

# ORGANIZATIONAL STRUCTURES OF THIRD SECTOR ENTITIES: A REGULATORY POLICY STUDY

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## Abstract

**How to cite this paper:** Calugi, R. (2025). Organizational structures of third sector entities: A regulatory policy study. *Journal of Governance & Regulation*, 14(4), 54–64. <https://doi.org/10.22495/jgrv14i4art5>

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**ISSN Online:** 2306-6784  
**ISSN Print:** 2220-9352

**Received:** 05.08.2024  
**Revised:** 03.03.2025; 24.04.2025; 02.09.2025  
**Accepted:** 29.09.2025

**JEL Classification:** G34, L3  
**DOI:** 10.22495/jgrv14i4art5

The paper analyses the internal organizational structures of third sector entities (TSE) and compares them with those of commercial enterprises. After defining the third sector in a comparative context, the article refers to the regulations in the Italian Third Sector Code (TSC) (Legislative Decree No. 117 of July 3, 2017). This regulation brings the discipline of the internal structure of non-profit entities closer to that of profit-making entities. Also, in the interpretation, some management issues of third sector associations are resolved through references to the Civil Code regulations. In conclusion, the paper highlights the similarities between the internal structure of commercial companies and TSE: the organs of commercial companies can be transposed to non-profit entities, provided that they do not betray their social function. The next few pages will be devoted to an analysis of some regulatory references to corporate law that have been included within the TSC. Next, two corporate institutions will be identified that are applied to third sector associations through the general referral in Article 3(2) of TSC. Finally, through the analysis of the differences with the liability regime of the management body between Book I of the TSC, the reasonableness of applying the rules of Book V of the Civil Code to non-profit entities will be highlighted.

**Keywords:** Third Sector Organization, Administration, Corporation Structure

**Author's individual contribution:** The Author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

**Declaration of conflicting interests:** The Author declares that there is no conflict of interest.

## 1. INTRODUCTION

The Third Sector Code (TSC) (Legislative Decree No. 117 of July 3, 2017) constitutes, together with the legislative decree on social enterprise (Legislative Decree No. 112 of July 3, 2017), the central part of the entire reform of the third sector, which started with the approval of the enabling act (Law No. 106 of 6 June, 2016), delegation to the government for the reform of the third sector, social enterprise and for the regulation of universal civil service. On a general level, there are three aims of a legislative regulation of the third sector. First, to identify the prerequisites for the attribution of the status of "entity of the third sector". This must be done by establishing the conditions under which

the virtuous encounter between the constitutionally recognised freedom of association, the pursuit of certain activities, and the pursuit of certain general interest purposes makes it possible to bring a given social formation within the scope of the third sector. It is therefore the legislature's task to identify, among the various social formations, a subset of entities that present homogeneous characteristics of merit as to the purposes pursued, the scope and modalities of the activities carried out, commensurate with these aspects with constitutional principles and values. Second, to provide for measures that favour the activity of general interest promoted by these entities, according to a criterion of reasonableness. These measures may concern a plurality of areas, from tax treatment to simplification in

the fulfilment of certain administrative burdens, from the possibility of receiving contributions from the public administration (PA) or private entities to the possibility of collaborating in the provision of services in the public interest, etc. Third, to define a system of controls, devised in various forms (external controls, internal controls, self-controls, etc.), necessary to verify whether and to what extent the organisation's activity is carried out in compliance with the predefined criteria, respecting the constitutionally protected autonomy of these social formations. The checks are prearranged to allow verification of the conditions set out under the first objective, and, therefore, to ensure the genuine enjoyment of the advantages referred to under the second objective.

The subject of this contribution is the internal organisational structures of third sector organisations.

The regulation of the organisational structures of third sector entities (TSE) is aimed at guaranteeing "the principles of effectiveness, efficiency, transparency, fairness and cost-effectiveness in the management of the entities, providing appropriate tools to ensure respect for the rights of members" (Law No. 106 of June 6, 2016, Article 4, para. 1).

To this end, the TSC establishes a special regulation of TSEs, but makes some references to Book V of the Civil Code, in particular to the bylaws of joint-stock companies (JSC).

The references to the regulation of profit-making entities are functional to make the performance of general interest activities more efficient.

While these arguments justify the reference to the rules of profit-making entities with regard to the administration of TSEs, they deserve further consideration in relation to the manner in which shareholders' resolutions are adopted.

On this point, delegated Law No. 106 of June 6, 2016, requires the delegated legislator to "define forms and modalities of organisation, administration and control of bodies inspired by the principles of democracy, equality, equal opportunities, and participation of members" (Article 4, para. 1). The principle of equality among members inspires the entire discipline of the functioning of the bodies of third sector associations: members become part of the association because they share its ideal purposes and have the right to contribute on equal terms to the most important decisions relating to the organisation's constitution, functioning, and dissolution.

