance sheets (*Relatório Único, Portaria* n. 55/2010) to the Ministry of Labour and to the Association which is responsible for supervision over cooperatives (Incoop) (Cafaggi and Iamiceli, 2008). The report contain the following information:

- report:
- sections I and II – general information on the organization;
- sections III and IV – information on the number of employees and on trade unions;
- sections V, VI and VII – quantitative information on overtime work, temporary work, and disabled employees;
- section VIII – economic information on the resources destined to training, health and safety of employees; and

⁶ Although a special accounting regulation for CSS and non-profit organization will be soon approved (*Despacho* n. 9292-A/2010).

⁷ Even if there is not a reclassification of profit and loss account in a value-added statement, necessary to calculate the value added by an organization through the transformation of externally purchased goods and services (Burchell, Clubb and Hopwood, 1985) and to looks beyond income to encompass ownership and includes the wealth created for a wider group of stakeholders (Mook, Richmond, and Quarter, 2003). This kind of reclassification is indicated in the social report.

⁸ A specific simplified accounting regime dedicated to *microentidades* has been introduced by *Lei* 35/2010 and it will be soon regulated. *Microentidades* are companies which at the date of the balance sheet not exceeding two of the following limits: 1) total assets euro 500,000; 2) volume of net revenues euro 500,000; 3) five employees on average on the last year.

- section IX – other complementary information, including a value added reclassification of profit and loss accounts; and
- annexes:
 - A – Framework of personnel, including the system of remuneration of each employee;
 - B – Flow of hiring and layoffs of employees;
 - C – Report on continuing training of employees;
 - D – Report on health and safety activities;
 - E – Strikes, with evidence of claims of employees and results obtained; and
 - F – Information on service providers.

The *relatorio unico* is a report with a detailed but limited content and it is not a valid instrument for the accountability towards members and stakeholders: although it contain an important quantity of dates, it is limited to the relationship with employees, and its information are intended only to public administration.

b) *France (Société Co-opératif d'intèrêt Collectif - SCIC)*

SCIC, introduced by L. n. 624 of 17.07.2001, are co-operatives which produce and/or sell collective interest goods or services with social utility characteristics (activities satisfying emerging needs, helping social and professional inclusion, social cohesion and increasing access to goods and services, Decree n. 241/2002). Such assessment is guarantee by a periodic report (*Agrément préfectoral*) which SCIC have to send to the administrative authority (prefect) every five years. A limited profit distribution is allowed, but only if it remain after provisions of 57.50% of surpluses to legal and statutory reserves⁹. However there is a dividend-cap for the members fixed in the average rate of remuneration of private companies as published by the Ministry of Economy. Moreover the SCIC may emit co-operative investment certificates and co-operative certificates for members, the former characterized by the absence of voting right (only information right is guarantee) (Cafaggi and Iamiceli, 2008:12-13).

Regarding the governance, there have to be three categories of stakeholder represented among the members (Margado, 2009):

- two mandatory (workers and users); and
- one selected, on a voluntary base, among: volunteers, public entities and/or other individuals or entities that somehow contribute to the activity of the co-operative

configuring a mandatory requirement to the feature of multi-stakeholder.

There is no specific regulation for financial statement of SCIC, which are regulated by the same rules of other co-operatives (L. 66/537 and *Règlement* n. 99-2003), establishing the draft of:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of cash-flow (only if there are more than 300 employees and the turnover exceeds euro 18.000.000, art. 232-2, L. 66/537); and
- annual report.

The accounting reports have to be represented both in an account form and in a report form. In the latter the liabilities are classified by the liquidity and

⁹ Without considering the resources received by public founding.

intermediate results¹⁰ allow a more detailed financial analysis. The profit and loss account is classified according to function criterion and the notes of accounts is characterized by information on the number of employees and on the remuneration of administrators, directors and auditors.

