

History and Impact of Social Enterprises in Germany

Technologie-Netzwerk Berlin e.V. (Hrsg.)

Soziale Ökonomie in Berlin

*Perspektive für neue Angebote
und sinnvolle Arbeitsplätze in der Hauptstadt*



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TechNet

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Background of the study

- TechNet is a local network of individuals and organisations, founded in 1987 by an Unemployed Self-Help Group for to work on strategies against unemployment.
- In 1992 it became founding member of a European Network for Economic Self-Help and Local Development
- When the term ,Social Enterprise‘ appeared on the European agenda in the beginning of the nineties, it was necessary to find out what it could mean in the German context

Defining Social Enterprises

- Development of a working definition within transnational research of the European Network for Economic Self-Help and Local Development (1995 – 1997) :
 - Economic activity for social or community objectives
 - Voluntary or citizens initiatives
 - For social profit or community benefit
 - Collective, co-operative or community entrepreneurship
- Mapping: National survey 2002 – 2004
Regional surveys Berlin-Brandenburg 2008, 2010 - 2013

Main Hypotheses

- The Social Solidarity Economy, as it is increasingly called at international level (ILO, RIPESS) could be understood as the economy of the civil society, a third economic system besides the private, profit-oriented and the public, state-dominated economy
- Social enterprises, which could be understood as the single units of that system, appear in times of economic and social crises reacting to failures of either market or state:
- They are manifestations of social movements
 - gathering around unmet needs or unsolved conflicts,
 - trying to find socio-economic solutions, and
 - developing economic activities or formal as well as informal enterprises

Historical Background

- Although the term “social enterprise” was hardly used, economic activities of that type can look back on a history of more than 150 years in Germany.
- They appeared in a wide variety of forms, which emerged for different reasons, in different times and contexts, with different organisational structures, and on the background of different philosophies or traditions
- We could identify four major traditions:
 - Economic self help in the tradition of the co-operative and mutual assistance movement
 - Charitable help ‘for others’ in the tradition of social welfare organisations
 - Philanthropy in the tradition of donations and foundations
 - Voluntary action in the tradition of volunteering and community associations

Identifying Social Enterprise Models: Methodology

The following Typology is based on the historic-dynamic approach introduced by Max Weber:

- To understand societal phenomena out of their emergence and historical development:
- Of whom, why and what for social enterprises have been established

The group of older social enterprise movements

dating back to early stages of industrialisation

- The co-operative model
 - The welfare model
 - The model of foundations
 - The model of traditional associations
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The group of younger social enterprise movements

starting in the context of economic and social crises in the sixties and seventies

- The model of Integration enterprises (mainly for disabled people)
- The model of volunteer agencies
- Models of self-managed enterprises of alternative, women and eco-movements
- Models of self-help initiatives
- The model of socio-cultural centres
- The model of German work integration enterprises (mainly for unemployed)
- The model of local exchange and trading systems
- The model of neighbourhood and community enterprises
- The model of social entrepreneurship

New models of social enterprises in West Germany

(later adopted in East Germany)

- These new models could also in principle be distinguished alongside the same four basic traditions of economic self-help, charitable help for others, philanthropy and voluntary or community engagement.
- But they appeared for different reasons and in different historical contexts and mainly outside the traditional co-operative or welfare systems.

New models of social enterprises II

- Three lines of development could be distinguished, more or less in chronological order:
- Social enterprises caused by inadequate social or public services for childcare, care for the elderly, health and safety, education and training, housing, urban and rural development etc.
- Social enterprises as instruments to fight unemployment and social exclusion
- Social enterprises as instruments for local / regional development

The co-operative model

- Introduced in the middle of the 19th century for to fight poverty and social exclusion in rural areas (F.W. Raiffeisen) and urban communities (H. Schulze-Delitzsch)
- Formed the prototype of a social enterprise founded and set up to overcome economic disadvantages or social problems of their members
- Development of different types: agricultural, worker, housing, retail, consumer and saving co-operatives
- The economic success of that model allowed the co-operative sector to enter the commercial world (third biggest banking group)
- But: Commercialisation and concentration processes endangered the original self-help and solidarity principles, especially in the banking sector

The co-operative model II

- Profit distribution: A change in the co-operative law during the Nazi-period (not revised in post-war Germany) did not allow anymore to distribute profits to non-members
- The principle of „supporting the economic interest of its members“ is ambivalent: Originally members and beneficiaries have been the same people, but it could also be used for commercial objectives or building monopolistic conglomerations, especially if the members are commercial enterprises.
- Therefore the status of a registered co-operative is not enough anymore to identify a social enterprise.
- In the sixties and seventies new co-operatives with explicitly social or community-related objectives emerged (back to the roots).

