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A Model for Directing and Modulating Public Interventions in Social Enterprises

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Abstract: The world is no stranger to crises, and social enterprises struggle to both survive and deliver on mission. This study explores how public interventions can facilitate economic recovery through targeted assistance to social enterprises, specifically the Italian social cooperative. Despite their prevalence and beneficial impact on Italian communities, not all Italian social cooperatives are economically and/or financially healthy. So this study answers the following two research questions: what is the financial and economic condition of Italian social cooperatives, and how could scarce public resources be directed to social enterprises in order to further the goals of social policy? To assess financial and economic health, we conduct financial statement analysis based on data extracted from the AIDA database. This methodology makes it possible to analyze Italian social cooperatives with techniques designed to monitor the situation in terms of both financial balance (current ratio, warranty ratio, and equity multiplier) and of economic balance (ROA, ROI, and sustainability of financial charges). Using these ratios, we create a matrix of financial and economic health and then provide guidance on which level of public support in each classification is likely to provide the most overall societal benefit. Such analysis offers not only benefits to Italian policymakers and citizens, but is a topic of particular interest for researchers, policymakers, and practitioners around the world evaluating policy responses to crises such as COVID-19.

Keywords: social cooperative, ratio analysis, policy intervention, Italy

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1 Introduction

The world is no stranger to crises. Now that the immediate health emergency of COVID-19 seems to have slowed, the impending crisis is an economic and social one. Such a situation, although a concern for the whole economic system, may cause difficulties for people who are in need. Social enterprises of various legal forms exist to serve such needs, but they are also vulnerable after an extended period of disruption.

Social enterprises are organizations that pursue a social good using some degree of market revenues such as those from trading or from entering contracts to provide services. Defourny, Nyssens, and Brolis (2021) consider such organizations as spanning the area among three poles: general or social interest, mutual interest, and capital interest. By its nature, a social enterprise is not maximizing profit because it uses resources to provide a social good; therefore, when compared to a traditional corporation, it may not appear as financially or economically healthy. However, the fact that it is improving social conditions means that it may be a better investment for public support programs. Indeed, Borzaga and Galera (2016) determined that social enterprises are a particularly good way of responding to hardship because of their ability to reflect the needs and priorities of the local community. Therefore, public support to social enterprises can be a good way to support and sustain several groups of stakeholders who are in need.

Italy was among the first nations to enact legislation that regulates (and therefore facilitates) the diffusion of social enterprises (Poledrini and Tortia 2020); for this reason, other countries have taken the Italian model as a reference to encourage the spread of this type of enterprise. In Italy social enterprises can have one of two different legal statuses according to the Italian Legislative Decree no. 155/2006: Social Cooperative or *ex lege* social enterprise. However, the social cooperative form is more popular, and social cooperatives are the majority of social enterprises in Italy (Poledrini 2015).

Despite their prevalence and beneficial impact on Italian communities, not all Italian social enterprises are economically and/or financially healthy. So, this study answers the following two research questions: what is the financial and economic condition of Italian social cooperatives, and how could scarce public resources be directed to social enterprises in order to further the goals of social policy? Such analysis offers not only benefits to Italian policymakers and citizens, but is a topic of particular interest for researchers, policymakers, and practitioners even from countries other than Italy.

To assess financial and economic health, we conduct financial statement analysis based on data extracted from the AIDA database, using ratios that have been identified as predictive of future crises (Montrone, Poledrini, and Searing 2020). This methodology makes it possible to analyze Italian social enterprises using techniques designed to monitor both financial balance (current ratio, warranty ratio, and equity multiplier) and economic balance (ROA, ROI, and sustainability of financial charges). Using these ratios, we create a matrix of financial and economic health where the social cooperatives are classified as follows: (A) economic and financial balance; (B) economic balance, but financial imbalance; (C) financial balance, but economic imbalance; and (D) economic and financial imbalance. We then provide guidance on which level of public support in each classification is likely to provide the most overall societal benefit.

This paper proceeds as follows: Section 2 discusses the literature on the economic and financial characteristics of social enterprises, with particular focus on the Italian social enterprises context; Section 3 presents the data and methodology used for the analysis; Section 4 reports the results of the analysis, while Section 5 discusses the managerial and policy implications. Section 6 concludes.

2 Background

2.1 The Economic and Financial Characteristics of Social Enterprises

The financial resources and capital structure of social enterprises can vary widely depending on their legal form, the goods and services they provide, and many other organizational and situational factors (Searing et al. 2021; Searing and Young 2016). However, this does not exempt social enterprises from the constant search for balance in their economic and financial profiles (Amaduzzi 1948; Giunta 1996).

The economic and the financial profiles are related but unique from each other. The financial balance concerns the ability of the cash inflows to promptly cover the cash outflows, upon which organizational survival and development depends. The economic balance occurs when there is adequate profit to create wealth for the satisfaction of human needs. Though the profiles are linked, incurring a cost does not necessarily happen at the same time as the cash outflow. Therefore, it is important to monitor both financial and economic balance to ensure the health of the organization.

The production of goods determines monetary inflows, just as costs are the cause of monetary outflows. It follows that, between the two balances, the economic one takes on the most important (if less urgent) role since it reflects the purpose of the social cooperative. This does not mean that financial balance (such as correct hedging and correlation between loans and investments) does not affect the economic balance. For example, a correct composition of loans can produce cash accessibility with a limited and acceptable amount of financial charges (Brugger 1990), but if the charges are too high the economic situation of the company can be compromised. In other words, financial balance and economic balance are mutually supportive, but not dependent on each other.

