

## SOCIAL ENTREPRENEURSHIP AS CHALLENGE FOR SLOVAK SOCIAL SYSTEM

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***Abstract.** The most influential impulse for starting the social investments in Slovakia were the changes after 1989, when new business possibilities were opened under the free market conditions and the potential participation on the public affairs for everyone. First failures came in 2009 when social enterprises were created with the objective to increase the employment of people with disabilities. Unfortunately, from eight pilot social enterprises established in that time, prosecution was launched on four of them for misuse of subsidies and misunderstanding of concept of social entrepreneurship. The paper will be also focused on the problems connected to those topics, specifically from the point of view of social enterprises in Slovakia. We will use an analysis with the objective to identify the weaknesses and the sources of ineffectiveness of existing social enterprises and also to make some proposals how to eliminate the main sources of this status.*

***Key words:** social enterprises, weakness, strengthening, investments*

### Introduction

The social and economic impacts of social service organizations are often given little attention to the traditional economic theory and applied economics. Policymakers frequently regard the role of social enterprises as ancillary to the economic well-being of local communities, choosing instead to focus the majority of their time and attention on analyzing the growth potential of the for-profit sector. This fundamental break occurs because social enterprises serve a distinctly different purpose than profit-maximizing firms, and their success is not as visible or easy to measure as the magnitude of a profit margin.

At its most basic definition, finance is the act of allocating capital to individuals and businesses that want to make productive use out of it. In short, finance creates also social value. Finance today takes on a wholly different and, some would argue, less socially-conscious meaning. Sustainable finance is the practice of creating economic and social value through financial models, products and markets that are sustainable over time. Strengthen communities in need and broaden economic opportunity by developing new ways to leverage our capital markets expertise.

Quality social enterprises create benefits to the society by addressing social problems, and virtually all the social benefits they create, have monetary or economic value that can be identified and measured. A social service organization that calculates this value can leverage its success into more effective fundraising, revenue generation, pay-for-performance relationships, and better ways of capitalizing growth.

A social enterprise creates economic value when it increases revenue or eliminates costs, or both, for stakeholders. These benefits typically accrue over time. The three components—increased revenue, decreased cost, and time—hold true whether the organization operates as a

for-profit or a nonprofit. When analyzing policy, it is good practice to carry out a stakeholder analysis to determine who is affected, and to what extent. For any policy issue, the potential range of stakeholders is vast. For multi-dimensional policy issues such as poverty and social inclusion, the range is even greater.

Not all potential stakeholders will be relevant actors for all issues, or at all levels of policy-making and phases of the policy cycle. Social enterprises are focused on creating public value. Public value can be described as ‘what adds value to the public’ and ‘what is valued by the public’. This interpretation leaves social service organizations with a problem. Due to the fact that these organizations are confronted with a complex multi-stakeholder environment, it is important to assess for which stakeholders the organizations should create public value, and what public value exactly means to the different stakeholders. This assessment is important because stakeholders determine whether a public organization is operating legitimately. When an organization is not operating in a legitimate way, stakeholders may withdraw their support, there with threatening the autonomy or continuity of the social enterprises.

## **Social enterprises and social entrepreneurs**

Social enterprises seek to serve the community’s interest (social, societal, environmental objectives) rather than profit maximisation. They often have an innovative nature, through the goods or services they offer, and through the organisation or production methods they resort to. They often employ society’s most fragile members (socially excluded persons). They thus contribute to social cohesion, employment and the reduction of inequalities. The European Commission wants to contribute to the creation of a favourable environment for the development of social business in Europe, and of the social economy at large. Also for Slovakia it means a chance for new begin of social entrepreneurial businesses.

Social enterprises are positioned between the traditional private and public sectors. Although there is no universally accepted definition of a social enterprise, their key distinguishing characteristics are the social and societal purpose combined with an entrepreneurial spirit of the private sector. Social enterprises devote their activities and reinvest their surpluses to achieving a wider social or community objective either in their members’ or a wider interest.

Nicholls has defined social entrepreneurs as follows: social entrepreneurs and their networks demonstrate an unrelenting focus on systemic social change that disregards institutional and organizational norms and boundaries. These disruptive change-agents are often sectoral iconoclasts operating in a more diverse and dynamic strategic landscape than conventional businesses or social ventures. Whilst aiming never to compromise social mission, social entrepreneurs will look for alliances and sources of resources wherever they may be found most easily. Thus many engage simultaneously with government, philanthropic institutions, the voluntary sector, and banks, as well as the commercial market to secure funding and other support where necessary. Similarly, social entrepreneurs will often exploit a range of organizational forms – often-unique hybrids-from charity to not-for-profit to commercial venture to maximize social value creation. Social entrepreneurs also move easily across sectors.