The co-operative model III

- The co-operative model is still one of the most important, although a lot of new initiatives avoid the legal status, introducing co-operative principles into other legal forms
- On the other hand traditional co-operatives have changed its character to hybrids or more or less commercial enterprises (f. i. banking sector)
- Therefore, the co-operative sector today is a mixture of social and commercial enterprises, including a number of hybrids, mixing social and commercial objectives
- Recent studies count about 8,500 independent co-operatives (compared with over 26,000 in 1950) and up to 900,000 employees, but how many of them could be considered as social enterprises is not possible to find out for the time being.

The co-operative model in East Germany

- Co-operatives have been a part of the state dominated economy, and are therefore often discredited
- But a few workers' co-operatives have survived, and new social or community co-operatives emerged
- Most of the other new social enterprises followed former West German models (welfare organisations, associations and limited companies with co-operative principles)

The Welfare model

- It is the counterpart to the co-operative model starting more or less at the same time and caused by the same economic disadvantages or social problems
- The initiative did not come from the people affected, but from parts of the civil society, including religious communities, organising charitable help for others.
- Their historical roots are still visible in the structure of the German welfare federations today.
- In the beginning their entrepreneurial activities had all characteristics of social enterprises, based on the voluntary commitment of citizens to help other people.
- Since Bismarck a part of the public welfare system, they are formally independent, but acting under the control and within the legal guidelines of the state.

The welfare model II

- In the post-war period welfare organisations served as the blueprint for the German welfare state, based on a national economy with socially regulated markets, full employment and guaranteed social security (called social market economy / soziale Marktwirtschaft).
- But the „social consensus“ (a tripartite social partnership between employers, trade unions and the state) eroded in the context of growing mass unemployment and globalisation since the eighties and nineties.
- Deregulation and heavy cuts in public expenditure forced the traditional welfare organisations to generate additional income from private sources (like other social enterprises).
- On the other hand new organisations emerged outside of the traditional welfare system: integration enterprises, self help organisations, socio-cultural centres and others (see below)

The welfare model III

- In traditional economic thinking welfare organisations were not considered as part of the economy.
- Of course, most of their income still comes from public sources, but not as subsidies or institutional funding, but as payment for certain products or services.
- Although acting under charity law they have to compete with all other enterprises offering similar products or services.
- On the other hand the same law restricts them to certain activities and excludes them from a lot of others, especially those that could generate additional income.
- In this context, welfare organisations react ambivalent to more entrepreneurial attitudes which could endanger the initially intended moral or humanitarian objectives.
- As welfare organisations employ about 1,5 million paid workers and a multiplicity of volunteers, they represent one of the biggest sector of the German economy.

The model of foundations

- Going back to the middle ages, foundations were until recently not seen as enterprises, as they do not have personal members and are not included in the law of entrepreneurial active societies.
- They do not produce goods and services in the narrow sense as they act predominantly as an instrument to collect and distribute financial capital for a certain objective.
- Most foundations are still restricted to donations and other financial services, but so-called operational foundations develop their own projects, like the growing number of neighbourhood or community foundations
- According to a recent boom in setting up foundations in Germany their number increased up to 20,000, but they are not necessarily dedicated to social or community-oriented objectives.

The model of traditional associations

- They represent the biggest group of civil society organisations of more than 600,000 registered associations in Germany.
- They are an invention of the bourgeois middle classes of the 19th century to organise activities of common or general interest
- But acting in an authoritarian state they were restricted to idealistic objectives and not allowed to conduct political or economic activities (called 'idealistic association').
- This concept is still underlying the legal status of a registered association in Germany, but almost anachronistic, as today almost all associations have to be economically active.
- As a consequence associations have to split their activities and financial declarations into an 'idealistic' and an 'entrepreneurial' part, which should be secondary to the first one, controlled by the tax offices with rather arbitrary interpretations.

The model of traditional associations II

- The legal status of a registered association does not necessarily guarantee a social or community-oriented objective, why it is for the time being not possible, to find out how many of them could be considered as social enterprises.
- This is only guaranteed, if the association achieves a certain charitable status (called ‚Gemeinnützigkeit‘), which offers some opportunities of tax reductions.
- But this status again underlies arbitrary decisions of the tax offices, and prevents these associations from a lot of economic activities to generate additional income.
- Although these somewhat outdated regulations cause a lot of uncertainties, most social enterprises use this legal form, because it is, despite all difficulties, the easiest way for a new start-up.