For most social enterprises, the majority of their revenue is from exchange transactions from selling goods or providing services. In many definitions of social enterprise, the presence of market income is a requirement (Social Enterprise UK 2012). Social enterprises can enjoy economic success because they have the attributes of their market good to rely on, but they also gain customers who would rather buy from an organization with a social mission than from an organization only offering a quality of goods. The key here is finding a way to signal to these buyers that the social enterprises have a social mission without discouraging potential customers who are purely attracted by the goods and not the mission.

SE emerged most strongly in two areas, especially in Europe: caring activities and training activities (Nyssens 2006; Tortia, Degavre, and Poledrini 2020). Both types of activity involve the provision of a service to a vulnerable population. Though the service itself (such as childminding) may be available in a conventional marketplace, there are potential recipients that are unable to afford such services. Social enterprises allow those in need of services to afford them, subsidized by those private or public supporters who see value to the community in making sure that such services are available to all. This means that the economic performance of social enterprises is potentially more complex than corporations, with several types of financial resource flowing toward the production of a single service.

SEs are also more complex than corporations or traditional charities in their financial performance. Market-based revenues are free of the types of restrictions that often come with donations, which gives some flexibility in terms of accruing assets. This makes it easier for social enterprises to save for a "rainy day" in case of crisis. However, there are still limits on the amount of accumulation which can occur, since there are often regulations on both the legal form and potential government funding (Vanek 2017). Further, many social enterprises prefer using accumulated earnings rather than debt, which means that any accumulated earnings may be used for large or unplanned capital needs (Watson and Wilson 2002). However, this may also reflect difficulties social enterprises face in accessing debt.

2.2 Characteristics of Italian Social Enterprises

Today in Italy, there are two possible legal frameworks for being a social enterprise: social cooperatives or *ex lege* social enterprises. The first legal form was established with Law 381 of 1991. This law provides the framework for social cooperatives to have the purpose of pursuing the community's general interest by socially promoting and integrating citizens. They can carry on two main economic activities: (a) providing social, health, or educational services, or (b) engaging in agricultural, industrial, or commercial activities to employ disadvantaged people. In the latter case, disadvantaged people must be at least 30% of the total number of workers, and they should be members of the social cooperative. Italian law defines disadvantaged persons as those who face substantial physical, mental, or sensory handicaps; former patients of psychiatric institutions; people under psychiatric treatment; drug addicts; alcoholics; minors of working age in families with difficult situations; and former convicts. Over the years, the first type of social cooperative has taken the name of A-type social cooperatives, while the second has been called B-type social cooperative (Poledrini 2018). There is also a third type of social cooperative (a consortium comprised of multiple social cooperatives), and there are also mixed social cooperatives that carry out both type A and type B activities.

The second Italian legal classification for social enterprises (*ex lege*) was created in 2006 to allow any organization to operate as a social enterprise. Thus, before 2006 in Italy, only social cooperatives could be legally classified as social enterprises; after this year, any other enterprise can assume this legal form if it formally requests it. In particular, according to Legislative Decree no. 155 of 2006, the status of a social enterprise can be achieved by any organization that meets the following requirements:
1. Pursuing a social aim.
2. Carrying on business activity.
3. Having a profit distribution constraint.
4. Accounting for their social reporting.
5. Encouraging the broadest possible involvement of stakeholders in governance.
6. Having not more than 50% of the workforce be volunteers rather than paid workers.

Ex lege social enterprises can run the following businesses: provision of social, health, educational, and environmental services; interventions for the protection and enhancement of cultural heritage; and inserting disadvantaged people into the labor market. Although the *ex lege* law on social enterprise seemed to be a useful framework for spreading new social enterprises across the country, this has not happened because social enterprise founders still prefer the social cooperative framework. Therefore, social cooperatives are still the dominant legal form of social enterprises in Italy.

According to Borzaga and Fontanari (2017), Italian social cooperatives have the institutional framework to support healthy finances thanks to their profit distribution constraints, democratic governance, and qualified managers. However, Costa et al. (2012) have highlighted that the Italian small and medium social cooperatives often have problems accessing financial resources. So, they can have a low capacity to generate value for invested capital and may struggle to achieve a balanced financial structure.

In terms of economic performance, Italian social cooperatives had the ability to react positively to the economic crisis that began in 2007. Costa and Carini (2016) found that social cooperatives increased their overall turnover and total assets between 2008 and 2011, demonstrating that they had better performance than for-profit companies in the same period of reference. This result was possible thanks to the ability of the social cooperatives to face the market through innovative tools (Borzaga 2013) and their relative independence from public and private contributions. Andreaus and Tortia (2007) again highlighted in their study that the revenues of the Italian social cooperatives from commercial activity were equal to about 93% of the total revenues, with the rest being 3.8% from private sector contributions, 1.2% from capital grants, and 2% from other revenues.

Italian social cooperative's also have a tax advantage compared to traditional enterprises. In particular, social cooperatives are exempted from payment of IRES tax on their retained profits, which has contributed to strengthening the capitalization of social cooperatives. Compared to the standard VAT rate charged to conventional enterprises (22%), A-type social cooperatives charge zero or a 5% VAT rate (Law 2008/2015). Furthermore, B-type social cooperatives are exempted from the payment of national insurance contributions for the disadvantaged workers they have integrated, and since they are nonprofit organizations by Italian law, donations made to them are tax-deductible. The savings from the tax exemptions are then usually directed toward the mission, making the social services less costly.

