

APPROACH TO SOCIAL ENTREPRENEURSHIP IN SLOVENIA

Barbara Bradač Hojnik¹

Abstract: In this paper, social entrepreneurship as a developing type of entrepreneurship is analyzed. On the level of the European Union (EU), social entrepreneurship is widely supported by different initiatives which aim to develop a suitable legal, administrative, and financial environment for social enterprises, but also allowing member states to regulate them individually. This paper focuses on the social entrepreneurship in Slovenia, where it is strictly shaped by the legislation. Consequently, social enterprises need to meet the legislation's requirements which hinder their quantity and development. Additionally, the scope of social enterprises is narrowed to those companies that received the formal status of social enterprise. In the paper provided will be the data on social enterprises in Slovenia with some recommendation for further development of the framework for social entrepreneurship in the country.

JEL Classification Numbers: L31, L26; **DOI:** <http://dx.doi.org/10.12955/cbup.v5.903>

Keywords: social entrepreneurship, social enterprises, Slovenia

Introduction

Social entrepreneurship is an innovative type of entrepreneurship, with a high level of responsibility to the society. It is characterized by the motives of resolving social, economic, environmental and other problems of society. The primary purposes of social enterprises are adding value to the society, improving conditions of the social environment, creating jobs for vulnerable groups, performing socially useful activities...etc. Similarly to profit oriented enterprises, social enterprises also operate on the market, but with the main difference that profits are returned to the enterprise to achieve social goals. Although social enterprises are diverse, they mainly operate in personal social services (medical and elderly care, health services, childcare services), work integration (integration of the unemployed and people with disabilities), in the development of disadvantaged locations (rural areas, problematic areas in urban locations), and in some other services (environmental services, culture, sports) (EC, 2017). As social enterprises depend on institutional and cultural contexts in which they operate, the barriers that they face are specific to those contexts. But, there also exist some common challenges, among which are legal frameworks, access to markets and to financial resources, business support and sustainability issues, and development structures.

As the social entrepreneurship is broadly defined, we will follow the definition by Mair and Marti's article (2006, p. 37), that the social entrepreneurship is a process, where the value is created by combining resources in new ways, principally to exploit opportunities to generate social value by meeting social needs or stimulating social change. The Organisation for Economic Co-operation and Development (OECD) and European Commission each have their own definition for social enterprises. The OECD (1999) defined social enterprises as "any private activity conducted in the public interest, organized with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment", while the European Commission (European Commission, 2011) defined a social enterprise as "an actor in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities".

The European Commission (EC) considers several different types of businesses as social enterprises; (1) enterprises with social or societal objectives, (2) enterprises which reinvest their profits to achieve social objectives, and (3) enterprises with democratic or participatory principles of operating or focusing on social justice (European Commission, 2017). Defourny and Nyssens (2010) pointed out that there exist three key dimensions of social enterprises. The first one is the entrepreneurial dimension, which is expressed through the engagement in economic activity of social enterprises. The second one is the social dimension, which is seen as a primary and explicit social purpose of social

¹ University of Maribor, barbara.bradac@um.si

enterprises. And the third one is the governance dimension which is expressed through the mechanism that encompasses social goals of organizational aspects of the enterprises.

However, legal forms of social enterprises are different across countries. Their forms include a range of different forms, such as solidarity enterprises, cooperatives or limited liability social cooperatives, collective interest cooperatives, social purpose or collective interest companies, community interest companies and similar. A review of the legal structures and legislation in European countries reveals that several countries have adopted national laws regulating social enterprises. Additionally, these laws focus on common issues among which are the definition of social enterprise, asset allocation, stakeholder and governance systems, and accountability and responsibility towards internal and external stakeholders (OECD/European Union, 2013). In general, three main models of organizational forms of social enterprises are present (Cafaggi and Iamiceli, 2009), namely the cooperative model, the company model and the open type model (without specific legal form). For the creation and development of social enterprises the appropriate legal framework is needed at a national level. It will represent the foundation for establishing social enterprises, their operation and development. A clear set of rules is useful for several reasons, such as to open up opportunities for fiscal relief, to govern access to public procurement, and to define the beneficiaries of other forms of public support to social enterprises, according to their organizational form, target group and activity (European Union, 2015).