With reference to social reporting, a so called *bilan social* is mandatory for every French companies employing more than 300 employees, since 1977 (Law n. 77-769 of 12.07.1977). Nevertheless the document analyze only aspect inherent employment, and it does not represent the social dimension of the business. Furthermore, in a perspective of content it is qualified as an internal report, without external relevance (Pulejo, 2004). Therefore the *bilan social* does not represent a social report suitable for the purpose of the present research. However a minimum of social accountability is guaranteed by the quinquennial control of administrative authorities on the maintenance of the social utility purpose (Margado, 2009).

c) *Spagna* (Cooperativas de Iniciativa Social – CIS)

CIS are co-operatives regulated by art. 106 of national law n. 27/1999, which supply services of general interest in the education, welfare and medical field and/or provide work integration of socially excluded persons. Furthermore, specific legal frameworks at regional level or special rules depending on the kind of co-operative and economic activity carried on, may regulate CIS more specifically (Polo Garrido and García Martínez, 2003; Molina Llopis, 2007). CIS are qualified as non-profit entities and distribution of profit is forbidden (*Disposición adicional primera*, L. 27/1999): no results distribution, dividend-cap reported to the legal rate, mandate at the board of directors free of charge, employed members' and hired workers' remuneration not higher than a predefined percentage of the remuneration established by the collective bargaining.

Regarding the engagement of stakeholder, there is the possibility to have public (or other external entities or persons) as members, if it is provided by the statute, although they should not participate in governance.

With regard to the financial statement, the documents required for CIS are the same required for other kind of co-operatives: art. 34-35, *Código de comercio* de 1885, R.D. 1514/2007 or R.D. 1515/2007 if SME, and the specific disposition for cooperative included in the *Orden* EHA/3360/2010 (ICAC, 2009). The accounting documents are:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of changes in equity;
- statement of cash-flow; and
- annual report.

The CIS qualificable as SME may prepare an abbreviated statement of changes in equity and omit the presentation of statement of cash-flow. The assets and liabilities are classified by in current and non-current. In the notes of accounts there has to be indicated a separate accounting of economic and financial value referred

¹⁰ The net current assets (or liabilities)", represented by current assets less liabilities within one year, and the total assets less current liabilities, represented by total assets less liabilities within one year.

to each activity carried on¹¹, and the policy adopted with respect of transactions with members.

A social reporting is not mandatory at national level. Nevertheless regions have the autonomy to regulate the matter¹².

d) *Polonia* (Spółdzielni Socjalnej - SS)

SS has been introduced with Law 27.04.2006 and are worker co-operatives, mainly aimed at reintegrating disadvantaged and unemployed persons in the labour market through the carrying out of activities in social, educational, cultural activities and any other activity directed towards social and professional reintegration (Cafaggi and Iamiceli, 2008). The statutory activity is qualified as non-economic, due to the general thinking that non-profit activities in Poland must have a non-economic nature (Travaglini et al., 2008). Nevertheless SS are entitled to produce goods and services on a non-profit-maximizing basis (Defourny and Nyssens, 2008): no profit can be distributed among members; no merger or division can indirectly result in transferring assets to entities which are not a social co-operative; in case of winding up, only 20% of the residual assets after paying back liabilities can be divided among members and the remaining resources will be directed to a so called "work fund" (Juszczuk, Mizejewski and Oldak, 2009). The profit has to be provisional to a non-distributable reserve, and for financing project related to the SS purpose.

At least 50% of members have to be beneficiaries (disadvantaged persons).

Financial statement are regulated by the general law on accountancy (L. 29.09.1994) and it requires the following documents:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of changes in equity;
- statement of cash-flow; and
- annual report

which can be prepared in abbreviated form when certain thresholds are not exceeded (art. 50, L. 29.09.1994). SSs which have not received public funds and have a turnover less than euro 1.200.000, are admitted at a simplified accounting regime, limiting the mandatory reporting to a statement of activities on a cash basis, prepared in a non-predetermined form. The assets are classified in current and non-current, equity and liabilities by the source of founding although the latter is sub-classified in current and non-current. Costs and revenues may be represented both in a nature-based and in a function-based accounting. Finally notes of accounts indicates details of transactions with members, administrators and auditors.

¹¹ A separate accounting is not mandatory, but voluntary. It is ruled by art. 5 of L. n. 27/1999 and the principle aim is to made a separate center of responsibility, both in a patrimonial and management terms.

