

**The Potential of Social Enterprises That Assist with the Social Integration  
of Youth and Related Themes  
Summary**

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**Awareness of issues**

How should government support social enterprises, in their role as “intermediary labor markets,” which enable young people with difficulties in finding general employment to build up experience and broaden their social relationships? This is the question that this paper seeks to answer.

In Japan, where it is still considered “mainstream” for new graduates to be swept up immediately into employment, new graduates can transition smoothly into work as long as the economy remains stable. However, since the economy could not be said to have recovered sufficiently by spring 2011, when this paper was published, it is feared that many graduates this year will not be able to find employment, and various policies have been implemented to, for example, increase the number of staff at job-placement offices for new graduates and job supporters who help them find employment. Separate research has been implemented on the subject of support for unemployed graduates, and has been compiled on this topic in a JILPT Research Material Series (2010b).

This paper, however, deals not with the group of young people who have struggled to enter the general labor market as a result of the impact of worsening recruitment circumstances. It deals with the group of young people who find it difficult to enter the general labor market even when the economy is thriving.

Young people who cannot achieve stable employment even in strong economic times are a problem not only in Japan, but also throughout the developed world. The OECD (2010) has identified the problem of young people who do not transition smoothly from school into work, even when the economy is strong and the rate of youth unemployment is low, and is engaged in analysis of the issues.

This paper looks mainly at policy support available for young people who have difficulties in transitioning into stable employment even when the rate of youth unemployment is low, an issue that has been identified as a problem within the OECD member countries. Up until recently, this problem was considered in conjunction with the issue of non-working young people (NEETs), and policy-based support took the form of measures such as independence training for young people and regional youth support stations. A significant number of young people, however, have still been unable to enter the general labor market despite having received support of this type. These young people do not have the sort of disability that would make them eligible for welfare measures. In other words, they fall somewhere between the scope of labor policy and welfare policy. There are methods by which such young people could be supported by welfare policies, but in the EU, it has recently become more common to base support for

young people who are not “participating” in society on policies that promote social integration through work.

One policy that is indicated in this area is the utilization of “social enterprises,” which provide an “intermediate labor market” that equates to neither general labor nor welfare-type labor. In other words, from the perspective of labor policy, this involves widening the scope of existing employment support activities. This paper aims to consider the potential of social enterprises as an intermediate labor market for young people transitioning to the general labor market, or as a place where young people can work for the longer term.

### **1. Summary of Each Chapter**

“Chapter 1: Issues with the Activities and Organizational Structure of Social Enterprises that Assist with the Social Integration of Youth” gives a summary of the Research Material Series that resulted from our research in fiscal 2009, and indicates the issues for this year (JILPT 2010a). Support by organizations working face-to-face with young people can be categorized by the following four functions: (1) the provision of a venue, (2) the implementation of education and training, (3) the provision of flexible employment opportunities and (4) support for transition into general employment. In many cases, organizations offer a combination of these things, however, and for many beneficiaries, these functions can seem to be a series of connected steps, while for others, the same activity is seen to play different functions, depending on their needs. In order to maintain these support functions, it would be better if the business basis of the supporting organizations was stronger, but in fact the business basis of many social enterprises is weak. Commissioned work by government and the “designated manager” system undoubtedly play an important role in ensuring the business basis of social enterprises, but since these are awarded mainly based on cost, there is a tendency for social enterprises to become impoverished, also raising questions regarding the nature of their current relationships with government.

“Chapter 2: Characteristics and Support Policy within Social Enterprises as Organizations to Assist the Transition of Young People” discusses the principles behind, and unique status of, social enterprises as “third-sector” organizations. The social enterprises studied in this research were not completely new organizations, removed entirely from their work to date. Rather, they are one type of third-sector organizations. The feature of social enterprises that is rarely seen in other organizations is the fact that they can implement a consistent flow between (1) an awareness of the state of beneficiaries with various difficulties, (2) establishing business activities to solve the

issues in advance of public systems, and (3) making visible these issues, and demanding a systematic response. From this perspective, social enterprises engaged in supporting young people have the characteristics of a third-sector organization consistent with non-profit organizations. In particular, they are businesses that embrace the process of identifying social problems in advance of others, developing projects in response, and requesting institutionalization. They are also significant because of their ability to be involved at the front line of meeting individual needs, and their potential to develop appropriate responses.

“Chapter 3: Support for Transitioning Young People within Local Government Policy” analyzes the “Support Project against Social Withdrawal” implemented by Kyoto Prefecture as part of its youth policy, and the “Worthwhile Work Support Center Project” implemented by Hyogo Prefecture’s Labor Bureau. Both these examples demonstrated features such as (1) the utilization of the characteristics and attributes of private-sector support organizations, (2) the facilitation of meetings between a range of private-sector support organizations, (3) the ability to complement national policy and standardize municipal policies and (4) the ability to transcend the vertical divisions of local government organizations, etc. There are still many big challenges, however, in terms of such matters as the implementation of stable and continuous support, cross-business partnerships both within and outside government, and appropriate assessment indicators.