Approach to social entrepreneurship in the European Union and in Slovenia

In the European Union, the importance of social entrepreneurship is growing in recent years. For several years, the European Commission aims to create an encouraging financial, administrative and legal environment for social enterprises so that they can be on an equal position with other types of enterprises in the same sector. At the EU level, the social economy represents enterprises and organizations that are economic and social actors and are present in all sectors of economy and society. They are marked by their goals and unique design. The social economy includes organizations such as cooperatives (cooperative) associations, mutual societies and foundations. These social enterprises are particularly active in areas such as social protection, social services, health care, banking, insurance, production activities, a variety of consumer services, brokerage, various crafts, housing services, supplying services to the local environment, education and training in the field of culture, sport and leisure activities” (Campos and Ávila, 2012). The European Parliament adopted the Resolution on Social Economy in 2009 which states that the social economy combines profit with solidarity, aim at creating high-quality jobs, strengthening social, economic and regional cohesion, generating social capital, promoting active citizenship, solidarity and economics, in which people are set on the first place. Additionally, to foster social economy and support social enterprises, the European Commission launched the Social Business Initiative in 2011 to identify actions to make a real difference and improve the situation on the ground for social enterprises (European Commission, 2017).

In Slovenia, the social entrepreneurship domain is regulated by the national legislation. In year 2011 the Act on Social Entrepreneurship (Official Gazette, 2011) was adopted, which regulates the activity of social enterprises. It also stipulates a series of measures aimed at fostering the development of social enterprises, including the requirement to set up the Council for social entrepreneurship and to adopt a national strategy for the development of social entrepreneurship together with the program of measures to implement the strategy every four years. The implementation of the legislation is the responsibility of the Ministry of economic development and technology.

The Act on Social Entrepreneurship is designed to enable an open model of social entrepreneurship. It allows the creation of a social enterprise regardless of the legal form of the company. The Slovenian Act on Social Entrepreneurship predicts for two forms of social enterprise, so called type A and type B. The type A of social enterprise is meant for companies with intention to achieve positive social, environmental and economic impacts. The Act, therefore, provides a list of suitable activities for this type of social enterprise, including activities such as social and family protection, protection of physical, sensory, mental or otherwise disabled people, science, education and childcare, care and health promotion, ensuring social inclusion, promoting employment and vocational training of people who are unemployed or threatened by unemployment. On the other side, the type B of social enterprise applies to employees and not to the activity provided for the recruitment of persons who for various reasons are excluded from the traditional labor market. So, a social enterprise of this type may be

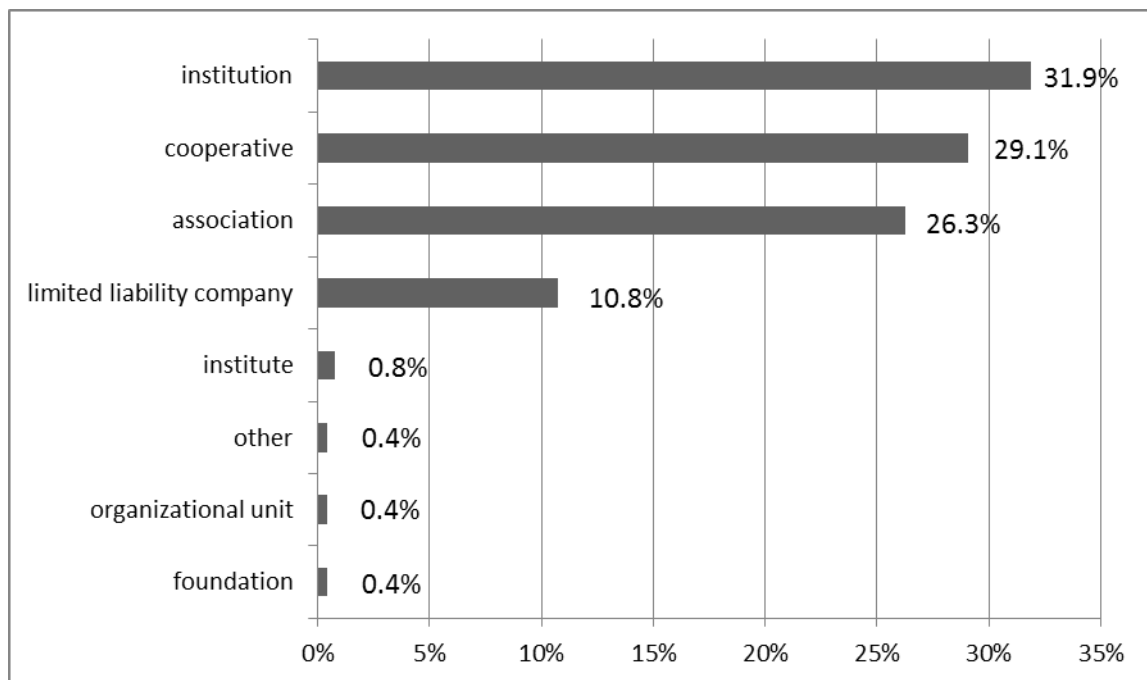
established to employ disadvantaged people and has to employ at least one third of these employees. The concept of social entrepreneurship in Slovenia and its objectives are also defined by the Act on Social Entrepreneurship. Its definition is as follows (Official Gazette, 20/2011): “Social entrepreneurship constitutes a permanent activity of social entrepreneurship or permanently performs other activities under the specific conditions of employment in the manufacturing and selling of products or services on the market, while making a profit is neither the sole nor the principal objective of the activity. Social entrepreneurship strengthens social solidarity and cohesion, encourages people's involvement and volunteer work, enhances the innovative ability of the company to address the social, economic, environmental and other problems, provides an additional range of products and services in the public interest, developing new employment opportunities, providing additional jobs and social integration and professional reintegration of the most vulnerable groups in the labour market (the objectives of social entrepreneurship)”.