¹² An annual social report is mandatory for co-operatives of the region of Balearic Islands (art. 88, Ley 1/2003 de 20 de marzo, de Cooperativas de las Illes Balears).

A social report is not mandatory for SS, nevertheless a minimum level of social accountability is guaranteed by the mandatory keeping of a separate accounting for each social activities carried on.

e) *Belgio* (Société à finalité sociale - SFS)

SFS was introduced by L. April 13, 1995 and is not a legal form, but a legal brand that can be adopted by any commercial companies provided by the Company Code. The aim of the law was to give social entrepreneur a status to perform commercial activities with social aims. With regard to non-profit constraint and involvement-participation of stakeholders, SFS has to provides in the statute (Coates and Van Opstal, 2009): the pursuit of social utility (no economic and financial primary purpose); duty for administrators to draw up an annually *rapport special*, which highlights the achievement of social utility; a voting right-cap (10% is maximum percentage exercisable individually); the right of employees to become members of the same; a dividend-cap of 6% on capital invested; the devolution of the assets in case of winding up to institutions with similar aims.

Although SFS may carry out any economic activity, producing goods and/or services, the principle area of activity is work integration and supply of proximity services (Defourny and Nyssens, 2008).

Financial statement are regulated by the law on accounting and annual accounts of companies (L. 17.7.1975), the Companies Code (Law 05/07/1999) and the Royal Decree of 12.09.1983 and it requires the following documents:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of changes in equity (no mandatory for small business); and
- annual report (no mandatory for small business).

Partnerships which are qualify as *Très petites entreprises*¹³ are admitted at a simplified accounting regime that provides a free-form reporting and an asset summary (art. 93, L. 05/07/1999). There are no special provision for balance sheet and profit and loss account. The notes of accounts have to indicate the revenues separated by category of activity, information about the number and the costs of employees, the transactions and the remuneration (direct and indirect) concerning administrators, directors and auditors, other information concerning employment relationships (in which are detailed composition, flow of hiring/layoffs and training of employees).

Rapport special, a social report, is mandatory in the annual report. Its content and structure is not mandatory (Coates and Van Opstal, 2009) and its aim is to demonstrate (art. 661, L. 04/13/1995):

- the ways in which the activity carried on has contributed to the pursuit of statutory purposes; and
- coherence of objectives and investment, operating costs and staff costs in order to highlight the absence of direct or indirect distribution of profits.

Rapport special has a relevant potential information capacity, both in terms of social effectiveness, both of institutional legitimacy. Nevertheless, the completely discretion of structure and content restricts this capacity (Coates and Van Opstal, 2009).

¹³ Annual turnover less than € 500,000 (€ 620,000 for certain types of companies).

f) *United Kingdom (Community Interest Company - CIC)*

CICs have been introduced with The Companies Act 2004 and regulated by Community Interest Company Regulations 2005, with the main purpose of recognizing and promoting entrepreneurship in the field of the social economy (Cafaggi and Iamiceli, 2008; Regulator of CIC, 2010a). It represent a legal brand which may be adopted both by companies limited by share or guarantees. Although they have a commercial legal form (companies limited by share or guarantee) and they can engage in any lawful trade activities, their profits and assets have to be used for the general interest. In fact CICs are subjected to a dividend and interest-cap¹⁴ and to an asset-lock (assets may not be transferred, unless for full consideration, or distributed on winding up to any organization different from a CIC, a charity or a similar body established outside UK) (Brown, 2006). The registration as a CIC is subject to the approval of the Regulator in the light of the so called community interest test, which is directed towards verifying if the company's activities can be considered as carried on for the benefit of the community¹⁵. Moreover CICs have to send to Regulator an annual community interest report to demonstrate the pursuit of beneficial to the community (Carrera and Murdock, 2008).

Regarding stakeholder's participation and involvement, the law requires a minimum information and consultation standard in their favour, whose compliance has to be documented in the community interest report. Nevertheless stakeholders may participate actively in governance, although their action is not binding on the governing bodies, and Regulator has a monitoring and sanctioning powers, which in particular cases can allow him, for example, to appoint/remove a directors of present a petition the che Court for the winding up of CIC.