## Social entrepreneurship in Slovakia

In Slovakia, for the purpose of the law about services of employment, social enterprise is a legal entity or a physical entity that:

1. employs employees, who, before the admission to the new employment were disadvantaged applicants for employment in the meaning of the law about services of employment in the number that is less than 30% of the total number of its employees.
2. provides support and help to employees, who before the admission to employment were disadvantaged applicants for employment in finding employment in the open labour market.
3. at least 30% of finances gained from the income from the performances that will remain after paying all costs of the performances for the corresponding tax period according to tax declaration. These finances will be used for creation of new working positions or improvement of working conditions every year.
4. is registered in the social enterprises registry.

The founder of social enterprise can be: legal entity or physical entity, town, county, association of towns, association of counties according to the special regulation, budget organization or contributory organization whose founder is town or county.

Slovakia has a huge network of social services and providers of social goods. Providers are governmental organizations; non-profit and non-governmental organizations; charities and diaconal organizations; private and for-profit organizations. The space for social entrepreneurship and social enterprises is inside country because public or private sector has failed. In many cases, these can be considered as failures in the social market of public goods. The system of distributing social goods and answering on social needs in our country is not working correctly. Reasons should be various. Dysfunctional independence between providers and the financial sources for serving services is the strongest reason together with lack of innovations and growing quality. The opportunity for sustainability of social investing has several motivations in environmental, social and responsible investing strategy. Strategy was first and biggest misunderstanding in the first package of social enterprises establishing around the Slovakia, which failed in 2009. During this period of few years was creating 10 social enterprises with basic aim in employment of disadvantages group of people on labour market. From these 10 enterprises was 8 bankrupt till 2 years from establishing. They spent funded money from European Social Fund and Slovak government with big failure in the strategies and future development plans.

Slovakia today has second huge chance for establishing new social enterprises and for using social investments for empowering the social services in the country. But at first, the priority of the Slovak government still valid up today, namely to endorse social services established by municipalities and their bodies only, must be changed. Because, to the basic pillars for development of social entrepreneurship in the terms of Slovakia belongs also:

- active third sector,
- public policy,
- support and funds from the European Commission,
- new legislation.

Especially, active third sector is now very strong driving force for development of social enterprises in Slovakia. For example, until the end of March 2014, 43 social enterprises were registered. Most of them are established with the common objective – to employ people who are unemployable, namely people after 50, people with soft physical disabilities and people which are unemployed longer than 5 years.

The register of providers by the Statistical Office of the Slovak Republic has indicated the number of social care providers in Slovakia as follows: 1269 social services providers by facilities, 535 facilities by government or municipalities' providers and 734 NGOs and NPOs providers which are established by churches, foundations, free lancers and another legal person. These providers are able to provide social services for more than 480 000 person by their capacity of facilities. From this number, more than 154 500 places are in care of NGOs and NPOs. The total receipts for social services providers in this year were more than 370 million EUR and little more than 85 million EUR were granted for non-profit and non-governmental providers of social care services.

These numbers and increasing trends in the establishing of the social enterprises for reintegrated people to the labor market and providing the social services in this non-profit way is the “light on the end of tube” for the establishing the relevant policy and law system for functioning social entrepreneurial system in Slovakia.

The history and the development of this type of organizations is not the same in every country. It is important to give some background about the Slovak social service providers in order to fully understand our research. Until the 1990's many organizations are nowadays called social service providers were part of national, regional or local government. Central government was convinced that liberalizing these social enterprises would enhance efficiency and effectiveness.

After the liberalization, different types of social providers emerged very quickly in Slovakia. Some organizations became private organizations with public goals, other organizations stayed governmental. Sometimes this division changed over time. At this moment some organizations are still governmental, while others are more or less private. Like in other countries one can identify in Slovakia a number of very similar characteristics:

- The main objective is not power or profit but the delivery of goods and services to fulfill a social value which is perceived and legitimized by its stakeholders.
- The financing of operations and financial position are a precondition to achieve the objectives.
- The revenues come from various sources of funding.
- Social service providers must be accountable to their stakeholders. Accountability guidelines are defined per sector (e.g. healthcare, education, charity).
- It is striking that these guidelines often include the interaction with stakeholders.