In Slovenia, the primary goal of social entrepreneurship is to create jobs for groups of people who are vulnerable and have fewer employment opportunities (older workers, first-time job seekers, former drug users, ex-convicts, persons with disabilities, physically disabled persons, etc.). In addition to creating jobs the feature of social enterprises is performing socially useful activities (e.g., social tourism, eco-food production, youth work, fair trade, and promotion of healthy lifestyle).

Empirical evidence on social enterprises in Slovenia

The share of formally registered social enterprises in Slovenia is very low, especially when compared with other developed countries. As there are approximately 130,000 active companies in Slovenia and only 251 of them have the status of social enterprise, then the latter represent only 0.2% of the population, which is a negligible share (Ministry of economic development and technology, 2017). The reason lies mainly in the restrictive legislative framework, which clearly defined the terms for obtaining the status of a social enterprise. Currently, in Slovenia there are registered 251 companies with status of social enterprises. Their distribution by the type of organization is represented in Figure 1. There are almost one third of institutions, followed by cooperatives, associations and limited liability companies. All other types represent minor parts.

Figure 1: Share of social enterprises in Slovenia by type of organization

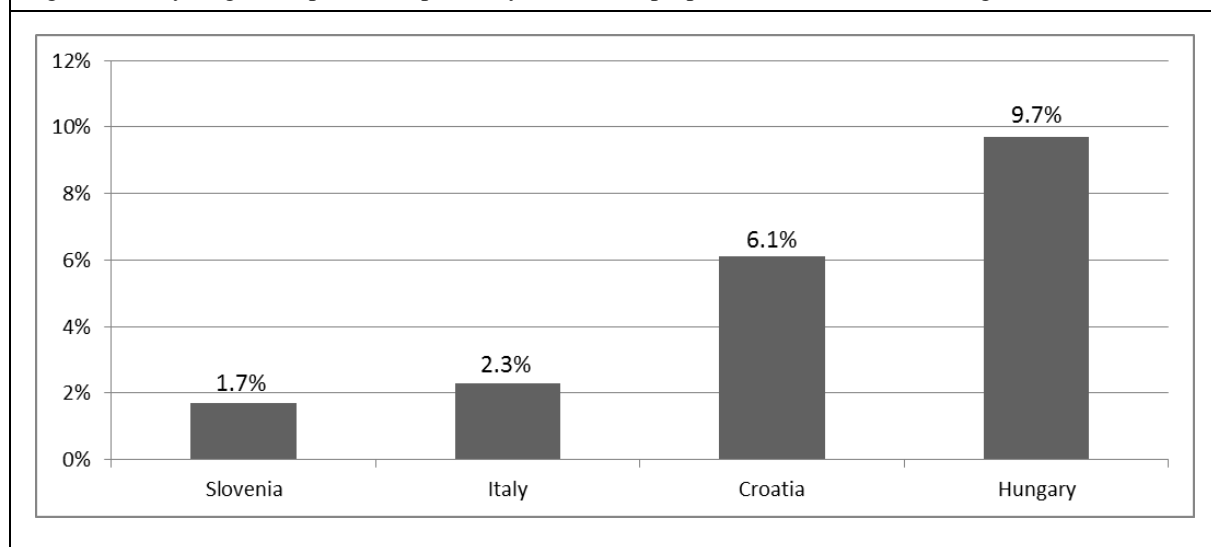


Source: Author

However, as revealed some broader studies on entrepreneurship, businesses and other organizations with social aims and motives are considerably more in Slovenia. Those are not captured by the