Financial statement are regulated by The Company Act 2006, The Small Companies and Groups Regulation 2008, The Large and Medium-sized Companies and Groups Regulation 2008 and they requires the following documents:

- balance sheet;
- profit and loss account;
- notes of accounts; and
- annual report

whose content may be abbreviated if CICs have not exceed predetermined thresholds¹⁶. The accounting reports may be represented in a account form or in report form. In the latter the liabilities are classified by the liquidity and intermediate results¹⁷ allow a more detailed financial analysis. The profit and loss account may be classified according both to function and nature principle. The notes of accounts includes information on the remuneration of administrators and directors. If CIC has more than 250 employees the annual report have to indicate

¹⁴ Respectively 5% and 4% above the Bank of England base lending rate (art. 17-22 of Statutory Instrument 2005 no. 1788 – The Community Interest Company Regulations 2005). There is also an interest-cap on the remuneration of financial creditors, holders of debt or equity instruments issued by CIC (Cafaggi and Iamiceli, 2008).

¹⁵ "The community interest test is a test of the motivation or underlying purpose of a company's activities. In order to satisfy the test a company must show that a reasonable person might consider that the purpose towards which its activities are ultimately directed is the provision of benefits for the community, or a section of the community" (Regulator of CIC, 2010).

¹⁶ The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008; Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

¹⁷ The "net current assets (or liabilities)", represented by current assets less liabilities within one year, and the "total assets less current liabilities", represented by total assets less liabilities within one year.

information on the policies adopted for the integration, training and career development of employees and on action adopted for their involvement.

An annual community interest report is mandatory and represents a social report. According to the Regulations, this report have to include:

- part 1 – a fair and accurate description of the manner in which the company’s activities during the financial year have benefited to the community (use of both outcome and output quantitative indicators is recommended by Regulator¹⁸;
- part 2 – a description of the steps, if any, which the company has taken during the financial year to consult persons affected by the company’s activities, and the outcome of any such consultation;
- part 3 – the information regarding chairman’s and directors’ emoluments;
- part 4 - transfers of assets other than for full consideration; and
- furthermore, the annual report should include information regarding the declaration of dividends, transfer of assets, remuneration of debentures.

g) Finlandia (Sosiaalinen yritys - SY)

The SY has been introduced by Act 1351/2003 (*Laki sosiaalisista yrityksistä* 30.12.2003) and represent a legal brand which can be adopted by any enterprises enrolled both in the Trade Register of the Ministry of Trade and Commerce as trader, and in the register of SY of the Ministry of Labour and Economy (Pättiniemi, 2008). SY produces good and services on a commercial principle but at least 30% of its employees have to be disabled or long-term unemployed (social connotation, Cafaggi and Iamiceli, 2008). Then SY are assimilable to WISE¹⁹ in the European context (Travaglini et. al., 2008). SY represent the only model of SE which may distribute profits without any limitation.

Furthermore, it is not mandatory the adoption of participatory decision making mechanisms that ensure the involvement of stakeholders (Galera and Borzaga, 2009).

Act n. 1336/1997 and Decree n. 1339/1997 regulate financial statements and require the following documents:

- balance sheet;
- profit and loss account;
- notes of accounts;
- statement of cash-flow; and
- annual report.

Furthermore, a social report is not mandatory. Nevertheless, a minimum level of accountability is due to public administration: the enrolling in the register of SY guarantee an administrative control concerning the business practice and compliance with tax and social security obligations of SY (Cafaggi and Iamiceli, 2008).

¹⁸ See best practices in *Annex D – Examples of completed forms – Model form CIC34 Community Interest Company Report (simple) - for guidance (CIC Regulator, 2010b)*.

¹⁹ Work Integration Social Enterprise.

5. COMPARISON OF THE REPORTING MODELS

Despite the significant development across various countries, a common framework for the SE reporting models does not exist yet. Nevertheless, it is possible to identify the properties of a common model, both for financial statements, and social and institutional reports.

a) Financial statements

Financial statements regulated by different legislators are adequately homogeneous, giving a true and fair view of the assets, liabilities, financial position and profit and loss of SEs. All accounting systems are economic-based and summarized in balance sheet and profit and loss account, integrated by notes of accounts and accompanied by annual report. Nevertheless, it is not always expected a statement of cash-flow and only in a few countries it is allowed to simplify for smaller entities.