This approach is radically different from the one that inspires the assembly of profit-making organisations, in which members have participatory rights (tendentially) proportional to the amount of resources contributed within the society.

Despite the substantial distance between communities founded on the democratic principle and those of a plutocratic nature, the TSC completes the special regulation of the functioning of the assembly body with references to certain institutions of the shareholders' meeting in the JSC.

Where the reference to the Civil Code is express, the rules on corporate bodies are certainly always applicable "insofar as they are compatible".

The problem of interpretation is, on the other hand, when the rules of the TSC do not contain special rules and do not make an unambiguous reference to the ordinary law.

In spite of the efforts made by the specialised literature (Gori, 2022; Barilla, 2022), there remains a need to clarify how company law has affected the structures of TSEs, through a comparison with the disciplines of other European countries and the USA and through the analysis of the individual provisions that refer to the regulation of profit-making entities. The present contribution carries out an institutional analysis of the regulations of the TSC (also comparing them with the regulations of other European and non-European countries) in order to assess their impact on the reality of non-profit entities. The aim of this paper is to describe the change in the discipline of non-profit entities in the light of the 2017 reform, and how close it has come to the regulation of for-profit entities.

To effectively address the intended research purpose, the research questions were constructed as follows:

*RQ1: What differences exist between the regulation of the third sector in Italy and the regulations in the main European and non-European countries?*

*RQ2: How has company law affected the organisational structures of TSEs?*

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the research methodology and the regulatory sources examined to reach the conclusions described below. Section 4 compares the different disciplines on not-for-profit entities in the main European countries. Section 5 analyses the 2017 reform. Section 6 focuses on the internal structure of TSEs. Sections 7 and 8 focus on how TSEs are managed, the composition of the governing body, and the responsibilities of directors. Finally, Section 9 clarifies the relationship between commercial law and the law of the third sector: in particular, the transposition of specific legal institutions typical of JSCs to the reality of non-profit organizations (NPOs) will be highlighted.

## 2. LITERATURE REVIEW

There is no universally shared notion of "third sector", let alone a general consensus on what organizations comprise it. It is now half a century since Etzioni (1973) first used this term with reference to a group of organizations other than both "private" and "governmental" ones (Etzioni, 1973; Levitt, 1973), but doubts and perplexities about its nature and structure continue to exist in the literature. It was recently written that the term denotes that "sector of organizations that are neither public nor commercial, which means that it includes private NPOs" (Gidron, 2020, p. 1). Generic definitions and uncritical juxtapositions of the third sector with the non-profit sector are no longer sustainable and should be definitively overcome. For several reasons, including the fundamental contribution made to the public good, this group of organizations requires specific recognition. Fortunately, there is no shortage of progress in the latter direction, including on the legislative side, which is essential for this purpose. The time therefore seems ripe to arrive at a positive definition of TSEs, regardless of what they are denomination in individual countries, to distinguish them clearly from other categories of organizations, first and foremost that of non-profit or for-profit entities,

and to better understand their relationship with contiguous categories, such as those of entities of the social economy and social enterprises. In Etzioni's (1973) conceptualization, the third sector represents an alternative to the public ("first" sector) and private ("second" sector) sectors in solving social issues. This "residual" approach explains why Etzioni (1973) offers the third sector an exclusively negative definition. The third sector, in his words, "is neither private nor governmental".

This vision of the third sector is clearly different from the one that currently circulates in Europe, even in light of current legislation. Yet Etzioni's (1973) theory has significantly influenced the European debate. Use continued to be made of the term "third sector" until it became, 44 years after its introduction, a legal term: the relevant Italian legislation is a "TSC" which recognizes and regulates "TSEs". The process of institutionalization of TSEs has thus reached its zenith. The non-profit nature, in the sense that TSEs, unlike "second" sector organizations, are not constituted to generate profits, since they cannot distribute them to their members and directors, has long continued to be considered the main distinguishing feature of TSEs. Not surprisingly, one of the best-known attempts to provide a positive definition of TSEs internationally has been conducted under the label of "non-profit sector" rather than "third sector". The leaders of this project used the two expressions as if they were synonymous.