The model of integration enterprises

- In Germany disabled and otherwise handicapped people, who were not able to earn a living by their own, have been separated and shut away in special institutions.
- It was not before 1974 that a new type of ,sheltered workshops‘ were opened, based on the conviction that social integration of handicapped people should include the right to work.
- In 1979 initiatives by the handicapped and their relatives founded the first independent integration enterprise outside of sheltered workshops, as a ,normal‘ enterprise, in which handicapped and not-handicapped should work together.
- Today their national federation has about 600 members, and the success is partly due to the fact that they managed to achieve a certain financial compensation for the employment of handicapped.

The model of volunteer agencies

- Social enterprises and other civil society initiatives depend heavily on the investment of volunteer work.
- According to national surveys the civil society in Germany benefits from the work of up to 23 million volunteers.
- Heavy cuts in public expenditure during the last decades endanger a lot of public social and cultural services, and civic engagement and the investment of volunteer work is sometimes seen as the only possible solution.
- Despite this situation, it was not before 1997 that the first volunteer agency was established, offering services for both, volunteers seeking job opportunities and social as well as public enterprises looking for additional help.
- Today about 170 agencies exist in Germany, some with, some without support from local authorities.

Models of self-managed enterprises of alternative, women and eco-movements

- Although the new social movements of the sixties and seventies had a great impact on societal changes in Germany, not much research about these impacts has been undertaken.
- Especially not about their economic impact in the context of the foundation of so-called self-managed enterprises.
- Set up to introduce non-hierarchical democratic structures in the economic sphere on one hand, and to engage in socially useful or environmentally sound production on the other, their impact can hardly be overestimated.
- At their high tide in the seventies and eighties a regular directory proved that they were active in almost all kinds of businesses from agriculture to high technology engineering, and responsible for a lot of technological as well as social innovations, from eco-businesses to parents-children co-operatives (so-called ‚Kinderläden‘).

Models of self-managed enterprises of alternative, women and eco-movements II

- The term of ,self-managed enterprises‘ is not much used anymore, but this does not imply that these enterprises have not survived.
- On the contrary, they differentiated in a variety of different streams or ,diffused‘ into other movements.
- Being of antiauthorian origin, they never formed a centralised representation, and the notion ,alternative‘ was increasingly seen as not appropriate anymore as an only negative delimitation.
- On the other hand profit distribution became a critical issue: As soon as real profits were generated, some turned into commercial enterprises, others developed new internal statutes as not-for-private-profit companies using the legal form of limited companies with or without charitable status.
- Today about 10,000 limited companies with charitable status exist, but the number of the others with profit restrictions is still unknown.

Models of self-help initiatives

- At about the same time as the former described movements for ,economic' self-help, a movement in the sense of ,social self-help' emerged with at least in the beginning non-economic objectives.
- It was caused by a process of emancipation of people wanting to participate more actively in the social sphere, and happened at the beginning of deregulation and financial cuts in social services.
- They usually start as informal groups, but to fulfil their mission they often have to generate additional income and therefore to establish formal enterprises, thus playing an important role in the emergence of new (formal as well as informal) social enterprises.
- They could be considered as indicators of the most relevant social problems in the communities, and cover a big ,reservoir' of future social enterprises.
- Today about 230 local agencies exist serving between 70,000 and 100,000 initiatives, but recent surveys indicate that their number has increased dramatically in the last years.

The model of socio-cultural centres

- Starting from a people's movement in the sixties, they aim to develop and support so-called 'everyday cultural activities' and/or to preserve local cultural traditions.
- Although some of them received, at least in the beginning, funding from public authorities, they suffered in the following years from the cutting of funding, and had to generate additional income (up to half of their expenditure).
- Today about 500 such centres exist, but despite their official recognition employment in these centres is one of the most precarious, often depending on temporary labour market schemes, unpaid work and 'self-exploitation'.

The model of German work integration enterprises

- The story of German WISEs is very much related to the ups and downs of the German labour market policy, where unemployment is (still) seen as a 'temporary' problem of individuals.
- Increasing unemployment in the eighties and nineties, especially in traditional industries, forced trade unions from these industries to develop the concept of 'employment and training companies'.
- The idea was to take on board the people who had been made redundant, develop new goods and services to be produced with the capacities of the former workforce, retrain them if necessary, and start trading as a new enterprise.
- Instead of asking for financial compensation, that money together with unemployment or other social benefits should be invested into the development of new sustainable employment as well as enterprises.

