

## DEVELOPMENT OF SOCIAL ECONOMY AND SOCIAL ENTREPRENEURSHIP IN SLOVAKIA

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**Abstract:** Social entrepreneurship is a long-discussed issue in the countries of the European Union as well as in other countries worldwide. In the Slovak Republic this issue mostly interests younger people who search the possibilities for social entrepreneurship in their home regions in order to eliminate the lack of accessibility of certain services. The social economy is considered as an important tool of social inclusion. The Slovak Republic adopted as one of the few Member States of the European Union the act on social economy and social enterprises. We consider the creation of legislative framework of social economy and social enterprises in Slovakia as an innovative solution, even in the comparison with other Member States of the European Union. The aim of this paper is to present to the scientific public the importance of setting up social enterprises at the national level. An essential addition to the objective is also to show the width of potential that social enterprises have after the adoption of the Act on Social Economy and Social Enterprises.

Legislation eliminates potential debatable redistribution of the profit of social enterprises. The profit from social entrepreneurship should primarily cover the basic life needs of the disadvantaged groups of persons as well as generally beneficial activities for the community and/or region. Social entrepreneurship gets into discourse of public policy mainly as a tool aimed to provide the opportunity for the persons that were unemployed for a longer time to gain working habits again or for persons that suffer from multiple disadvantages to become active on the labour market. It may also be a reliable instrument for solving the sale of goods or provision of services which are not provided or insufficiently provided by the private sector.

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### Introduction

The development of the social economy and social entrepreneurship in European countries was activated in the 1970's and 1980's. Growth of unemployment evoked by the development of new technologies in the more advanced states, public finance deficit and the growth of risk of social exclusion as well as the crisis of the social state was the main reason for raising such development. The expression social and/or solidarity social economy was introduced in formal political documents and discussions by the French government in the 80's and accepted gradually by other European countries. The European Commission (EC) acknowledged social economy in the year 1990, in terms of the Linz Appel from the year 1997, and elaborated its definition. The EC acknowledged social enterprises as key actors of the European economic, social and political space. The European Commission defines social entrepreneurship as an activity having a social, environmental goal or a goal of general interest. It may include the provision of services or education to persons socially disadvantaged from various reasons; utilization of profits for goals with social focus; or the organization of groups of mutual assistance for the activity of general interest.

Diversity of perception and definition of social economy has several common factors which influence the option of its development. Social factors in the first place, which have an impact on the environment and/or residential structures, existing economic environment and its ability of permanent pro-grading as well as long-term satisfying of basic life needs of the citizens living in the specific region. "Environment and natural resources are an unignorable factor, too. Member States which spend a higher above-average education expenditure percentage of the gross domestic product have, on a long-term basis, above-average and relatively stable results in the educational results (PISA)" (Plavčan, 2019).

Evaluation and analysis of the said factors effectively provide strategic information for social entrepreneurship as a tool of solution of socio-economic issues in the specific region.

More advanced regions are characterized by low unemployment rate with much better socio-economic conditions and their inhabitants do not feel a need of significant changes and/or forced working mobility and social protection as the inhabitants of economically less developed regions. We may deduce that the social conditions and social aid in wealthier regions are on a higher level since the quality of life of a citizen depends to a certain extent on economic indicators. Therefore, the social context, viability and vitality of social relationships at the local level are a significant prerequisite for the successful

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functioning of social entrepreneurship. According to Mareková (2015), “it would be a very short-sighted effort to investigate the economic influence of this process only. Differences in the development of the standard of living between developing countries have unbelievably deepened recently”.

### **International Criteria and Range of Action of Social Entrepreneurship and Preparation of a Process Model of a Social Enterprise**

Classification of social enterprises on an international level is uneven and visible differences exist which reflect national differences in the social protection of the labour market and ideology.