The first chapter of Salamon and Anheier's (1997) book was titled "In searching for the non-profit sector", while in the text the two authors argued that the lack of a clear definition of the "third sector" was the main cause of the limited attention it enjoyed and its insufficient recognition by the general public and the academic community (Salamon & Anheier, 1997). The definition of TSE they proposed let little of the identity of TSEs shine through and remained based on the element of non-profit, ending up being very similar to the "negative" definition of the sector that Etzioni (1973) already offered. At the beginning of the third millennium, a different approach to the third sector was adopted, in reaction to the North American type mentioned above, by a group of European scholars. This "European" approach was different for three main reasons: the type of organizations involved in the third sector, the intermediary role assigned to the third sector in the context of a "plural" welfare, and the recognition of the socio-political dimension of the third sector, in addition to the economic one. (Evers & Laville, 2004).

More specifically, regarding the first aspect, it is particularly interesting to note that mutual enterprises, such as cooperatives and mutuals, were included in the third sector despite the possibility recognized to them to distribute some profits to their members. The reason lies in the fact that they are social economy organizations rather than capitalist organizations, and their purpose is to generate collective welfare rather than to remunerate individual investments. A limited distribution of profits can therefore be considered compatible with the nature of TSEs, and can characterize a portion of the third sector, as long as profiles of sociality continue to characterize such organizations (Evers & Laville, 2004).

The reform of the third sector, in addition to defining the notion of the third sector more precisely, imposes a professionalization of voluntary activity. Indeed, the voluntary sector has come under increasing pressure to account for its performance (Knowles, 2025).

As will be further explained below, TSE requires an organisational structure that strikes a balance between internal democracy and the need for efficiency in the performance of general interest activities. The rapid changes in contemporary society have provided NPOs with a reinforcement in their important role, as they emerge as entities of great importance in combating poverty and other social problems. They are able to develop a commitment to communities and help develop social responses to address their needs, often supplanting the welfare state and the lucrative private sector, whose intervention is insufficient (Oliveira et al., 2021).

In order to achieve this goal, TSEs should engage effectively with internal and external stakeholders: in particular, they should build sustainable relationships with employees and relevant community partners through more formalized operating procedures (Wang, 2022).

### 3. RESEARCH METHODOLOGY

Since this is a qualitative study, most of the data come from secondary sources, including academic papers, articles published on websites, works by recognized authors, and other relevant publications. The methodological approach taken is both descriptive and analytical: descriptive analysis aims to identify patterns and trends in the data, while analytical analysis focuses on exploring possible causal relationships. Both interpretation strategies are consistent with the title and objectives of the research, as the analytical approach can be applied to both qualitative and quantitative studies, while the descriptive approach is typically associated with qualitative methodologies.

Particularly, in order to analyze the legal phenomenon of TSEs, a comparative and institutional method was used. On the one hand, some existing European Union legislations were compared in order to highlight the differences with the Italian legal framework. Starting with an analysis of the disciplines of Poland, Ireland, and Germany, we studied the different systems of regulation of TSEs. This study showed that the discipline of these organizations is influenced by the tradition they have experienced in that particular state or region. In fact, the history and spread of these entities have contributed to the drafting of the relevant regulations.

Then, with a normative and institutional approach, the provisions of the 2017 TSC are studied and compared with the discipline of Book V of the Civil Code. In this way, we compared the internal structures of a for-profit entity and a TSE in order to identify the different perceived needs of the two sets of actors. The analysis carried out reveals the professionalization of TSEs, which is indispensable, in the opinion of the writer, for the performance of general interest activities by these organizations.

#### 4. A COMPARATIVE OVERVIEW OF THE MOST IMPORTANT DISCIPLINES OF TSE

Non-profit organizations rely on a mix of revenue sources, including private donations, public funding, and government project revenues (Fischer et al., 2010). While NPOs must demonstrate that they carry out activities in the public interest in order to obtain tax-exempt status, they must also demonstrate performance to attract donors and customers. Therefore, TSEs are driven by both professional logic and social values (Zhu & Johansen, 2014).

The consequences of any regulatory violations can lead to serious consequences in the hands of TSEs. The detection of regulatory violations can threaten their tax-exempt status and thus severely affect their financial performance (Worth, 2020). In addition, violations can reduce public funding and damage the reputation of the NPO and its representatives, making it more difficult for nonprofits to raise funds. In fact, a good reputation plays a crucial role in the collection of donations and the involvement of volunteers in the work of the association (Brown & Slivinski, 2006).

While for-profit firms typically prioritize profit maximization, NPOs tend to focus on service quality and the well-being of their clients. As competition intensifies, organizations in each sector are likely to reinforce their core values — profits for for-profits and service quality for non-profits. To stand out, non-profits often invest in quality and position themselves within specialized market niches as a buffer against direct competition. For instance, in the nursing home industry — where for-profit providers dominate — the non-profit facilities may differentiate themselves by offering higher-quality, personalized care to attract clients (Brown & Slivinski, 2006). In summary, NPOs operating in competitive markets face stronger incentives to enhance service quality and higher potential costs when regulatory violations occur (Song, 2022).