The balance sheet is mainly represented in almost all cases examined, a prospectus in an account form, although in some cases the report form is considered mandatory or optional²⁰. The latter configuration allows a better representation of the financial sustainability of SEs. The assets and liabilities are classified mainly according to the criterion of function and source of funding. Only Italian SE has a specific structure of equity.

The profit and loss account, is mainly represented in a report form and classified by nature, although in some cases SEs may adopt the criterion of function²¹. Only for Italian SE it is mandatory a specific articulation aimed at highlighting the intermediate results of strategic activities, such as promotion and fundraising.

Notes of accounts, besides providing standard information, indicate:

- compensation paid to administrators, directors and auditors;
- details of transactions with related parties;
- the dividend attributable to holders of capital (when allowed);
- separate reporting for centers of responsibility according to the different activities carried on; and
- information on employment and policies adopted in labor relations;

The statement of changes in equity provides verification of compliance with:

- the non-profit constraint; and
- mandatory provisions for specific reserves.

Moreover it may contribute to improving institutional legitimacy.

The statement of cash-flow, is generally mandatory only in the case of exceed of predetermined thresholds.

The contents of the annual report, generally follows the content provided on business *for-profit*.

²⁰ See French SCIC and British CIC.

²¹ See Portuguese CSS, Polish SS and British CIC.

b) Social report

The social performance accountability, where present, is characterized by a general uniformity of function and by different approaches and contents.

The different approaches adopted by national legislators are:

- provide social report as mandatory (Italy, Portugal²² and United Kingdom);
- provide the mandatory integration of annual report with information on social activities (Belgium); and
- absence of specific social accountability mandatory required (France²³ Spain²⁴, Poland and Finland).

The function of social report is to describe the pursuit of social purpose.

Regarding the content of reports observed, there are two different models:

- a bound-content model, primarily based on highlighting the relationships with *stakeholder*, not focused on measuring social effectiveness (Portugal);
- a report focused on the measurement of social value and the description of the way to pursue the activities (Italy, Belgium, United Kingdom).

The former does not completely satisfy the requirements of social accounting for at least four reasons:

- rigidity of the model: it is not possible to integrate information which better represents the social effectiveness of a specific SE;
- not exhaustive qualitative/quantitative analysis of activities carried on (it is due only an economic classification of the activities);
- social performances are not measured with a system of qualitative/quantitative indicators; and
- information is limited only to a class of stakeholders.

The latter model is more indicated for fulfilling his function. In fact it is characterized by:

- flexibility of the model: National legislators identify the object on which SEs have to report. Nevertheless SEs may choose the indicators that better represents the social value generated;
- qualitative/quantitative description of activities carried on, highlighting:
- the correlation between activities and social purpose, using indicators of:
 - *outcome*, focused on qualitative results, with the aim of evaluating the "benefits" that flow from activities undertaken to the intended beneficiaries (e.g. the success of a social assistance program for recovery of persons with a form of addiction, the developing the use of language and of communication in disabled persons, etc.); and
 - *output*, related to the quantitative accounting of "physical" product of the activities carried on (e.g. number of families assisted under an housing program, number of persons who have beneficiated of home health care, the average percentage of disadvantaged workers, the average level of cost of purchase by short supply chain etc.); and
- impact on the community, as an indirect and medium- or long-term result of the activities carried on by SEs, in terms of creation of social capital and collective

²² Although only for CSS with more than 100 employees.

²³ See § 4, sect. b) for the limit of French *bilan social*.

²⁴ Although regions have the possibility to regulate the matter (see § 4, sect. c).