In terms of human resources, the majority of social cooperatives do not have substantial volunteer involvement, so the main production activity is carried out by paid employees (Poledrini and Borzaga 2021; Tortia et al. 2022). According to Costa and Carini (2016), only around 12% of the total labor force are volunteers, while paid workers are the rest. In particular, in 2016, Italian social cooperatives attracted more than 262,000 members, of which 244,223 were paid workers and 34,626 volunteers. Indeed, volunteers are kept at less than 50% of the workforce so as not to dilute the social impact of the enterprise, particularly those enterprises where the social component is providing employment for disadvantaged individuals (Vanek 2017). For the paid workforce, social cooperatives also have greater job satisfaction than traditional corporations do, which means less employee turnover and loss of institutional knowledge (Borzaga and Tortia 2006). Therefore, the stock of resources held by social cooperatives is complex, but potentially a source of advantage. Indeed, social cooperatives are truly hybrid organizations: they have a few characteristics of all the different types of businesses and organizations currently existing in the Italian legal and social landscape, such as cooperatives, non-profit organizations, public companies, and profit-making enterprises. At the same time, however, the social cooperatives as a type are unique.

2.3 The Perils of Social Enterprises

There are three perils to the financial and economic health of social enterprises brought on by the tension of balancing both returns for their owners and accomplishing a broader social good. The first is that they do not have the single-minded purposes of maximizing the company's value for their owners. This causes confusion on several levels. Economic and management researchers continue to debate over the objective function of social purpose organizations, including whether managers should be maximizing output (Steinberg 1986; Weinberg 1978), maximizing budget (Tullock 1966), or some mathematical balance of multiple criteria (Hansmann 1981; Rose-Ackerman 1987). For social cooperatives, the question may be even more complex since the mission of benefit for the community of members (which would be a traditional cooperative) is also combined with the mission of benefit beyond the community of members. Thomas (2004) suggests that the strength of social enterprises stem from the numerous stakeholders involved: members with and without a financial interest, beneficiaries, donors of funds or volunteer time, and public agencies.

The second peril is that the absence of single-minded profit focus means that a narrower pool of investment is available. For those who are interested in maximizing their monetary returns, there will likely be more successful investments in the traditional for-profit sector. For those who are socially motivated and not looking for returns, they may turn to charitable donations. Many government programs and almost all foundation programs require the non-distribution constraint found in charities in order to secure contracts to deliver human services; though there are enough limits on Italian social cooperatives to attract public funds, they still find themselves trying to explain and justify their unique organizational status. This creates a missed opportunity to both promote economic development through supporting the social enterprise organizations plus boost whatever social mission the social enterprise is intent on providing.

The final peril is that, like many social organizations, it is difficult to choose organizational health over achievement of mission. As mentioned earlier, many charities are unable to accumulate emergency reserves due to restrictions from their donors or reliance on contracts that only reimburse for direct costs (Bowman 2007; Calabrese 2013). The absence of donor restriction issues is a potential advantage of the social enterprise legal form. However, just because they *can* accumulate reserves does not mean that they *choose to* or *are able to* accumulate such reserves. As with any social mission, the desire to achieve more of the social mission today versus saving for a crisis is difficult to overcome (Fremont-Smith 2004; Irvin 2007). This goes beyond the traditional struggle with time discounting faced by many for-profit managers. Rather than trying to decide between cooking one pot of soup today or two next week, imagine that your soup was the only meal for a member of your community. Even though your business sense tells you that two pots of soup next week is better, can you easily decide against feeding someone today? This aspect is even more true in this moment of serious economic and social crisis given by the COVID-19 pandemic situation. Social cooperatives by their nature are designed to work against their own long-term financial and economic health in order to serve their mission. For this reason, a possible government intervention to support the economic and social activity of the social enterprises could help weak citizens to overcome the crisis.

2.4 Financial Statement Analysis for Company Crisis Forecasting and Recognition

Given the fundamental importance of economic and financial balance in these social enterprises, companies need to recognize the potential onset of crisis situations in order to prevent them. This will protect not only the main stakeholders, but also the contribution of social enterprises to society. This dual focus of both narrow and broad perspectives of collective interest makes them especially worthy of public intervention.

In public finance, preventing a crisis normally costs less and has a better chance of success than trying to fix it afterwards. This means that public intervention must have two characteristics in order to make the best and most sparing use of public resources and exert an amplified positive effect on the economic system: be timely and be targeted.

Significant research exists on the causes of business crisis (Argenti 1976; Bertoli 2000; Brugger 1984; Confalonieri 1993; Falini 2008; Guatri 1986; Moliterni

1999; Piciocchi 2003). For the financial aspect, the crisis coincides with insolvency, i.e. with the inability of the company to pay its debts due to the lack of liquidity and credit (Zito 1999). Insolvency, however, is only the final stage of a crisis that has both financial and previous economic causes. In fact, in the theory of value (Guatri 1991, 1992; James 2010; Pellicelli 2007), the crisis is a vicious circle that starts with profitability problems that cause economic losses and, therefore, erosions of the value of capital. The consequent financial imbalances in cash flows lead to a loss of trust from lenders (Guatri 1995). In addition, crisis situations can also be triggered by specific causes, such as delays in payments (which are frequent in Italian public administrations), which can generate insolvency even in economically sound companies.