However, “third sector” and “non-profit sector” are not interchangeable terms, and the two sectors do not overlap. While the non-distribution of profits qualifies TSEs in the North American-led approach, to the extent that TSEs are mostly referred to as non-profit entities, other factors become essential for this purpose in the European approach. Once again in Europe, a further step has recently been taken toward the identification of the third sector and a better understanding of it. As a result of a research effort, called “the impact of the third sector” and funded by the European Union, a new and modern concept of the Third sector was proposed, also to facilitate comparisons between different countries and the retrieval of homogeneous and reliable data on the sector. Indeed, the starting point of the survey was that “the third sector lacks a distinct identity in Europe and it is not clear what exactly the third sector is and what its role is in the European public space” (Enjolras et al., 2018, p. 12).

In a few words, the definition of the third sector adopted affects the regulation of TSEs. In America, the only relevant element is the prohibition of profit distribution. NPOs can take the form of a corporation as long as they comply with the constraint of hetero-destination of their resources. The type of activity exercised becomes relevant to enjoy a favorable tax regime (Salamon & Anheier, 1997). In Europe, the term “third sector”

intercepts the political-social dimension of the phenomenon. In the various states of the European Union, we see different legislative approaches. In Germany, for example, TSEs are regulated only in the tax code: first, it identifies the purpose of public benefit in the activity aimed at benefiting the generality of people, in terms of material, spiritual, and moral progress, and then it provides a series of exemptions concerning corporate income tax and value-added tax. In Poland, on the other hand, the element of shared administration is emphasized: TSEs must mandatorily establish relationships with the PA. Finally, the Irish model is very close to the Italian model: the Charity framework generally regulates all aspects of the nonprofit entity and makes up for a lack of civil law on nonprofit entities.

Italy is the only country to have a general law on the third sector, namely Legislative Decree No. 117 of July 3, 2017, bearing the TSC, to which Legislative Decree No. 112 of July 3, 2017, on social enterprise is linked. In truth, the conclusion can extend to all member countries of the European Union. In the other nine countries, “third sector” is not a legal term, although it is frequently used in Germany; it is rarely used in Denmark (interchangeably with terms such as “social economy” and “voluntary sector”) and in Poland (where it is regarding the legal category of “nongovernmental organizations”); it is not commonly used in Belgium, France, Ireland and Portugal, where other terms are preferred, such as “social economy” or “voluntary or community sector”. Indeed, in Spain, TSEs are recognized by law (see Spanish Law No. 43/2015 of October 9 on the “third sector of social action”), but with limited regard to entities that provide services to vulnerable people and those at risk of social exclusion. What is more, this Spanish law merely identifies these entities to give them an institutional voice and public support, but without regulating them.

#### 5. THE REFORM OF THE THIRD SECTOR IN ITALY

The third sector, in Italy, is a very old phenomenon. The Misericordia of Florence was founded in 1244<sup>1</sup>, a full 21 years before Dante (1265) and 704 years before the Constitution recognized “health as a fundamental right of the individual and interest of the community” (Constitution, Article 32).

It may well be said, then, that the third sector invented the modern notion of the welfare state because it performs a supportive social function in favor of the community.

The objective of the TSC is to promote the role of entities that pursue a public benefit purpose as a key player in social policies.

This view of support for the third sector is clear from the Guidelines for a Reform of the Third Sector of May 3, 2014: “among the main objectives is to build a new participatory welfare, based on a social governance extended to the participation of individuals, intermediate bodies and the third sector in the decision-making process of implementing social policies, in order to modernize the way welfare services are organized and delivered, remove inequality and recompose the relationship between state and citizens, between public and private, according to the principles of equity and efficiency and social solidarity” (Council of Ministers, 2014, p. 1).

<sup>1</sup> <https://www.misericordia.firenze.it/home/Storia>

In addition, the reform is aimed at “supporting the autonomous initiative of citizens who contribute, including in an associated form, to pursue the common good, to raise the levels of active citizenship, cohesion and social protection, promoting participation, inclusion and the full development of the person to enhance the potential for growth and employment, in implementation of Articles 2, 3, 4, 9, 18 and 118, fourth paragraph, of the Constitution” (TSC, Article 1).

From the very first article, the provisions representing the constitutional values of the third sector are recalled: the principle of personhood, equality, freedom of association, and horizontal subsidiarity.

In the Italian constitutional system, the individual is at the center of the system as the bearer of inviolable rights (Constitution, Article 2), as an individual but also in social formations; and it is the individual, in this dual capacity, who must be guaranteed full development, aimed at effective participation in the social organization of the country.