statistics as they have not acquired the status of a social enterprise. The international study Global Entrepreneurship Monitor (GEM), for example, found that there are 3.2% of individuals who are currently involved in the creation of social enterprises, while there are 7.6% individuals involved in the creation of profit-oriented enterprises on average in the world (58 countries) (Bosma et al., 2016). The GEM research defines social entrepreneurship widely (wider than the Act on Social Entrepreneurship in Slovenia), like any business, organization or initiatives that have particular social, environmental or social objectives, achieving a substantial share of the total entrepreneurial activity. The GEM study revealed that in Slovenia 1.7% of individuals are involved in early entrepreneurial activity with a social purpose and that this lags behind all of Slovenia's neighbor countries, as there are in Croatia 6.1%, in Hungary 9.7%, and in Italy 2.3% of social entrepreneurs (Figure 2).

Figure 2: Early-stage entrepreneurship activity with social purpose in Slovenia and its neighborhood countries



Source: Author

Conclusions

Establishing an enterprise requires a set of resources, skills and capabilities, which have to be even more sufficiently combined when establishing a social enterprise. Establishing, running and sustainably developing a social enterprise can be more difficult compared to for-profit oriented enterprises because of the skills needed to begin and manage it. Mostly because social entrepreneurs have to follow a social mission together with the economic one, and because of some other specifics of social enterprises such as difficulties in accessing capital and due to legislative and administrative requirements that social enterprises have to fulfill to retain their status. Therefore, the business ecosystem has to be well shaped and developed to offer support for this particular type of entrepreneurship. An enabling environment that supports social enterprises is even more important because of their specifics. However, particular countries use different approaches to formalizing social entrepreneurship. In Slovenia, the social entrepreneurship domain is formalized using rigorous legislation which is hindering the development of social enterprises. Additionally, the implementation of supporting mechanisms together with the legislation was delayed, including financial measures. Therefore, to support the development of social entrepreneurship in Slovenia, the primary governmental role is to prepare comprehensive implementing measures which will support existing social enterprises as well as motivate other companies to acquire the status of social enterprise.

References

- Bosma, N., Schött, T., Terjesen, S., & Kew, P. (2013). Global Entrepreneurship Monitor 2015 to 2016: Special Report on Social Entrepreneurship. Global Entrepreneurship Research Association.
- Cafaggi, F., & Iamiceli, P. (2009). New Frontiers in the Legal Structure and Legislation of Social Enterprises in Europe: A Comparative Analysis. In A. Noya (ed.), *The Changing Boundaries of Social Enterprises*, Paris: OECD.
- Campos, J. L. M., & Ávila, R. C. (2012). The social economy in the European Union. CIRIEC. Visits and Publications Unit. Retrieved from <http://www.eesc.europa.e/resources/docs/qe-30-12-790-en-c.pdf>

- Defourny, J., & Nyssens, M. (2010). Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and Divergences, *Journal of Social Entrepreneurship*, 1(1), 32-53.
- European Commission. (2011). Social Business Initiative Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation Brussels, 25.10.2011 COM(2011) 682 final.
- European Commission. (2017). Social enterprises. Retrieved from https://ec.europa.eu/growth/sectors/social-economy/enterprises_en
- European Union. (2015). A map of social enterprises and their eco-systems in Europe: Synthesis Report. Luxembourg: Publications Office of the European Union.
- Mair, J., & Marti, I. (2006). Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business*, 41(1), 36-44.
- Ministry of economic development and technology. (2017). Evidence of social enterprises in Slovenia. Retrieved from http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/Regionalni_razvoj/socialno_podjetnistvo/evidenca_socialnih_podjetij_6_4_2017.xls
- OECD. (1999). Social Enterprises. Paris: OECD.
- OECD/European Union. (2013). Policy Brief on Social Entrepreneurship Entrepreneurial Activities in Europe. Luxembourg: Publications Office of the European Union.
- Official Gazette. (2011). Zakon o socialnem podjetništvu (Act on Social Entrepreneurship). Official Gazette of RS, Nos. 20/11 and 90/14 - SAA-II.