There is also substantial research on the causes of financial and economic crisis in charities (Chang and Tuckman 1991; Cordery, Sim, and Baskerville 2013; Dayson 2013; Greenlee and Trussel 2000; Hager 2001; Tevel, Katz, and Brock 2014; Trussel 2002; Tuckman and Chang 1991). Though bankruptcy is rare and, thus, not often used as a means of identifying charities in financial distress, several scholars advance the concept of financial vulnerability as a way of evaluating both the economic and financial health of such organizations. Early pioneers such as Tuckman and Chang (1991) established initial ratios that had value in assessing financial vulnerability. Later scholars used a variety of techniques to test the usefulness of different ratios, though often with different definitions of financial vulnerability and recovery (Greenlee and Trussel 2000; Hager 2001; Searing 2018; Tevel, Katz, and Brock 2014). However, the focus of these studies has been on best collection of ratios to use rather than on how the economic and financial elements of the organizations interact with each other.

In other words, there are two connected forces at work:

- Factors that generate an economic imbalance. This lack of sufficient equity will then contribute to financial imbalance. This also causes a further deterioration in the economic situation due to the high interest expense associated with excessive debt.
- Factors that generate a financial imbalance. This does not necessarily stem from the business model, but rather by situations of difficulty involving third parties (i.e. insolvent customers) or an inability to correctly set up the financial structure. Such situations also have a negative impact on the economic equilibrium through high interest expense.

As noted, there is a complex variety of factors causing company crises, and it is essential to identify such issues in time to prevent or limit the damage of the ensuing crises. To do this, the starting point is ratio analysis using the financial statements.

Although the models for forecasting insolvencies based on ratios originated with North American scholars (such as the Beaver (1966) model), Italian scholars recognised the importance of financial statement analysis for forecasting purposes since the early decades of the twentieth century (Besta 1922; Ceccherelli 1931).

However, the models developed by Altman (1993), Altman, Hartzell, and Peck (1995), and other authors (Berzkalne and Zelgalve 2013; Boritz, Kennedy, and Sun 2007; Chen 2014; Dakovic, Czado, and Berg. 2010; Fito, Planna-Erta, and Llobet 2017; Nam and Jinn 2000) were not recalibrated to account for social enterprises. They did not investigate whether or how many of the ratios, and especially the economic performance ones, take on different meaning for social enterprises. There has been progress in applying accounting ratio analysis to charities (Greenlee and Trussel 2000; Searing 2018), but these studies do not adequately reflect the hybrid nature of social enterprises.

3 Methodology

3.1 Methodological Approach and Analysed Data

Based on the premises of the previous paragraph, we build a model applicable to the peculiar reality of social enterprises. We consider the wide and authoritative literature about the most significant ratios in order to appreciate the existence of both economic and financial balance (Brunetti, Coda, and Favotto 1984; Caramiello, Di Lazzaro, and Fiori 2003; Ferrero et al. 2003; Invernizzi and Molteni 1990; Quagli, Froli, and Giusepponi 1994; Sostero et al. 2016; Spano 2002; Teodori 2000). An empirical analysis was carried out on data from the financial statements of almost all of the small to medium size enterprises (SMEs) social enterprises operating in Italy under the legal form of social cooperative (SC). In fact, Italian social enterprises are populated almost entirely by SMEs (from 5 to 249 employees) established in the legal form of social cooperative, which gives us a unique opportunity to view almost all the population of Italian social enterprises.

Though the analysis captures nearly the entire Italian social cooperative population, there were some organizations excluded from the sample. We extracted the financial statement values and other significant data from the database AIDA[1] for those with a number of employees equal to at least 5 but lower than 250 with reference to the years 2019 and 2020. The exclusion of companies with less than 5 employees (defined in Italy as “micro-enterprises”) and more than

1 AIDA is a database created by the Bureau Van Dijk (www.bvdinfo.com) that collects the contact, economic and financial data of more than 950,000 Italian enterprises.

250 is motivated both by the lack of many financial documents in the database for the micro-enterprises, and to make the group of companies more homogeneous in size since there are very few big social enterprises. We also dropped from the analysis those social cooperatives that had missing or inconsistent data in the variables used in the analysis. After removing the data regarding those few situations in which the lack of significant financial statements values in the database would have distorted the analysis, we considered 2748 social cooperatives for 2019 and 1167 social cooperatives for 2020. The numerical gap between the two years is motivated by the fact that the availability of the 2019 financial statements can be considered complete, while the availability of the 2020 financial statements on the database is still partial, even though we can count on a decidedly significant number. Therefore, it was deemed appropriate to separately identify the 2019 financial statement values of the same 1167 companies for which the 2020 data were available, in order to be able to make comparisons between two perfectly overlapping sets.

In this context and with the aforementioned methodological premises, the comparison between the results of the 2019 and 2020 financial statements were considered to be of primary interest due to the timing of the pandemic, beginning from March 2020 (start of the lock-down in Italy) and going on (albeit with different intensity) for the rest of the year. In other words, there is the possibility of measuring the negative impact of the pandemic on social cooperatives with particular regard to their economic and financial balances, taking as a benchmark their “pre-pandemic” situation in 2019.

3.2 Ratio Analysis

Using the data extracted from the AIDA database, the values of six ratios were calculated for each social cooperative, three of which aimed at verifying the financial balance and the other three relating to the verification of economic balance (Montrone, Poledrini, and Searing 2020). The existing Italian literature on financial statement analysis considers these ratios as highly significant (Avi 2007; Brunetti, Coda, and Favotto 1984; Caramiello, Di Lazzaro, and Fiori 2003; Ferrero et al. 2003; Manzonetto 2002; Montrone 2016; Paganelli 1987; Quagli, Froli, and Giusepponi 1994; Sostero et al. 2016; Terzani 1996).

The three financial ratios are designed to capture the existence of conditions of financial balance. The current ratio (current assets divided by short-term liabilities) outlines the company’s solvency conditions in the short term. The warranty ratio (equity divided by fixed assets) indicates the existence of an adequate capital position with a significant contribution of equity in the financing of fixed assets. Finally, the equity multiplier (total assets divided by equity) expresses the financial structure in its composition between equity and debts.