The space recognized by the Constitution is relational in two directions: on the one hand between the subjects themselves who wish to associate (Constitution, Article 18), and on the other hand between the association and public bodies for the joint performance of activities of general interest based on the principle of horizontal subsidiarity, enshrined in Article 118, para. 4 of the Constitution.

TSEs assume, therefore, the role of co-leaders in the “task of the Republic” of “removing obstacles of an economic and social nature, which, by effectively limiting the freedom and equality of citizens, prevent the full development of the human person” (Constitution, Article 3, para. 2). The state carries out policy-making activities in the planning of social policies and assumes the role of coordinator of the action of non-profit entities, as providers of services to the person (Briganti, 2018).

In line with this role, the Code establishes the conditions under which the freedom of association assumes relevance to the performance of certain activities or the pursuit of certain purposes, clearly identifying the prerequisites for the attribution of TSE status. Article 4 of TSC defines TSEs as private entities other than companies “established for the non-profit pursuit of civic, solidarity and socially useful purposes through the performance of activities of general interest” (TSC, Article 4, para. 1). The reform photographs the identity card of TSEs based on three requirements: the constraint of hetero-destination of resources (prohibition of subjective profit-making), the definition of an exhaustive list of activities of general interest (Article 5 of TSC), and a series of internal (Article 30 of TSC) and external (Article 90 of TSC) controls aimed at preventing behavior that conflicts with the purposes of the financed activities.

Within the world of non-profit entities, the TSC identifies a subset of entities that have homogeneous characteristics of deservingness in terms of the purposes pursued, scope of activities, and manner of conduct. A TSE is certainly a non-profit, meaning a non-profit is one that does not distribute profits among its members, but it is not necessarily the case that all non-profits are TSEs. For example, political parties, labor unions, trade associations, and banking foundations are non-profit entities, but they have not entered the third sector (TSC, Article 4(2)).

In the area thus defined, the reform identifies a set of favorable regulations consistent with the constitutional framework of reference that perform a reward and incentive function and are reasonably related to the nature, activities, and purposes of these entities (Gori, 2022).

The legislature provides a comprehensive system of tax breaks and public funding (TSC, Articles 72, 74, 76, 81, 82, 83), as well as a privileged channel of cooperation with the PA established by Articles 55, 56, and 57 of TSC (Perrone, 2020).

Finally, recognition and favorable bylaws are complemented by a set of organizational burdens, which allow for the protection, in an effective balance, of the constitutional interests pursued by the entity and supported by the public authorities (e.g., controls, reporting, transparency, etc.) and, on the other hand, the constitutional right to associate freely, deciding on how to form, organize, act, and, if appropriate, dissolve (Gori, 2022).

The reform, therefore, also takes note of the need to provide for a more rigorous system of governance than that provided for in Book I of the Civil Code, in light of the complexity of the legal and economic relationships that may constitute TSEs in carrying out their institutional activities.

We are witnessing a phenomenon of “socialization” of TSEs (De Giorgi, 2021): the TSC has transplanted, sometimes directly, sometimes through the filter of the compatibility clause, some of the organizational rules provided for in Book V of the Civil Code regarding profit-making entities.

The TSC made this approximation to Book V of the rules of TSEs through the general reference contained in Article 3, para. 2 of TSC, according to which “for matters not provided for in this code, the rules of the Civil Code and its implementing provisions apply to TSEs, insofar as they are compatible”. This provision refers not only to the provisions contained in Book I on non-profit entities (which would have been applicable in any case, upon integration, based on the relationship of specialty between the two disciplines), but to the entire content of the Civil Code. In addition, the reform makes several specific references to the organizational rules in Book V.

It is necessary to understand, however, whether this extension is reasonable based on the needs, structure, and purposes of TSEs. The rules of Book V of the Civil Code are structured for profit-making entities that place the capital element at the center of their structure, both in terms of finality (Civil Code, Article 2247) and in terms of participation (the shareholder exercises his rights according to the number of shares he owns within the corporate structure). In contrast, TSEs are bound to use their resources to carry out their institutional activities, without having the possibility of distributing surpluses among members.

## 6. THE REGULATION OF THE INTERNAL ORGANIZATIONAL STRUCTURES OF THIRD-SECTOR ASSOCIATIONS

The growing importance of some associations in light of the tasks they perform, the amount of resources they manage, and the public support they receive has prompted the legislature to subject their administration to numerous checks and balances and to entrust their most immediate tasks to internal bodies.

Article 27 of TSC states that Article 2475-ter applies to the conflict of interest of directors, while Article 28 of TSC states that “directors, general managers, members of the supervisory board and the person in charge of the statutory audit of accounts are liable to the entity, corporate creditors, the founder, associates and third parties, pursuant to Article 2392, 2393, 2393-bis, 2394, 2394-bis, 2395, 2396 and 2407 of the Civil Code and Article 15 of Legislative Decree No. 39 of January 27, 2010, insofar as compatible”.