#### *EU perspective and single market*

The perspective of social enterprises should be more flexible and creative. The new visions of the aim of establishing the social enterprises are more variable. The European Commission in the Horizon 2020 established Social Entrepreneurship Funds under the Investments Funds as one of initiative for announced in the Single Market Act work to explore how private investment funds might help. This includes ensuring there are no unintended barriers within EU fund rules to the efficient channelling of investments to social businesses. Slovakia will take the chance to create new legislation and establish new social enterprises under the rules of EU on the national and cross-border basis.

The single market consisting of number of nations, especially those of the European Union, in which goods, capital and currencies can move freely across border without tariffs or restrictions; this should be the way for health competition in the social entrepreneurial sector.

In the perspective of Horizon 2020, the social enterprises look like combination of:

- Leadership: social enterprises will increasingly be led and shaped by grassroots entrepreneurs, not funders and policy makers;
- Investment: social investment will grow beyond the sector in a global hunt for a blended return from anyone ready to deliver it;
- Uncertainty: as the ideas and practices of social enterprise are adopted by other sectors, will there actually be room for a social enterprise sector?
- Connected: social enterprise will connect and spread in the way for-profit business has, taking democracy global in a way governments have not;
- Growth: social enterprise will achieve scale through networks, replication, franchising, growing locally and spreading geographically;
- Definition: social enterprise will to define, not by what makes it different, but by the difference it makes in the world;
- Impact: social enterprise will no longer be seen as a mid-point between business and charity but judged alongside them for its demonstrable impact;
- Influence: social enterprise will be Europe's Research and Development lab for social problems, transforming the practice of government, charities and for-profit businesses.

From the point of view of social enterprises in Slovakia we will use an analysis with the objective to identify the weaknesses and the sources of ineffectiveness of existing social enterprises and also to make some proposals how to eliminate the main sources of this status. We decided the method of measurement as the most relevant for the defined the weaknesses and strengthens of the existing social enterprises in Slovakia.

The UK's Research Excellence Framework (REF) defines impact as "reach" and "significance" and can encompass the "effect on, change or benefit to the economy, society, culture, public policy or services, health, the environment or quality of life. The UPN has a key definition of impact measurement and in this, impact is the overall difference an organization, program or intervention makes. Impact makes broader or longer-term effects of a project or organization's activities, outputs and outcomes. It is also used as a calculation of net benefit once an allowance is made for what would have happened anyway.

#### *Impact measurement of social services*

Impact measurement is the set of practice through which an organization establishes what difference its work makes. The initial focus of impact measurement of social services was in the late 19<sup>th</sup> century on measuring need, such as how many people live in poverty. However, after the introduction of the welfare state, the role of the social a voluntary sector became more geared towards providing innovation and personal attention in contrast to the bureaucracy and inflexibility of the public sector. This, in the eyes of some, made a degree of inefficiency legitimate. Noting that the focus of measurement in the social service providers sector "waxes and wanes", Barman argues that the use of measurement is not neutral or objective.

For measurement to be effective it must be:

- relevant: related to, and rise from the outcomes of measuring;
- helpful: in meeting the needs of stakeholders, both internal and external;
- simple: both in how measurement is made, and in how it is presented;

- natural: arising from the normal flow of activity to outcomes;
- certain: both in how it is derived, and in how it is presented;
- understood and accepted: by all relevant stakeholders;
- transparent and well-explained: so that the method by which the measurement is made, and how that relates to the services and outcomes concerned are clear;
- established on evidence: so that it can be tested, validated, and from the grounds for continuous improvement.

In some cases also serve as a useful set of foundation principles for social impact measurement to other indicators. They:

- involve stakeholders,
- understand different changes,
- value the things that matter to stakeholders,
- only include what is material (that makes a difference to stakeholders' view),
- do not over-claim,
- be transparent (explain clearly how you found the answer, and any uncertainties your evidence or assumptions),
- verify the results (based on good research principles).