Within the criteria of action of social entrepreneurship and the building of a social enterprise this involves primarily a continuous activity of products manufacturing or provision of services. A high degree of independence from the public and private sector is an important criterion because social enterprises have multi-source financing which is important especially through maintaining their own autonomy. Decision making powers do not bear relation with the ownership of capital. One member one vote principles apply. The distribution of profits is limited and has efficient control mechanisms. Social enterprise must count with competitiveness and must be prepared to bear economic risks which can be eliminated, though, by the creation of a good concept and correct process model.

According to Defourny & Nyssens (2019), “various options of concepts of social entrepreneurship make amazing discoveries in the EU countries and the United States.”

Jacques Defourny, as the first president of the European research network on social economy - Emergence of Social Enterprises in Europe (EMES), claims social entrepreneurship is an activity with primarily social objectives where economic profits are preferentially invested in the social entrepreneurship for the same purpose or in the development of the local community contrary to the need of maximizing the profit as it is by the owners - holders of private companies. According to Trčka (2013), “social entrepreneurship and social enterprises are linked with identification elements which are characterized especially by: solution of problems of the local community in the residential structure; economic sustainability generating profit with subsequent investing in equipping and education of employees as well as in saturation of needs of generally beneficial services; prevention and/or elimination of social exclusion and segregation of disadvantaged groups of persons; participation of employees in decision making; innovative projects for the development of own community in the residential structure development of organizational cooperation”.

The founders of social enterprises within the social entrepreneurship should bear in mind especially the external factors which may influence the future of the social enterprise. External factors are usually divided into: demographic; cultural; economic; technologic; competing.

The content of these factors is relatively easily identifiable by their proper SWOT analysis. After their evaluation the success of social enterprise depends only on detailed preparation of the process model of the social enterprise according to which individual activities are distributed to all employees. Implementation of process management is a relatively sophisticated mechanism and its quality is measurable by the satisfaction of the involved parties within the demand for the offered commodities. Each process requires a creation of a map of procedures which will show anytime whether it is necessary to innovate the process or stop it. Dumas (2018) states that general satisfaction with the organization's process management can be understood in various metrics, e.g.: more for more; more for same; same for less; less for far less; more for less.

Three strategic orientations have been crystallized by building of social enterprises in the last decades. The first type is focused on the reduction of costs of production and distribution whereby the enterprise endeavours to offer products to the customers at a lower price than the competition. The second type is characterized by a perfect performance within the value for the customer, e. g. services, technical level, social aspect of social entrepreneurship etc. By the third type of strategy the social enterprise is oriented to one segment of the market and endeavours to win the leading position for this segment at the market. The third type is the most typical strategic solution for the entire Central Europe.

### **Legal Forms and Types of Social Enterprises in Slovakia**

Incomplete legislation and statistics of the third sector, volunteership and social entrepreneurship was a great problem and a barrier to the development of the social economy in Slovakia till 2017 because it was not sufficiently appreciated and emphasized. In addition, a system was absent of financial aid to

support activities of the social economy. Being informed about the social economy and its tools, support of research and good practice exchange were not on a sufficient level. Conditions for utilization of the labour intermarket were created in Slovakia after adopting the Act No. 112/2018 Coll. on Social economy and Social Enterprises (SESE, 2018) which means that employees in social enterprises will be allowed to gain labour habits for a year or two and they will seek a permanent job afterwards.

The main intent of the Act is to create favourable environment for social entrepreneurship, bring order in its expressions and regulation, eliminate obstacles preventing the development of social economy. Setting rules to avoid misuse of social enterprises and state subsidies is an inevitable condition. In the years 2018 to 2020 the investment aid will be granted to social enterprises in the form of a non-repayable contribution through the national project from the Operation Program Human Resources. 120 million EUR is allocated from ESF since 2018 to support this sector.