“Chapter 4: Consideration of the Conditions Required as a Partner of a Project Supporting Young People’s Independence” gives comprehensive consideration to the organizations working face-to-face with young people that were the subject of the research for this paper, and looks into attributes of organizations that are able to partner government from the following viewpoints: (1) the structures of support organizations, (2) the details of support offered, and (3) the networks available.

The attributes relating to the structures of support organizations (1) include that they have the ability to change their nature in accordance with development among beneficiaries, and have the potential for further development in the future and have staff who are consistently involved with the day-to-day work of the organizations. The details of support (2) include the existence of multiple projects, and the ability to develop new support programs in line with the state of beneficiaries. The organizations should also have an approach to support a group of people not being helped by government, and be providing opportunities for employment to their beneficiaries through operating a business of some sort (in some cases the beneficiaries become full-time staff of the organizations). Regarding networks (3), such organizations have already built up

relationships of trust within the local area, and have achieved results. This is also important in procuring capital.

Social enterprises that assist with the social integration of youth have created work through implementing business, provided opportunities for employment experience in such work, and bridged the gap into general employment, thus focusing on their function as an intermediate labor market. The young people who are the beneficiaries of these projects are able to work in a flexible manner in line with their needs and level of ability.

Furthermore, a look at the organizational structures of social enterprises that assist with the social integration of youth shows that they are often comprised of three groups – a small number of full-time staff, paid and unpaid volunteers, and beneficiaries. Some beneficiaries move on to being paid volunteers, and in some cases become full-time staff, demonstrating a link to “alternative work styles.” In some cases, they may even become the people generating the work, and there are examples of former beneficiaries managing businesses.

In terms of the transition into general employment, while there are a limited number of organizations from which more than half of the beneficiaries make this transition successfully, it appears that this is less to do with the efforts of the social enterprises that assist with the social integration of youth, and more to do with the original state of the beneficiaries themselves. It is therefore difficult to generalize at this point based on the rates of transition into general or full-time employment of beneficiaries from such social enterprises.

Paid and unpaid volunteers (other than those who were formerly beneficiaries of the organization) are usually housewives or (less frequently) retired people. There appear to be issues with the utilization of retired people in this way. According to the manager of a particular organization supporting young people, the most troublesome type of people working in direct support of young people is the type who treat young people as though they are their subordinates. Apparently, this tendency is seen often among retired people. In the future, in order to utilize retired people in the support of young people, it will be necessary for them to break free of the superior/subordinate concept of relationships that they learned during their corporate lives, and acquire communication skills that allow them to build more egalitarian relationships.

“Chapter 5: Social Enterprise Policy in the UK, Italy and Korea” uses literature to examine typical policies within these three countries, which pioneered the adoption of social enterprises as part of their social policy (CIC in the UK, social cooperatives in Italy, and accredited social corporations in Korea).

The laws and regulations of the three countries aim not only to achieve social

objectives such as support for employment, regional development and the provision of social services, they also include systems designed in consideration of project sustainability and public significance. The following four points are particularly worthy of notice: (1) definition of the objectives of social enterprises, (2) the allocation of assets, (3) the participation of interested parties in the organization's decision-making, and the concept of one person, one vote (stakeholders and governance), and (4) accountability. There are similarities between the three countries, but also significant differences. In terms of the definition of objectives, these relate to who defines social objectives (via what system). In terms of the allocation of assets, there were differences in the strength of profit restrictions, while in terms of multiple stakeholders, the conditions for participation and the extent to which demands were made on participants showed differences. In terms of information disclosure, the scope and target of publication were different in each country.

Furthermore, support from government has great significance for the activities of social enterprises. In terms of both direct and indirect support, the role of the central government was largest in Korea. On the other hand, in the UK and Italy, there was relatively little direct support from government, with most support being indirect. Furthermore, in most cases, the implementing organization was local government or intermediate support organizations

## **2. Policy Proposals**

Based on the findings above, the following policy proposals are suggested.

- (1) Establishment of service quality assessment, and reforms to public service contracts to incorporate full cost recovery and longer-term contracts
- (2) Introduction of accreditation system, etc. (clarification of legal standing)
- (3) Evaluation of contribution to, and proactive participation with policy formation
- (4) Support for skills development and intermediate support organizations
- (5) Giving legal significance to "Intermediate ways of working"

### **(1) Establishment of service quality assessment, and reforms to public service contracts to incorporate full cost recovery and longer-term contracts**

The majority of social enterprises that assist with the social integration of youth do not implement business that gains value from their beneficiaries (the "young people who have difficulties in transitioning"). Rather, the financial basis of their business comes from work commissioned by government or "designated management," work, etc. For this reason, a lot of their work is dependent on tendering. It is generally accepted that

tendering is considered based on cost, and social enterprises (1) tend to have their costs estimated as lower than those of private-sector organizations, and (2) cannot include indirect costs such as management costs in their project costs. Both of these have been noted as causing problems.