Article 26, para. 7 of TSC, affirms the general character of the power of representation of directors and provides that limitations on the power of representation are not enforceable against third parties unless they are recorded in the business register or it is proved that third parties had knowledge of them. Article 13 of TSC obliges the preparation of financial statements, at least in the form of a cash flow statement, providing that the financial statements of associations engaged in business activities must be filed with the commercial register, as required for joint stock companies. Article 30 of TSC establishes the mandatory appointment of a supervisory body, including a single-member one, meeting the requirements set for auditors of spas, when two of the three limits indicated in the rule are exceeded: a) total assets in the balance sheet: EUR 110,000.00; b) revenues, income, income however denominated: EUR 220,000.00; c) employees employed on average during the year: five units.

The control body is called upon to supervise “compliance with the law and the bylaws and compliance with the principles of proper administration, also with reference to the provisions of Legislative Decree No. 231 of June 8, 2001, if applicable, as well as the adequacy of the organizational, administrative and accounting structure and its actual functioning” (TSC, Article 30, para. 6) as well as to exercise “tasks of monitoring compliance with the civic solidarity and social benefit purposes” (TSC, Article 30, para. 7). It can carry out the function of statutory audit and is empowered to carry out “acts of disposition and control and to ask the directors for information on the progress of corporate operations and on certain affairs” (TSC, Article 30, para. 8).

Article 29 of TSC legitimizes each member to report to the supervisory body any facts he or she deems reprehensible and also grants at least one-tenth of the members, the supervisory body, the person in charge of the statutory audit, or the public prosecutor, who suspect the occurrence of serious irregularities in the management of the directors the right to report the facts to the court pursuant to Article 2409 of the Civil Code.

## **7. THE COMPOSITION OF THE ADMINISTRATIVE BODY**

The rules found within the TSC, particularly in those concerning the structure and functioning of the governing body, are not complete and self-sufficient. Especially when scrolling through the rules of Title IV, one realizes that they compose a fragmented set of rules: for example, there is a lack of a rule regarding the termination of directors and a specific provision regarding the composition of the administrative body.

Intending to understand how this discipline can concretely be articulated and integrated with the discipline of corporate entities, we intend to enhance the key reading provided by the notes of the Ministry of Labor and Social Policy.

Ministerial Note No. 18244/2021 (Ministry of Labour and Social Policies, 2021) clarified the terms of applicability of the institution of co-optation. Article 2386 of the Italian Civil Code ordinarily provides that in corporations, if one or more directors leave office during the financial year, the remaining directors shall replace them, by a resolution approved by the supervisory body, until the first useful shareholders’ meeting, which may confirm or revoke them. The provision is applicable on condition that the majority of directors are always appointed by the shareholders’ meeting; otherwise, the incumbent directors must convene the shareholders’ meeting to call the missing members.

The note pointed out that the institution, as applied to TSEs, highlights, on the one hand, the need to protect the principle of internal democracy (of which the electivity of directors is a specific declination) and, on the other hand, that of ensuring the smooth operation of TSEs, as it is a necessary condition for the activities of general interest referred to in Article 5 of TSC to be effectively carried out.

The institution of co-optation risks effectively nullifying the power of the assembly to appoint the managers of the entity, since, until ratified by the assembly, the co-opted directors will have the same powers as those elected. The ministerial provision points out that “while in corporations the preminent need to protect the economic interest of the company, the continuity of management could, albeit temporarily, overshadow the powers of the assembly, for associations of the third sector the electivity of the offices by the assembly, as a democratic representative body of the entire associative body, distinct from the administrative body remains in any case a priority as it is characteristic and inherent to this type of entities” (Ministry of Labour and Social Policies, 2021, p. 2).

Extensive application of the corporate discipline must respect the principle of internal democratic nature that characterizes third sector associations.

It is permissible for the ceased directors to be succeeded by the first among those who were not elected in the procedure for the appointment of the body: in this case, the clause is legitimate because it can ensure the continuity of the functioning of the administrative body without affecting the relationship of representation that exists between the administrative body and the assembly.

In similar terms, the question concerning the admissibility of a single-member administrative body within third sector associations was resolved (Ministry of Labour and Social Policies, 2020).