SESE (2018) outlines the sector of social economy, defines the subjects of social economy, social enterprise, disadvantaged persons and vulnerable persons, whereby these definitions are based on the European perception of social economy taking in account national specifics. The Act includes also the conditions of acknowledgement of a statute of registered social enterprise, individual kinds of registered social enterprises as well as the options of support of social enterprises in the wider environment of social economy. Bodies are also defined which will supervise the administration in the area of social economy from the side of the state and some organizations of the social economy sector. The Act outlines social economy as a complex of productive, distributional or consumer activities performed by means of economic activity or non-economic activity independent from the state bodies where the main goal is the achievement of positive social influence. Their importance lies in the creation of supported jobs as a preparation of socially disadvantaged citizens to enter the labour market whereby this preparation will allow them to gain labour habits, discipline, skills and abilities they are missing to be successful at the labour market. One side benefit is to enable socially disadvantaged citizens to establish themselves at the labour market, the second side benefit is also to create job opportunities in economically weaker regions.

### **Socially Beneficial Services of Social Economy**

Socially beneficial social services are defined in the law as follows: provision of health care, provision of social aid and humanitarian care, creation, development, protection, renewal and presentation of spiritual and cultural values, protection of human rights and basic freedoms, education, upbringing and development of physical culture, research, development, scientific and technical services and information services, creation and protection of environment and protection of population health, services to support regional development and employment, provision of housing, administration, maintenance and renovation of housing stock.

### **Definition of Disadvantaged, Vulnerable and Interested Persons**

The law stipulates that a “disadvantaged person” is a physical person who was not employed for more than 40 days in the last six months of the calendar year and their monthly wage in total did not exceed the amount of the living minimum per person of full age and who: is younger than 26 years of age, has ended permanent preparation for occupation in a form of a daily study with a respective degree of education less than 2 years ago and has not been employed since that ending in a job lasting at least 6 consecutive months, is older than 50 years of age, is registered in the record of employment candidates for at least 12 consecutive months, has achieved education lower than secondary professional education, lives as a single person of full age with one or more persons dependent on care of such person or takes care of at least one child before ending compulsory school attendance, belongs to a national minority or ethnic minority and needs to develop own language skills, professional skills or gain working experience in order to achieve permanent employment or has permanent stay in the least developed district.

A disadvantaged person is also a health handicapped person whose handicap inhibits a full-valued and efficient integration of such person in the working environment in comparison with a healthy physical person.

“Vulnerable person” is characterized as follows: a person of full age after ending institutional care upon reaching full age, a physical person of full age having being provided care upon agreement in a facility for socio-legal protection of children and social guardianship after end of execution of a judicial decision upon reaching full age, or a person of full age given into custody of a person other than a parent, placed

into foster care or having a guardian appointed by a court; a physical person reliant on assistance of other physical person; a physical person after the end of drawing maternity benefits if not collecting parental contribution or after the end of collecting parental contribution, namely 18 months from the end of drawing maternity benefits or the end of collecting parental contribution, if the person is registered in the record of employment candidates not later than within 6 months from the end of drawing maternity benefits or collecting parental contribution; a physical person after the end of performing personal assistance or the end of collecting monetary contribution for guardianship, namely 18 months from the end of performing personal assistance or from the end of collecting monetary contribution for guardianship, in case the person is registered in the record of employment candidates not later than within 6 months from the end of performing personal assistance or the end of collecting monetary contribution for guardianship; a physical person who draws an old age pension; a physical person - not an entrepreneur, whose monthly income does not exceed triplicate of the living minimum amount per one physical person of full age; a physical person after being released from the execution of sentence of imprisonment, from preventive detention or from the execution of protective education; a physical person without nationality; an asylum seeker or a foreigner being provided additional protection.

“Interested person” is defined as directly interested person or indirectly interested person.

“Directly interested person” is an employee of a respective social enterprise, a consumer of goods or service produced, delivered provided or distributed by a respective social enterprise, an inhabitant of a municipality where the operation of the respective social enterprise is located, a physical person having performed volunteer activity for a respective social enterprise in the previous 12 consecutive months of at least 150 hours.