The other three ratios detect the existence of conditions of economic balance. The ratio between net income and total assets (ROA) measures the overall economic performance of the company. The ratio between EBITDA and total assets focuses on the contribution of the core business to the above-mentioned overall economic performance. The ratio between interest expense and sales revenues verifies the sustainability of the financing choices in terms of their economic impact.

Qualitative judgments can be expressed on the value of each ratio, obtaining quantitative measurement by assigning a score from 1 to 5, respectively, to indicate a situation of:
- Score 1: serious imbalance.
- Score 2: moderate imbalance.
- Score 3: minimum balance
- Score 4: satisfactory balance.
- Score 5: more than satisfactory balance.

Following the indications that are given by the literature and the business practice in evaluating the results of the ratios, and considering the characteristics of social enterprises, the ranges of values for each ratio that were assigned a score from 1 to 5 are shown belowin Table 1 (Montrone, Poledrini, and Searing 2020).

Table 1: Ranges of values for the assignment of scores.

Ratios	Score = 1	Score = 2	Score = 3	Score = 4	Score = 5
Current ratio	<0.8	0.8–0.99	1–1.19	1.2–1.5	>1.5
Warranty ratio	<0.5	0.5–0.64	0.65–0.79	0.8–0.99	>1
Equity multiplier	>10	6–10	3–5.99	2.99–2	<2
ROA	Negative	0–0.99%	1–1.99%	2–4%	>4%
EBITDA/total assets	Negative	0–3.99%	4–7.99%	8–12%	>12%
Interest/revenues	>6%	4–6%	2–3.99%	1–1.99%	<1%

Considering as balanced situations the ones have a minimum balance (Level 3) or higher, we calculated for each social cooperative an Average Financial Score (AFS) and an Average Economic Score (AES), obtained from the average of the scores determined, respectively, in the three financial ratios and in the three economic ratios.

We are aware that, like any average, AFS and AES could be the result of strongly diverging values, so it could happen that a situation of serious imbalance (score 1) is found in one ratio while the other two show high scores, leading to an average score value greater than or equal to 3 (which denotes a situation of balance), thus risking to hide for the single social cooperative an extremely significant problem that should be addressed as soon as possible. Therefore, we have carefully checked the presence of such situations, finding their frequency very low. More precisely, the simultaneous presence of a situation of serious imbalance for an indicator (score 1) and an average social cooperative are greater than or equal to 3, in 2020 occurs for the AFS in 67 cases out of 1167 (5.7%) and for the AES in 11 cases out of 1.167 (0.9%), while in 2019 it happens for the AFS in 60 cases out of 1.167 (5.1%) and for the AES in 8 cases out of 1.167 (0.7%).

The combined consideration of these two average scores for each company made it possible to divide the social cooperatives into four categories based on the possible combinations of the existence, or not, of economic balance and of financial balance; these categories can be effectively represented in the following matrix in Table 2:

Table 2: Matrix of financial and economic health.

	Economic balance	Economic imbalance
Financial balance	A	C
Financial imbalance	B	D

More precisely, the characteristics of the categories are as follows:

- Category A: presence of both economic and financial balance (AES> =3; AFS> =3); this is obviously the most positive condition
- Category B: although operating in conditions of economic balance, the company suffers from a situation of financial imbalance (AES> =3; AFS < 3); this condition is often caused by difficulties in collecting receivables from customers and/or by the inadequate ability in setting up the financial structure. The crisis can be prevented or overcome, but it should not be underestimated, considering that conditions of financial stress also exert a negative impact on the economic balance through too high interest expense.
- Category C: the company is still in conditions of financial balance but suffer from an economic imbalance; compared to the previous category, this is a more insidious situation for the future existence of the social enterprise, considering that it is necessary to prevent that the economic imbalance, sooner or later, also determines a financial imbalance. This also causes a further worsening of the economic situation due to the high interest expense associated with excessive indebtedness; consequently, this vicious cycle will lead the company to slip into the D (and most problematic) category.
- Category D: the company is in conditions of both economic and financial imbalance; in other words, it is a now full-blown crisis with deep economic

roots. It is not only too late to be prevented, and it is also difficult and unlikely for the organization to re-emerge except at the cost of a profound restructuring and based on the availability of relevant additional financial resources.

4 Results

The distribution in 2019 in the scoring classes of the six ratios with reference to the 1167 social cooperatives whose financial statements are available for both 2019 and 2020, is shown in the following Table 3.

Table 3: Score distribution within the SC sample, year 2019.

	CR	WR	EM	ROA	ROI	SFC
Score 1	75	324	298	320	168	12
Score 2	69	77	130	336	342	13
Score 3	111	64	300	133	346	64
Score 4	167	76	196	140	158	155
Score 5	745	626	243	238	153	923
Total	1167	1167	1167	1167	1167	1167
Overall mean	4.23	3.52	2.96	2.69%	2.82%	4.68%

CR, current ratio; WR, warranty ratio; EM, equity multiplier; ROA, return on assets; ROI, return on investments; SFC, sustainability of financial charges.

In Figure 1 it is observed that for CR, WR and SFC more than half of the social cooperatives analysed is placed in the highest score with more than satisfactory equilibrium. Instead, the Equity Multiplier is significantly frequent in all 5 scores, while for ROA and ROI, companies that are placed in the two lowest scores of severe imbalance and moderate imbalance are prevalent.