The background to this is thought to be the fact that work done by such organizations is not valued at the same level as the work done by employees of regional public bodies, and the fact that there is no assessment of the quality of services provided. Discussions are currently underway in Japan, involving government agencies, of the need for a system that allows the recovery of all costs involved in the implementation of a project (“full cost recovery”), and the outcome of these discussions is to be anticipated.

Another issue is the length of contracts. In most cases, work commissioned by government tends only to be contracted for one fiscal year, or for a maximum period of three years. This often results in work merely being assimilated, and does not give enough time to uncover subsequent social problems or solutions, or build values within the social enterprise itself – aspects which, as a result, get put aside. Considering that many of these services are labor-intensive, it would be better if longer-term contracts were awarded in order to allow the development and utilization of skills among those offering support. Furthermore, as discussed later in Section (4) “Support for skills development and intermediate support organizations,” it would be helpful if one of the indicators required for tendering was proof of the quality of the skills of those involved in support, or if, as shown in Chapter 5, social aspects were included in the contract conditions, as they are in Italy.

It is thought that achieving these changes would mean that the business base of social enterprises would be stabilized.

## **(2) Introduction of accreditation system, etc. (clarification of legal standing)**

Some countries implement a range of support measures for social enterprises. In Italy, for example, tendering systems have been coordinated in consideration of the activities of social cooperatives, while in Korea, the cost of human resources is subsidized by the government. These preferential measures assume the accreditation of social enterprises.

In Japan, too, there have been calls by relevant organizations for legal status to be awarded, but currently the term “social enterprise” can be understood in a range of ways, and represents a diverse range of organizations. For this reason, there is a need for confirmation of the basic conditions for being capable of functioning as a social enterprise, and to give this standing in law.

As is described in Chapter 5, accreditation of social enterprises in the UK, Italy and

Korea take the following four aspects, among others, as important indicators in the definition of a social enterprise: (1) definition of the objectives of social enterprises, (2) the allocation of assets, (3) the participation of interested parties in the organization's decision-making, and the concept of one person, one vote (stakeholders and governance), and (4) accountability.

- (1) Decisions regarding definition of the objectives of social enterprises may involve legal definition, definition by commission of public regulator, or definition by a private sector organization. In Italy, definition is done in law, while in the UK, it is done by commission of public regulator, and in Korea, it falls somewhere between the two. Accreditation is done in two stages, by regional and central government, with the final decision being made by the Social Enterprise Committee of the Korean Ministry of Employment and Labor.
- (2) In terms of the allocation of assets (specifically the distribution of profits), while the research done for this paper did not show any case of a social enterprise that was generating significant profits, in combination with the issue of governance, which is dealt with next, this issue is considered an important indicator in preventing social enterprises from becoming "poverty businesses" that in fact may deprive, rather than benefit, users. Fewer restrictions on the distribution of profits make it easier to procure capital, but there is also the possibility that the search for profit could get in the way of achieving social objectives. For this reason, restrictions are often placed on distribution or on voice. The research undertaken for this paper does not allow for conclusions regarding standards for appropriate distribution restrictions, but since it is clear that some sort of restrictions are required, further and more detailed discussion will be required in the future.
- (3) The participation of interested parties in the organization's decision-making, and the concept of one person, one vote can be combined in different ways. In Italy, the principle of one person, one vote is established, while this is not the case in the UK. In Korea, the concept of stakeholder participation exists on paper, but at first, specific details regarding participation were not given. Subsequent to policy reforms, organizations engaging in social services are now required to have one beneficiary of services, and labor integration organizations are required to have one workers' representative, participating in management.

The reasons for the focus on participation by interested parties, including beneficiaries, are (1) the inclusion in decision-making can improve the employability of beneficiaries, and (2) the inclusion of beneficiaries in decision-making is thought to prevent deviant behavior among management.



In Japan, too, beneficiaries' intention to participate, or actual involvement in project management can be seen, and the participation of interested parties is increasing. This will need to be clarified as part of the introduction of an accreditation system.

- (4) Regarding the accountability, the publication of a social balance sheet (a report that includes not only the details of the project, but the role it is playing in society) is required in all countries. When extending accreditation, it will be necessary to demonstrate accountability of the social enterprise itself.

Furthermore, it is thought that the Act on Support for Those Seeking Employment, which is currently under deliberation, will also be based on the concept of social enterprises having systematic status.