Approaches of measurement such as "Social Return Investment" or "Social Accounting" might lead to better comparability, by estimating the economic value of the social impact. However, with an increased involvement of private finance there is a risk of monetization of service outcomes, which could result in a "creaming" effect, whereby services for the most vulnerable might be discontinued in favour of projects that lead to higher success rates. We should say also, that government is responsible for the well-being of its people and for guaranteeing access to social and health care. Governments are not only investors, but they have a moral responsibility towards their citizens. A free market would not guarantee access to services for all; often those with the least financial means have the most need and life risk such as unemployed who are often structural rather than individual. Public responsibility and therefore public financial commitment is necessary at all levels of government to ensure access for all to social services and those service providers that are able to provide quality services.

Although it is important to collect evidence, so as to inform action, the face-value should not be taken. There is a risk measurement that becomes an aim in itself, whereas it should, rather be seen as a mean to achieve desired social outcomes. Human behavior is usually unpredictable, and so, with social impact investment, there should be room for failure of given social services calculation, where money is then diverted, but rather, be seen as a way to figure out how a given service can be improved.

### *Results of measurement*

There cannot be a single methodology or set in indicator to measure social impact of social enterprises because of the diversity of the organizations people work with and the contexts within they work. In addition, any measurement framework should be proportionate to the capacity of the organization and to usefulness of the measurement generated, in terms of time needed to implement and report impact using framework.

From the perspective of this measurement's method we should conclude, that the weaknesses of the Slovak social enterprises are:

- low status for social services;
- misunderstandings of concept of social enterprises;
- non-correct clarification of law system for social entrepreneurship;
- close "typical" bank system not open for social investments;
- corruption;
- no tax exemptions or privileges;
- absent specified subsidies;
- non-existing crowdfunding system;
- instability of social system;
- growing poverty;
- lack of knowledge and experiences in the social entrepreneurship.

On the other hand, strengths should be relevant in the perspective of measurement method as a:

- crossroads of the private, public and third sector;
- concept of social enterprises is still in process of innovations;
- system of (re)-integration of disadvantaged persons into to labor market;
- community participation on social life of society;
- recalls for the necessity of social enterprises;
- active third sector;
- active policy of employment on the local and governmental level.

## **Conclusion**

From this measurement perspective it is relevant to say that the system of the social entrepreneurship and networking in this field must be changed in Slovakia. The advantages for the innovative perspective should be, for example, the open single market on the international level; changing bureaucracy and juridical system; establishing the functioning of social providers network; and the last but not least, changing understanding of the society in the sharing the social needs and goods.

Social investment is about investing into people. It means policies designed to strengthen human skills and capacities and support them to participate fully in employment and social life. Challenges in these investments which are facing enormous phenomenon in Europe are unemployment and poverty increasing as a consequence of economic crisis and demographic changes facing in the increasing disproportion of older people and working-age population. The biggest opportunity for social investing seek to strengthen peoples' current and future capacities and improve their opportunities to participate in society and the labour market, and, of course, calls for investing into children and youth to increase their opportunities in life. Each of this opportunity for social investing needs at first changing of society in the meaning of social innovations and providing social services. They may actively seek out investments – such as community development loan funds or clean tech portfolios – that are likely to provide important societal or environmental benefits.

Whenever social innovations manifest themselves in social practices, in the diction of action theory, it follows that they either lead to new forms of social action or presuppose new social action. At any rate, social innovations are expressed in a new definition (dimension or direction) of what constitutes the meaning of action and its relation to others (to the social

environment). On the other hand, a recasting of these very roles and functions can change social systems themselves, under circumstances affecting general processes of social change. The latter depends on the form and “range” of concrete innovations.

All innovations are socially relevant, both those with objectives and rationality criteria to change economic parameters and those with social intentions and effects in the field of social practices. But this also implies that, irrespective of what kind of innovation is to be developed, realized or examined, the meanings and effects of innovations do not remain restricted to the respectively evident functional system: technological and economic innovations affect or change not only the functional system of the economy, but also the other major functional systems as politics, law and culture. It equally applies that social innovations by no means exert an influence only on culture or politics, but also on the functional systems of law and the economy. Within this system, the functional area of integration has major importance for maintaining the system, but at the same time also for change.

*“The most urgent and important innovation advance in the 21<sup>st</sup> century will take place in the social field. Technical innovations will continue, of course, and bring about a materially and immaterially utterly changed environment and new living conditions in comparison with previous possibilities; but the social innovations will be those that the inhabitants of the world must first produce or ensure” [Hochgerner 1999].*

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