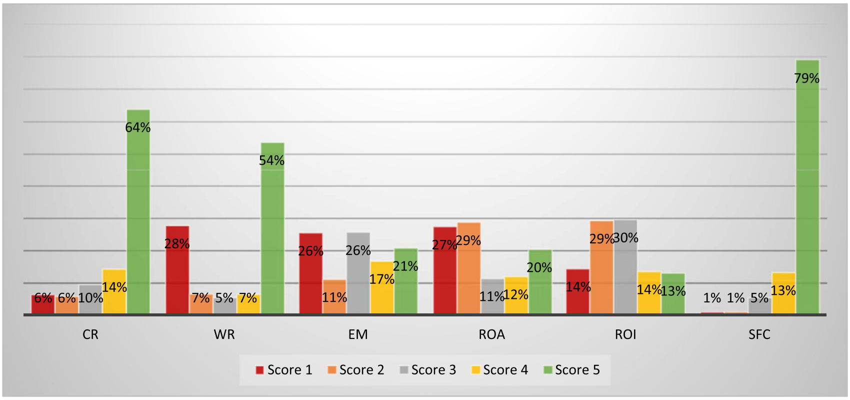

Figure 1: Percentage distribution by score, year 2019.

Good health conditions can be observed in 2019, confirmed by the data relating to the Average Financial Score (AFS) and Average Economic Score (AES) calculated as the average of the entire set, which are respectively 3.57 and 3.40. However, the average score hides a composite reality, as emerges from the underlying economic and financial health matrix (Table 4), where frequencies are shown in each quadrant next to the category.

Table 4: Results of matrix for financial and economic health. Year 2019.

	Economic balance	Economic imbalance
Financial balance	A: 616	C: 199
Financial imbalance	B: 201	D: 151

Figure 2 shows the percentage frequency of the different categories on the total of social cooperatives examined.

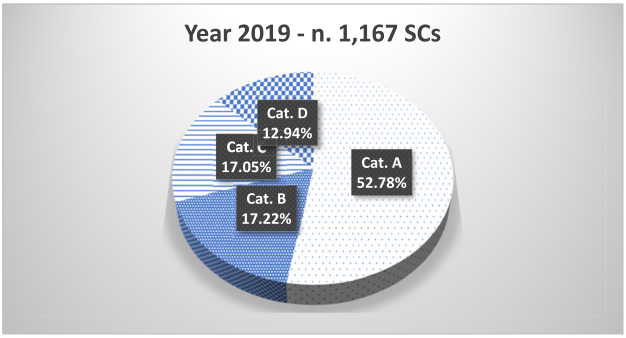

Figure 2: Percentage frequency by categories, year 2019.

So, in 2019, the situation of the Italian social cooperatives was overall satisfactory, with 52.78% of them (616 out of 1167) in conditions of both economic and financial balance.

On the other hand, the number of social cooperatives in total imbalance was quite low (151 out of 1167), with a percentage incidence of 12.94%. Finally, the values of the two intermediate categories were similar and by no means negligible: together, they amounted to over 34%.

The set of these results for 2019 represents a significant term of comparison for proceeding with the analysis of the data emerging from the 1167 financial statements available for 2020. The following Table 5 shows the distribution of social cooperatives in the score classes of the six ratios in the year 2020 on the same companies as in the previous Table 3.

Table 5: Score distribution within the SC sample, year 2020.

	CR	WR	EM	ROA	ROI	SFC
Score 1	64	341	271	442	305	16
Score 2	56	76	143	264	307	17
Score 3	93	54	315	116	304	77
Score 4	151	76	198	120	106	147
Score 5	803	620	240	225	145	910
Total	1167	1167	1167	1167	1167	1167
Overall mean	4.35	3.48	2.99	2.50%	2.55%	4.64%

In Figure 3, for the CR, WR and SFC ratios the majority of social cooperatives still rank within the highest score. On the other hand, ROA and ROI have a higher frequency in the two lowest scores (severe and moderate imbalance), while the Equity Multiplier (EM) is distributed fairly evenly among the five scores. Overall, the situation does not seem to differ much from the one already analysed for the year 2019.

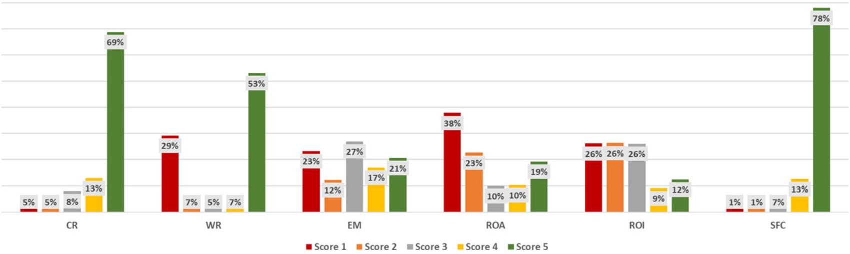

Figure 3: Percentage distribution by score, Year 2020.

However, from the comparison of the Average Financial Score (AFS) and the Average Economic Score (AES) in 2019 and in 2020, an asymmetry of behaviour emerges in the financial profile compared to the economic one. In fact, the average AFS of the entire sample even shows a slight improvement compared to 2019, increasing from 3.57 to 3.61, but the AES undergoes (as expected) a significant deterioration, dropping from 3.40 to 3.23.

The interpretation that can be hypothesized for this opposite trend is that the emergency measures issued by the Italian government during the pandemic to support businesses have worked, aimed at providing them with the financial resources necessary to overcome the most difficult period. However, the emergency measures were not able to affect the deeper causes of the worsening economic performance.

This hypothesis is also supported by the changed composition of the data reported in the economic health matrix shown below (Table 6).