- well-being. It should be measured through *impact* indicators (e.g. the reduction of social exclusion in a community as a result of a work integration's program of disadvantaged persons, the increase of a community's education after a program of education and training etc.);
- evidence of correlation between investments/expenses and the achievement of social purpose. It should be used indicators of *input* (e.g. costs of personal disadvantaged, charges for the purchase of raw materials from a short supply chain, equipment purchased by local businesses, etc..) and they may be integrated with *outcome* indicators; and
 - report on relations with stakeholders. In particular, it should be indicated:
 - the map of stakeholders; and
 - how they were consulted and involved in the SE.

c) Institutional legitimacy report

Finally, regarding the accountability of institutional legitimacy, there is a general lack of a document which summarizing information on both:

- institutional coherence; and
- compliance with law.

The former is referred to the correspondence among activities undertaken, results achieved, and the goals established in a mission-statement, in the statute of the entity and in the targets set by the board. In this terms, only for Italian SEs a document containing specific information focused on the pursuit of institutional mission (mission report) is mandatory. In other cases, it is necessary to verify the indicators of *outcome* ("internal" configuration, Bagnoli and Megali, 2009) used in the social report or the information of the annual report (if available).

The latter is referred to the respect of national and international law. With particular reference to the national law on the specific legal form, there are mainly five different categories of requirements interesting SEs:

- generation of social utility: verifiable into the social report, if any. Nevertheless, if this report is not mandatory, it is often provided for administrative control (both *ex-ante* and *ex-post*). In this case, the parameters controlled should be highlighted;
- limitations in the use of resources: it is essentially related both to the non-profit constraint and to the asset-lock, in terms of direct or indirect distribution of profits, mandatory provisions to indivisible reserves, bound devolution of the assets in winding up, etc.. Social report may contain some of this information, but where it is not mandatory it is necessary to verify the financial statement;
- involvement of stakeholders and multi-stakeholder nature: it is verifiable in the social report or by a control of administrative authority²⁵. However it should be indicated summarized information on the participation of stakeholders to the general meetings. Where it is not admitted, an analysis of the information transmitted to stakeholders should at least be indicated. Regarding the multi-stakeholder nature, it is related to the presence of a plurality of stakeholder within the members of SE (e.g. Italy, France). In this case, it should be usefull to indicate the composition of members, divided by categories;
- voting rights of members (the principle "one head, one vote" and other specific limitation²⁶): the fulfillment of this requirement, if not expressly indicated, may only be verified through the minutes of the meeting; and

²⁵ See French SCIC.

²⁶ See Belgian SFS.

- composition of members or employees, referring to have:
- a certain requirements to access categories (e.g. to be a disadvantaged person); and
- a minimum percentage of members/employees with pre-defined requirements (e.g. 50% of employees have to be long-term unemployment person).

From the analysis of institutional legitimacy emerges the presence of a complex set of constraints, related both to the purpose of the activities and to the manner in which they are carried on. The information's transparency on the compliance with these constraints is systematized through the provision of a single document, that summarized key information relative to both institutional coherence and compliance. The integration of such document with the financial statements and social report would ensure effectiveness information.

6. FINAL CONSIDERATIONS AND HYPOTHESES FOR FUTURE RESEARCH

Finally, the situation is quite clear. There is a wide convergence in terms of financial statements. By contrast, the legal provisions regarding social report (where present) are widely diversified, allowing only an identification of information required and an attempt of systematized this information.

In addition, the absence of a formal encoding, have represented a difficult in identifying SE in some countries, such as Germany.

Therefore, there is a number of questions to be answered:

- the definition of a social-economic actor at Community level²⁷, which integrates the main features of individual national laws, such a non-profit constraint, immanent social purpose, and recognition of a sort of European social brand;
- that are reserved some activity to this actor (e.g. Social Services of General Interest²⁸), even in the light of the so called Directive Bolkestein and of Italian D.lgs. 59/2010;
- the recognition of a minimum level of financial accounting, in line with current legislative provisions;
- to identify a check list of social data, representing the minimum information which must be provided; and
- to increase the minimum level of information inherent the institutional legitimacy.

²⁷ Considerated also the growth attention of European Commission to the involvement of SEs as public suppliers, through the revisitation of the rules on public procurement proposed in the debate on the Single Market Act (European Commission, 2010).

²⁸ See European Commission (2006).

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