Under Articles 2 and 18 of the Constitution, the organizational structure of TSEs is inspired by the principle of organizational autonomy. However, this freedom to structure internal arrangements must always be functional to the characteristics of the TSE itself. “The existence of a plurality of associates”, “the open character of third sector

associations" (TSC, Article 23), and "the principle of internal democracy" require a collegial composition of the administrative body, which is called upon "not only to manage the entity's resources, but also to concretize its participatory purposes by applying the principles of democracy and equality" (Ministry of Labour and Social Policies, 2020, p. 3). In contrast, the single-member composition of the administrative body is allowed in foundations, as the prevalence of the patrimonial element over the personal element is reconciled with the single-member composition of the body.

In this case, "the work of the governing body is fundamentally aimed at managing an earmarked patrimony in accordance with the originally expressed will of the founders", and "even if the statutes provide for the existence of assembly or steering bodies, the tasks of the latter cannot be identified in a way that is incompatible with the founding nature of the entity or the will of the founder" (TSC, Article 25(3)).

In conclusion, the difference lies in the split between ownership and management: in the for-profit entities is clear that the shareholders own the company but do not manage it. Their resources are vested in another entity (the corporation), and it is managed and directed by other people (the directors); these are accountable for their own according to the nature of the office and their specific skills. In the association (Book I of TSC), the members share and fully live the ideal spirit that enlivens the nonprofit entity: they are the real engine of the collective initiative. Within the association, they do not share their economic resources as much as their moral, ideal, and spiritual resources. In light of this deeper link between the purposes of the entity and individuals, it is possible to justify the fact that operational management is conditioned by the directives of the assembly (Civil Code, Articles 16, 20, 21). In corporations, there is a clear separation of powers and the directors exclusively with all the powers of management of the social enterprise that are not expressly reserved to the assembly. The power to condition directors aligns with the need for democracies in association structures. In addition, not-for-profit and for-profit entities differ in terms of the content and measurement of their organizational goals (Gee et al., 2022).

The key difference lies in the fact that not-for-profit organizations (NFPs) pursue social goals (as well as economic goals, in some cases), whereas for-profit organizations (FPs) tend to predominantly pursue economic objectives. The heterogeneity of goals also affects how they are measured: NFPs' performance metrics tend to be more complex, multidimensional, and context-dependent compared to those used by FPs (Hansmann, 1979).

Today, FPs are subject to growing societal demands for accountability and face an increasing need to effectively manage the diverse interests of multiple stakeholders. For the first time, these organizations are confronted with the challenge of balancing social demands with profit maximization. For this reason, NFPs represent a unique research context for examining how to manage two different and often conflicting logics within a single organization. For analyses of concrete case studies, see Battilana and Dorado (2010) and Pache and Santos (2013).

## 8. THE MANAGERIAL RESPONSIBILITY OF THE ADMINISTRATIVE BODY

It is necessary to mention the differences between the liability regime for directors in TSEs and, on the other hand, the general liability rules for non-profit entities.

Under Article 18 of the Civil Code, directors are liable according to the rules provided for the contract of mandate; under Article 1710 of the Civil Code, the agent is required to perform with the diligence of a good family man; if the mandate is free of charge, liability for fault is assessed less strictly.

The actions of Book I directors are evaluated according to the criterion of the diligence of the average man (Civil Code, Article 1176, para. 1). On the contrary, the TSC professionalizes the responsibility and tenure of directors, recalling, with the limit of compatibility, the rules on directors' liability provided for profit-making entities. The conduct of managers of third sector associations is parameterized according to the nature of the assignment and specific skills, pursuant to Article 2392 of the Civil Code.

At first glance, the TSC would have subjected non-profit entities to too strict a discipline: this would be a solution with little systemic justification and, in any case, difficult to implement in the non-profit world, where taking office as a director is often carried out free of charge (Civil Code, Article 34, para. 3).

The risk is that the provision of a stricter standard of diligence than that set by Article 18 of Civil Code may discourage the commitment of volunteers to the management of third sector organizations and imply an underestimation of the skills required by the management of Book I collective bodies (think, in particular, of political parties, trade unions and industrial foundations).

However, the distance between Articles 18 and 2392 of the Civil Code is more apparent than real.

Article 18 of the Civil Code has long been subject to a reading that brings it closer to the norms of Article 2392 of the Civil Code (Bonelli, 1992; Weigmann, 1974). The diligence required would not be parameterized to the average man, but would be required according to the assignment received, to be evaluated with different rigor depending on the circumstances, especially when it is rendered free of charge (Rivaro, 2021).

In this way, the non-profit purpose of the entity, as well as the possible gratuitousness and nonprofessional nature of the assignment, could lead to a lowering of the diligence required. Conversely, the significant size and specificity of the activity performed impose a higher standard of diligence more appropriate to the more onerous tasks that the third sector will be called upon to perform in the future.