Table 6: Matrix of financial and economic health, year 2020.

	Economic balance	Economic imbalance
Financial balance	A: 542	C: 288
Financial imbalance	B: 148	D: 189

Compared to the 2019 matrix, category A loses 74 social cooperatives out of the 616 present in the previous year, with an overall "sliding" towards categories C and D and with a significant decrease in category B (from 201 to 148 social cooperatives). This makes sense since this category (only financial imbalance) is the one directly targeted with the emergency interventions of the Italian government.

Figure 4 shows the percentage frequency of the different categories on all the social cooperatives examined.

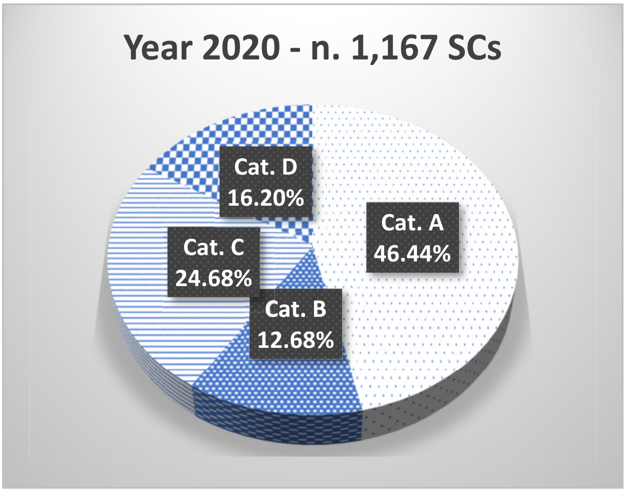

Figure 4: Percentage frequency by categories, year 2020.

Here we can note, even more clearly, the phenomena identified above: a significant contraction of category A, which loses more than 6 percentage points in terms of relative weight on the total. A negative interpretation is inevitable. The weight of category B is also reduced, with a loss not far from 5 percentage points; here the interpretation can be positive, as the support policies seem to have made it possible in the immediate future to safeguard (or even improve) the financial conditions of the social cooperatives.

Finally, an unequivocal warning comes from the remaining (and more problematic) categories C and D which together account for almost 41%, growing close to 11 percentage points compared to the previous year.

The following matrix of economic and financial health expressed in terms of variations (Table 7) is significant for visualizing the phenomena that occurred in the transition from 2019 to 2020.

Table 7: Matrix of financial and economic health, changes from 2019 to 2020.

	Economic balance	Economic imbalance
Financial balance	A: −74	C: +89
Financial imbalance	B: −53	D: +38

5 Policy Implications

The extraordinary hardships of the COVID crisis have normalized public support of even commercial entities. Such crises punctuate the normal economic equilibrium, which allows policy windows and innovations to occur. Therefore, we would like to offer recommendations on how to approach public interventions in a way that would most benefit both social enterprises and the communities they serve.

Since public financial resources are limited and there are ethical implications for their optimal use, it is extremely important to target them in order to maximize the positive results on the economic and social context (Thomas 2013). The four categories determined in this study allow for better and more timely targeting of the resources available. This means that the receiving social enterprises can overcome their difficulties in an effective and efficient way, respectively achieving the objectives of recovering the company's balance and minimizing the use of public resources for their support.

Directing assistance toward social enterprises belonging to category A could be superfluous, as they can provide for themselves and do not need support to continue operating (provided that conditions do not worsen). On the other hand, providing support to social enterprises belonging to category D could potentially be a waste of public money, likely failing to revitalize them. Moreover, the same resources, if deployed elsewhere, would probably allow the recovery of the jobs lost with the closure and liquidation of category D organizations. Of course, there is certainly benefit to assisting all organizations affected if the funding allows, but we are acutely aware of the limited resources available. Those organizations with an imbalance of only one kind should be prioritized over those with both, even though social enterprises of *any* kind should be prioritized over standard companies due to their dual nature of assisting both themselves and society.

The results emerging from the analysis may therefore be useful to policy-makers who should focus the public support on those belonging to categories B and C, albeit employing different approaches.

5.1 Policy Interventions for Financial Imbalances

More specifically, the category B social enterprises (economic balance, but financial imbalance) should receive support in terms of the liquidity necessary to overcome the financial crisis. Since the business model appears sound (due to the presence of the economic balance), interventions can target the inflexibility of the balance sheet in order to give the social enterprise the best chance of surviving the downturn. This is possible through traditional forms of financial support represented by low-interest and medium-long term loans and, as far as possible, by grants. Grants would be most effective if they were conditional on the support of new investments; however, given the illiquidity of this group, maintaining existing liquidity commitments would also be beneficial. Many of these existing commitments directly impact the finances of others, such as the ability to pay wages or rent. In this way, such assistance has a multiplier effect: liquidity granted to the cooperative is passed on to employees, whose own financial crisis is now being ameliorated.

Grants or forgiven loans (such as those possible through the U.S. Paycheck Protection Program) are especially useful to this group, who should avoid worsening their financial imbalance, if possible. Another possibility of public support, often used successfully in Italy, is to provide guarantees in the event of non-repayment to banks that provide loans to the companies experiencing financial difficulties. This is similar to the social impact bond in New York underwritten by Bloomberg Philanthropies (Anderson and Phillips 2015), only the state is providing the underwriting.

5.2 Policy Interventions for Economic Imbalances

The intervention on category C (financial equilibrium, but economic imbalance) is more complex because, considering the causal role of the economic aspect on the financial one, these companies face a cascade of issues. Unless the potential trouble in the business model is rectified, the constant need to borrow and enhance liquidity will also lead to a financial imbalance. In the absence of suitable support measures, they will likely find themselves in category D.