The model of German work integration enterprises II

- In the first years after the unification, where nearly half of the population lost their jobs, this concept was taken up, employing at their high tide up to 500,000 people.
- Supported for the first time by so-called 'employment creation measures' it started with great expectations, but on the other hand made them fully dependent on these measures.
- Seen as a 'secondary labour market' of temporary importance, these companies were not allowed to establish themselves as ordinary enterprises with a permanent workforce, on the contrary they had to make their workforce redundant in regular intervals.
- Together with further cuts and changes in the conditions the situation has become unsustainable for many of these companies, leading to the breakdown of a lot of these enterprises today.
- The case of the German WISEs illustrate how an originally innovative concept can be brought down to its knees by too much control and restrictions from the authorities.

The model of local exchange and trading systems

- The idea was imported from examples in Canada and the UK, and appeared in the nineties in Western as well as Eastern Germany.
- LETS have been set up to overcome the shortage of money in disadvantaged areas or for disadvantaged people, but also to strengthen relationship and mutual help within communities.
- The exchanges are based on bits of working time to be measured either in virtual currencies or simply in hours or parts of it.
- LETS are at present mostly active in neighbourhood or proximity services, but could be extended to all kinds of businesses, provided the problems with the tax authorities could be solved.
- So-called ,co-operatives of elderly people‘ even experiment with non-monetary social security systems.
- A national platform covers more than 1,000 LETs or similar groups.

The model of neighbourhood and community enterprises

- The national economy of Germany as a whole is still considered (from inside as well as from outside) as performing well, but the differences between the rich and the poor are increasing.
- This economic split is not equally distributed all over the country, but concentrated in islands of prosperity on one side and crises areas on the other.
- Furthermore, cities as well as rural areas suffer from ,social segregation, recognised since 1999 by a national programme, called ,Social City‘ covering more than 600 projects in 380 locations.
- A lot of social enterprises have been already active in this field and served as best practise models for that programme, like the Berlin Development Agency for Social Enterprises and Neighbourhood Economy / BEST (developed within a pilot project 1998 – 2002).)

The model of neighbourhood and community enterprises II

- Different to other models described so far, these enterprises are centred around the social and economic development of whole localities or regions.
- They are focused on the local economy in general, restructuring local economic cycles and offering work opportunities and income to the local people.
- This approach was very much influenced by concepts of community development from the UK and the USA.
- Neighbourhood centers (in the tradition of settlements) which had already been initiated in post-war times (about 500, some of which still exist), reappeared in the late nineties in West Germany.
- In parallel a number of community-oriented social enterprises emerged in East Germany with the aim to restore and revitalise the cultural heritage, and started around these activities processes of local economic development.

The model of social entrepreneurship

- This most recent model appeared in Germany during the last decade.
- It seems to be based on the US-American concept of philanthropic entrepreneurship with an strong focus on market activities, independence from the state, and co-operation with the traditional corporate sector.
- But the way in which the concept is taken up in Germany seems to be rather ambivalent, especially in the question of profit distribution:
- Is it restricted to ‚social profit‘ like in Yunus concept of ‚social businesses‘ or open to all ‚enterprises with a social mission‘ despite their attitudes towards profits?
- Finally, the attitude of being ‚change agents‘ is rather attractive to young people, but the present hype might involve a danger that the long and outstanding tradition of social enterprises in Germany might fall into oblivion.

Models of mutual insurance systems

- They have played an important role in the 19th century as forerunners of the German social security system which was established by Bismarck.
- Today the mutual insurance systems for retirement, health and social security (including unemployment benefits) are still semi-public institutions.
- The additional existing private insurance companies are rather commercial, and do not see themselves as social enterprises.
- But if economic crises continue, this might be a new field of activity for social enterprises in Germany, too.

Conclusion

- Although the majority of these enterprises do not use the term, Germany has a long and diverse history of social enterprises
- Although officially neglected, the social economy is one of the ground pillars of the German economy in general
- The fields of activity cover almost all parts of the economy from agriculture to Hi-Tech production
- The most advanced social enterprises are not restricted anymore to certain fields of activity, but work increasingly on all aspects of the Local Economy

Conclusion II

- The complexity and diversity of the German Social Economy is at the same time one of its most serious problems for further development:
- It is fragmented or split up in separate groups or 'milieus': Each has its own national federation, support and development agency, intermediary service, education and training system etc.
- There is finally a lot of competition between them, weakening the position of the sector towards more visibility and acceptance in Germany

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Learning Package Local Social Economy

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