An indirectly interested person is:

- A member, employee, statutory body or a member of a statutory body of a civil association, foundation, non-profit organization providing generally beneficial services, non-investment fund or dedicated facility of the church with legal personality; member, employee, statutory body or a member of a statutory body of other social enterprise or a physical person having equity holding in other social enterprise; physical person - entrepreneur contributing at least 1% of his earnings to the activity of a civil association, foundation, non-profit organization, non-investment fund, dedicated facility of the church or social enterprise, or performing volunteer activity for these; member of academic community of a college/university or a physical person from professional public performing pedagogical activity, research-pedagogical activity or research activity in the field of social economy, social enterprises or achieving positive social influence by the social enterprise.

### **Subjects of Social Economy**

The law classifies the subjects of social economy to civil associations, foundations, non-investment funds, non-profit organizations, dedicated facility of the church, commercial companies, cooperatives or physical persons - non-entrepreneurs (employing employees) which: are not a majority managed by a state body, the state body for the most part does not finance them, neither appoints nor elects a statutory body or more than half of its members and neither appoints nor elects more than a half of the members of the managing body or supervisory body, perform economic activity or non-business activity within the activities of social economy; if doing business or performing other gainful activity according to special regulations they do not perform them exclusively in order to achieve profit or they use such profit according to this law.

Social enterprises and partial social enterprises are specially specified within the subjects of social economy.

### **Social Enterprise**

Under social enterprise we understand the subject of social economy which:

- performs economic activity permanently, independently and in its own name and at its own liability;  
has the main goal of achieving a measurable, positive social influence; in order to achieve positive social influence it secures goods or services which it produces, delivers, provides or distributes, or the way of their production or provision contributes to such influence; if a profit

is achieved from their own activity then more than 50% of profit after taxes is used to reach the main goal, i.e. achieving a measurable, positive social influence; if a part of the profit is distributed according to the Commercial Code it is distributed according to procedures and rules which do not impair the main objective (achieving a measurable positive social influence); engages interested persons in the administration of its economic activity.

### **Partly Social Enterprise**

It is defined similarly to a social enterprise but differs from it in term of the form as well as activity. Partly social enterprise is a civil association, foundation, non-profit organization, dedicated facility of the church, commercial company, cooperative or physical person – entrepreneur, if performing economic activity permanently, independently, in their own name and at their own liability, with the main goal of achieving a measurable, positive social influence and meets at least two of these conditions: in order to achieve positive social influence it secures goods or services which it produces, delivers, provides or distributes, or the way of their production or provision contributes to such influence, if a profit is achieved from their own activity then more than 50% of the profit after taxes is used to reach the main goal, i.e. achieving a measurable, positive social influence, if a part of the profit is distributed according to the Commercial Code it is distributed according to procedures and rules which do not impair the main objective (achieving a measurable positive social influence); engages interested persons in the administration of its economic activity.

### **Type of Social Enterprise According to the Focus of its Activity**

“Integration enterprise” is a public benefit enterprise whose positive social influence means a support of employment by means of employing disadvantaged and vulnerable persons. Its positive social influence is measured by a percentage of employed disadvantaged and vulnerable persons whereby the positive social influence is considered achieved if the integration enterprise employs at least 30 % disadvantaged persons of the total number of employees, at least 30 % vulnerable persons of the total number of employees or at least 40 % disadvantaged and vulnerable persons of the total number of employees. If the number of disadvantaged and vulnerable persons in an integration enterprise decreases under set-out limits as a consequence of an investment relating to the establishment of a new operation, expansion of production, diversification of production or principal change of manufacturing process the conditions are considered met for no longer than six months.