The companies belonging to category C can be best supported by implementing measures that improve the levels of efficiency and productivity. This occurs through focus on other types of "capital," mainly human and intangible.

The first and most important measure to improve company productivity consists in affecting the quality of the most important human resources for business success, strengthening the quality of the management on which both the efficiency and the aptitude for innovation of a company strongly depend (Bloom and Van Reenen 2007, 2010; Cucculelli et al. 2014; Prometeia-Federmanager 2015; Syverson 2011). This is possible by encouraging, even with partial cost coverage, the training and hiring of managers who, to the extent that they are able to better organize the business, can have a positive impact, as well as on labour productivity, also on the value-added creation. Several Italian initiatives have adopted this approach, such as the "sisma bonus" (earthquake bonus) to incentivize structural improvements and the "innovation manager voucher" to encourage strategic use of the downturn (Ministry of Economics and Finance 2020).

The recruitment of new professional profiles as well as the specific training of employees are also needed in order to achieve the necessary synergy between the introduction of new technologies and investment in the human capital of the workforce (Colombo and Stanca 2014; Dearden, Reed, and van Reenen 2006). In fact, another possible measure consists in strengthening the quality of capital by introducing new information technology, which boosts innovation (Jona-Lasinio and Manzocchi 2014). Strengthening the quality of capital, in the sense outlined above, can be made not only by increasing the extent of investments, but also by directing them with selective subsidized financing measures. These increase the productivity of labour by increasing innovation and the value-added of the workforce.

6 Conclusions

Even without (or at the end of) a pandemic crisis, trying to balance market success with providing social benefits can be challenging. It is almost inevitable that, in the near future and following the negative economic situation caused by the ongoing

COVID-19 pandemic, significant public support interventions will be needed to preserve and, if possible, strengthen social enterprises. Otherwise, these beneficial organizations may risk falling into a deep crisis with uncertain, but likely negative outcomes. This is as true for Italian social cooperatives as it is for social enterprises of other legal forms and other country contexts: the fact that a CIC in the U.K. or a benefit corporation in the U.S. serve both a community and an organizational purpose means that there is a social multiplier effect to any investment in keeping them operating.

This study uses financial ratio analysis to configure a matrix of financial and economic balance for Italian social enterprises using small and medium social cooperatives, employing a methodological approach which could be modified and extended to social enterprises operating in other countries. We therefore use this framework to offer guidance to policy makers in identifying social enterprises that are best placed to make effective use of public initiatives and support. In an ideal world and having unlimited resources available, everyone would like to be able to support all social enterprises due to their valuable social role. However, targeting timely public support to those that need assistance while also having better chances at recovery, will provide the most benefit with the least risk and cost.

To facilitate this, we created a matrix based on financial and economic ratios to guide policy support. Based on this classification, we recommend that policymakers first target public financial resources on category B social enterprises and possibly implement additional measures with less immediate benefits but positive longer-term effects also on category C. We assume that category A social enterprises do not need significant support while those in category D may be too compromised to recover and, therefore, public intervention would be a risk compared to investments in categories B and C.

Such an approach would avoid spreading public resources too thinly over too large a number of beneficiaries. Moreover, it would be a transparent way for policymakers to intervene, as it is based on objective criteria; this would help create accountability and support governments in managing wider public expectations in a consistent way.

The empirical analysis carried out by this study in comparing the 2019 and 2020 financial statements from a set of social cooperatives has highlighted phenomena that certainly cause concern. There has been a significant reduction in the relative weight of healthy organizations in category A (companies in both economic and financial balance). The weight of category B also decreased (financial imbalance, but economic balance), with a loss not far from 5 percentage points; here, however, the interpretation can be positive, as the support policies implemented by the Italian government so far seem to have made it possible in the immediate future to safeguard (or even improve) at least the financial situation of many social cooperatives. However, an unequivocal warning comes from the remaining categories; in fact, both categories C (financial balance, but economic imbalance) and D (financial and economic imbalance) increased.

This research has some limitations. First, the present study does not consider all the social enterprises existing in Italy, but only the ones that are small and medium. So, the smallest social cooperatives (the ones with less than 5 employees) and the largest are excluded, but it was the price to pay to obtain a higher reliability of the data extracted from the database. Second, a wider number of ratios could have been considered to measure both financial and economic balance, probably obtaining a more accurate but less effective and timely analysis for policy making purposes. Also, since we required complete information in the ratios to be in the sample, increasing the number of ratios may have decreased our sample size. Third, the study considers only the social enterprises with the legal form of social cooperative, which, though the dominant form, is not exclusive. Finally, all the 2020 financial statements may not have been submitted due to the hardships of the pandemic, so the effect listed in the report may be understating the true hardship since those who have been unable to file were not in the sample.

Drawing on the results of this study, useful suggestions can be made for further research. First, the application of the proposed method could be easily replicated (albeit with the necessary adaptations) with different input data related to other categories of companies, i.e. other types of social enterprise. Second, it would be useful (especially from the policy-maker viewpoint) to analyze ex post the impact and effectiveness of the policies targeted on category B and C companies. From a perspective of cost-benefit analysis, the results could help in evaluating the economic viability and the effectiveness of future and further measures that could be undertaken to support social enterprises. Third, the method proposed in this paper could also be extended, after adequate modifications and adaptations, to the choices of private investors and donors. This would allow them to identify the best candidates for recovery, selecting companies belonging to category B which, although in financial difficulty, being economically sound can perform well when their liquidity issues are resolved.

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