### **(3) Evaluation of contribution to, and proactive participation with policy formation by social enterprises**

The significance of partnership between government and social enterprises in the delivery of social services lies in the fact that social enterprises can (1) be aware of the state of beneficiaries with problems that cannot be seen by government, (2) form projects that can solve problems more quickly than public systems are able to, and (3) make these problems visible and require institutionalization. The fact that government implements support specialized to social enterprises, although they are private sector organizations, should be considered as due to the unique values held by social enterprises.

As a result, in order for government to utilize social enterprises, they should not be doing so merely in order to implement their policies, but give them a role as an equal partner, involving them in the policy proposal and evaluation processes. Furthermore, it is thought that encouraging the participation of experienced social enterprises in policy formation processes in social services, seeking and including their opinions in creating indicators for policy evaluation will result in improved social service provision.

### **(4) Support for skills development and intermediate support organizations**

People working in support of young people have highly specialist skills and knowledge. The formation of skills among support workers involves the sharing of knowledge and know-how, with the objective of improving specialization. Consortium for Local Public Human Resources Development (see JILPT's Research Material Series No. 68, 2010) not only help develop specialization, but also contribute to career formation for the support worker through a system of accreditation. Efforts towards improving the level of specialization of the support worker, and accrediting these skills, or creating a bridge to

the general labor market through skills accreditation, which assists the smooth career formation of the member of support staff, will surely result in the improvement of the quality of the social enterprise. In Korea, an academy has been established to train the managers and staff of social enterprises, but in order to promote specialist skills development, it is effective to support activities based around an intermediate support organization that is independent of each individual organization.

The intermediate support organization is also required to play a role as the hub of the network. Within Microsoft Corporation's CSR, for example, information and networks were required to prepare a basis which facilitated private sector investment. Surely the role of network formation of social enterprises with companies and organizations that would otherwise find it difficult to connect to one another should be played systematically. There is no need to create new intermediate support organizations; rather it is important that policy support is given to existing intermediate support organizations that have already created networks.

In terms of management, startup capital is often required, as well as bridge funding to keep the organization running before subsidies and grants are awarded. It is thought that fiscal support for the development of financial systems that benefit non-profit organizations (something that has been a focus in the UK) is required, and intermediate support organizations may also be required to provide a certain amount of expertise regarding applications and document creation.

##### **(5) Giving legal significance to “Intermediate ways of working”**

“Intermediate ways of working” have been debated under different frameworks from general “labor” issues, which are based on the minimum wage system and other systems, but in fact, considering aspects such as the competitive tendering process for public service contracts, there is a danger that they could in fact be in competition with the “labor” within the general labor market, and as a result be creating a low-wage labor market that drags others down with it.

The various social enterprise accreditation systems used overseas, which are discussed in Chapter 5, are considered potentially useful in differentiating general labor from intermediate labor. The points relating to this are (1) definition of the objectives of social enterprises, (2) the allocation of assets (profit distribution), (3) the participation of interested parties in the organization's decision-making, and the concept of one person, one vote (placing importance on stakeholders and governance), and (4) accountability. In other words, in order for a “social enterprise” to function as an “intermediate labor market,” it needs not only to have a social objective, but also to have restrictions on

profit distribution, include beneficiaries in its decision-making process (as well as clearly reflecting their needs), and be fulfilling its accountability. It should be remembered that these are the prepositions for the organization to be accredited as an “intermediate labor market.” Furthermore, in addition to accreditation systems for social enterprises, in the long term, rules should be clearly defined for “intermediate ways of working,” and consideration given to new legal status, such as through creating a new, limited category.

Social enterprises that assist with the social integration of youth have been providing young people who fall between the two categories of general labor and welfare labor with an intermediate way of working, through implementing business activities. The scale of this sector, however, is still small and unstable, and sudden expansion is difficult to imagine, given the essential characteristic of social enterprises, which is to meet the needs of young people. These issues must be given due consideration, and social enterprises that assist with the social integration of youth should be given status as partners in policy implementation.

Furthermore, it appears that there is not a significant connection between such social enterprises and the external general labor market. Young people who have been excluded from the labor market or who are in a situation of social exclusion do, however, participate in the intermediate labor market, and can feel a sense of connection to society through earning a wage in return for their work. The fact that working encourages participation in society in this way must be welcomed from the perspective of social inclusion. Within the increasingly polarized labor market, it is necessary to consider not only general labor but also “intermediate ways of working” under the remit of labor policy.

In any case, the social enterprises currently assisting with the social integration of young people in Japan allow those who have stumbled at the early stages of transition the opportunity to gain experience, and to expand their social relationships. As such, they show great potential as an intermediate labor market, but there are still many issues left. Social enterprises that assist with the social integration of youth offer “intermediate ways of working,” which provide a response to social exclusion among young people, and create a social safety net. It is to be hoped that the importance of policy support for such organizations will be more recognized in the near future.