## 9. CONCLUSION

From the comparative and institutional analysis above, it is possible to intuit the importance of the 2017 Italian reform of the third sector. If, previously, the regulation of these entities was contained in the Civil Code of common law, the TSC has provided TSE with specific regulation. This legislation succeeds in adapting the internal structure of profit-making entities to the associative

purpose pursued by TSEs. In effect, the structure of profit-making entities can be a neutral, compatible tool with even a non-selfish purpose. This interpretation, however, risks overburdening smaller associations, which are forced to provide themselves with organs that they would not normally make use of. Reading the disciplines of other member states can guide the interpretation of Italian rules on relations with the PAs and tax aspects. However, only the Italian TSC expressly regulates the internal organization elements of TSEs. The practitioner must try to coordinate the various provisions of the TSC and conform them to the ideal purpose and general interest activities carried out by these organizations. The social function of TSEs is the real key to applying the rules of profit-making entities to TSEs. In this way, the discipline of the internal organization of TSEs can be likened to that of profit-making entities. Right from the very nomenclature of the institutions: in the TSC, there are expressions such as corporate name, corporate books, corporate bodies, corporate officers, corporate object, and social creditor that are taken from the discipline of FPs (Ibba, 2019).

In conclusion, societization of the discipline is greater for TSEs, which should be the most distant from for-profit companies (Tamponi, 2021), and less for other Book I entities, to which only the corporate discipline of extraordinary transactions has been extended (Civil Code, Article 42-bis).

This regulatory transplantation responds to a need to complete the regulations provided for TSEs to ensure the proper management of these entities and the effective pursuit of the purposes established by the law, as if it were a kind of pure organizational structure of interests, purposes and activities that can be uncoupled from the for-profit context and applicable outside it (Gori, 2022).

On closer inspection, the underlying needs of the two realities—though opposed in their purposes—tend to coincide.

On the one hand, even for-profit companies are concerned about the social impacts of their business: just think of how relevant the issue of corporate social responsibility is to investors in listed companies (Lobe & Halbritter, 2023) and dividend distribution policies (Ktit & Khalaf, 2024). Certainly, such entities do not directly carry out activities in the general interest, but they care about how their lucrative activities can affect the social, environmental, and cultural context around them.

On the other hand, the increase in the size of the public (including in the form of tax breaks) and private investment, the more frequent use of business activity, and the involvement of more diverse interests are elements that justify a decisive intensification of controls on the activity of TSEs. Moreover, innovation is increasingly gaining attention by NPOs as their environment is becoming more competitive, complex, and stakeholder-driven.

The issue has been known for some time in the USA, where the scarcity of accountability constraints has been stigmatized precisely in

a sector, such as the non-profit sector, where the extent of public and private handouts would even require more stringent ones (so-called paradox of non-profit corporate governance) (Goldschmid, 1997). The corporation, in the U.S. legal system, is a neutral organizational form that can be used for either for-profit or non-profit activities, and the vast majority of NPOs are non-profit corporations; the same rules as for business corporations have been applied to them (Hansmann, 2003).

In conclusion, the principles of internal democracy inspire the way members participate in the life of the TSE. However, a different discourse must be made for the voluntary association. The activities carried out by this type of organisation have an impact on the life of the surrounding community; therefore, the non-profit nature and the principle of equality among members do not exempt the managers of NPOs from managing their activities efficiently. This requirement justifies bringing the regulation of TSEs closer to that of for-profit entities.

In a nutshell, therefore, directors of non-profit entities are also called upon to act diligently in the performance of their duties (duty of care), basing their management on information whose reliability they have ascertained and exercising careful oversight over management activities that they have not conducted themselves.

We can infer the ability of the organizational structure of for-profit entities to make itself an instrument of the most diverse purposes, not just the lucrative ones.

This polymorphic capacity of the internal order of profit-making entities clashes with Article 2247 of the Civil Code, which requires that companies have as their object the joint pursuit of an economic activity to share its profits.

Consideration could be given to the introduction of a new provision in common share law (and, therefore, not only in special legislation) by which shareholders, either already at the time of incorporation or later, could be allowed to use the company to pursue not only exclusively profit-making interests but also non-profit purposes, i.e., civic solidarity and social benefit purposes.

This contribution highlights the ongoing dialogue between profit and NPOs. This reflection may constitute the conceptual starting point for a second study; in fact, the normative theoretical analysis could illuminate a reading of statutes, deeds of incorporation, and documents of concrete third sector organisations. Indeed, these realities have had to make a great effort to adapt their organisational structure to the rules of the reform of the third sector.

Therefore, a documentary and applicative analysis constitutes a prospect for future research on the topic.

One important limitation of this study is that the analysis focused on a normative and theoretical comparison, and it doesn't concern the analysis of case studies (such as the statutes and internal regulations of TSEs).



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