“Social enterprise” of housing is a public beneficial enterprise in which the public administration in terms of municipality has no majority share and whose positive social influence lies in providing socially beneficial rental housing, i.e. provision of housing, administration, maintenance and renovation of housing stock through construction, reconstruction or procurement of apartments (flats) for the purpose of their renting to eligible persons or through renting apartments to these physical persons (with limited amount of monthly rent). “Positive social influence by the rental of apartments (flats) is considered achieved if the social enterprise of housing rents at least 70% of apartments (flats) it owns at the rent corresponding to the costs of the apartment (flat). The enterprise must not sell the apartments (flats) for the period of next the 30 years”. (SESE, 2018)

### **Registration and Register of Social Enterprises**

There is also a demand for the existence of a register – in the form of social network – that would list potential job seekers with handicaps. Unlike many social enterprises that employ local unemployed, social enterprises often face problems finding employees for the performance of their respective activities. The main reason is that some activities are more or less suitable for people according to certain disadvantages and limitations. Such a register would make it easier to find future employees. Increasing demand for social enterprise services and goods can also be achieved establishing a register and map of social enterprises that is available to the public, and where companies (or even an individual) will be able to find a social enterprise according to their needs the goods or services it offers, and to promote, as part of its philanthropic policy the social dimension of business.

In accordance with the law each founder of a social enterprise must be registered in the register of social enterprises. He has an obligation to send a report to the Ministry of Labour, Social Affairs and Family of the Slovak Republic every three months. Content of the quarterly report may be different and it is dependent on the kind of social enterprise. This procedure gives an option to reveal registered social enterprises which violate provisions of the law and/or ceased to meet the conditions in a certain time

and have not reported this fact. Public access to the data of the register of social enterprises is not unlimited, it is limited by enactment due to personal data protection. The following data is entered in the register of social enterprises: business name, address of operation if it was established; domicile, in case of a legal person; name, surname, place of residence, date of birth, birth number and location of social entrepreneurship, in case of a physical person - entrepreneur, who is an employer; identification number of organization; subject of social entrepreneurship or activity; measurable positive social influence; percentage of profit the registered social enterprise commits itself to use to achieve positive social influence; legal form; name, surname, place of residence, date of birth and birth number of the physical person being a statutory body or a member of the statutory body, indicating the manner in which this physical person acts in the name of the registered social enterprise and indicating a day of taking up a position and position end date; final user of the benefits, contact data of the registered social enterprise, i.e. e-mail address and telephone number as well as the link to the website of the enterprise, if existing, namely for the sake of being informed and efficiency. It is allowed to indicate a description of activity, targeted group, type of performed activities etc.

Eight social enterprises of integration type act in Slovakia since 2018 having a measurable positive influence due to the percentage of vulnerable and disadvantaged persons employed. Two of these enterprises act as a civil association and six enterprises have a legal form of a limited company. Social enterprises are located in Eastern Slovakia at spatially segregated locations with a presence of concentrated poverty reproduced from one generation to the next.

This study provided an overview of contemporary social entrepreneurship in Slovakia, which in the past existed, but did not have a precise criterion for setting up social enterprises. By adopting a new law, the whole process of social enterprise creation has become transparent and excludes the possibility of incorrect practices.

## Conclusion

Social entrepreneurship is rising worldwide and each country adapts it to its national conditions, historical roots, own tradition, mentality and culture. It is developing in all EU countries and is more and more supported by the European Commission. The need to support local, community dimension of human life is increasing with the growing process of globalization. Owing to their economic strength the multinational companies and chains promote conditions for their own benefit, but harm small producers and local providers of services. The principle of social entrepreneurship is the utilization of local resources which are limited in their size and thanks to this fact they help at least to a certain extent compensate the negative effects of the globalization processes. Social enterprises are more friendly to the environment and have a great potential for long-term sustainability.

Social enterprise in Slovakia is a kind of intermediate job that helps the long term unemployed from disadvantaged groups of the population to get within the period of two years' work habits and experiences. Each social enterprise that is based in Slovakia is in the districts, which are considered to be the least developed.

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