

BARRIERS AND POTENTIAL CHALLENGES IN THE DEVELOPMENT OF SOCIAL BUSINESSES IN THE CZECH REPUBLIC

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Abstract: *Social entrepreneurship is characterised by a high degree of innovation and creativity. The topic of social entrepreneurship is currently often discussed and it is one of the trends of contemporary social economy in the CR. The Czech Republic is one of the countries that start discovering the benefits of social business, especially at the regional level. Experience from abroad clearly identifies the positive impacts of social entrepreneurship on the national economy. Social enterprises are one of the major stakeholders in the labour market employing socially disadvantaged people. This paper aims to identify the main barriers to the activities of social enterprises. To identify those barriers, use was made of a questionnaire survey in social businesses. Based on the results of the survey it was identified that the current main barriers include the non-existence of the social entrepreneurship act, insufficient definition of criteria for social enterprises and inadequate inter-departmental coordination. Potential future challenges appear to be legislative and systematic state financial support and preparation of the environment for social activities within the framework of regional cooperation including the establishment of social incubators.*

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Introduction

Structural unemployment, social exclusion, wage differentiation and other issues related to social policy and the urgency to establish a more active integration policy - these are problems that the society is forced to react to and find a solution in expert discussions. One of the alternatives to deal with the social problems of unemployment is social economy and social entrepreneurship. It is an alternative and a complementary option to handling social issues - social exclusion, exclusion from the society, economic problems - unemployment, low purchasing power of some groups of inhabitants, environmental problems - sustainable and regionally balanced development. The concept of social entrepreneurship is supported by the in a number of countries. The Czech social entrepreneurship act is now commented on. Above all, it is about the recognition by the society itself in the form of support, regulation and legislation on the part of public authorities.

This paper aims to identify the main barriers to the activities of social enterprises. The paper examines mutual relations and the role of social entrepreneurship in the segment of social economy and public policy. To obtain answers, use was made of a standardised questionnaire in social enterprises.

1 Statement of a problem

The Czech Republic is one of the countries that are discovering the potential benefits of social enterprises. As mentioned above, the social entrepreneurship act is now in the comment process. Non-profit sector has not been transformed to other legal entities yet. The experience with a well developed social economy sector from abroad (Italy, Sweden, France, Finland etc.) clearly identifies positive impacts of social entrepreneurship on national economies, public economy and the society as such.

1.1 Theoretical definition of the subject matter

Defourny, Pestoff (2008) suggest that the importance of the third sector and its differentiation from the private and public sectors has been highly topical recently. Its economic importance is associated primarily with productivity and employment and growth can also be observed in the services sector. The importance of the third sector in the countries of Central and Eastern Europe is underrated. In contrast, in developed countries, such as France, Belgium and Ireland, the social economy contributes to 10% of employment.

In their publication “Social Enterprise and the Third Sector” Defourny, Hulgard, Pestoff (2014) show that social economy and social entrepreneurship do not bring innovation associated with ownership of companies. Social economy emphasises responsibility of the social enterprise owners related to changes in the society by introducing innovation in the field of new products and their quality, new methods of organisation and production, new production factors and relationships in the market and new forms of enterprises and entrepreneurship.

The values and starting points for social economy and social entrepreneurship are inspired by the ideas of solidarity and humanism advocated by Owen and King, Leon Walras and John Stuart Mill (Defourny, Develter, Fonteneau, 1999). Dohnalová, Deverová, Šloufová (2012) among contemporary economists include, for example, Jacques Defourny, Jean-Louis Laville and others who combine the ideas of social, solidarity, ethical or humane economy and thus emphasise the importance of local social enterprises and social entrepreneurship..

1.2 Social entrepreneurship

The definitions of social enterprise and social entrepreneurship are not uniform. According to Hunčová (2007), the concept of social enterprise is built upon on partnerships between the public and private sectors in providing public services and promoting public employment policy.

Danish Technological Institute (2002), which is actively involved in social innovation, defines social business as "a business with primarily social objectives where economic profit is primarily reinvested in the business for the same purpose or in the development of the local community and therefore is not intended to maximise profits for owners and shareholders”.

Kurková, Franková (2012) draw attention to the fact that the social enterprise is a business that wants to do things in a different way, with other motivation values. Social enterprise is not automatically every employer identified as such. Neither is it every socially responsible company as it is often established for profit, nor socio-therapeutic workplaces which primarily focus on services for their clients.

The Chamber of Social Enterprises (2016) states, that social enterprises try to meet the local needs using local sources, they enter into local partnership initiatives and contribute to local development.

The stability of social enterprises is considered in two dimensions, namely, whether the business is able to survive in the long term and whether it can maintain the intended balance between social contribution and success in the market over time. The survival and growth are key motivators for each organisation. The focus and nature of social enterprises is continuously affected by the financial possibilities and environmental pressure. Gidron, Yekeskel (2012) emphasize that social enterprises are organisations which are driven by social tasks and apply marketing strategies in order to achieve social or environmental purposes.

The social enterprises are on the one hand required to achieve business success and on the other hand they are supposed to meet the determined social objectives with democratic involvement while it is necessary to maintain their stability over time and respect boundaries where the business is social and at the same time capable of surviving in the market.

Furthermore, Gidron, Yekeskel (2012) highlight that the incorporation of a social enterprise is conditioned by funds. Funds to support social entrepreneurship may be various and require a specific level of skills of the social entrepreneur, mainly organisational, administrative and methodical SKILLS. Social enterprises are usually funded commercially, through philanthropy and by government, these three resources are called "tri-value organisations".

The funds can be raised by approaching sponsors, private donors, trustees of public funds or it is possible to develop their own complementary activities. Social enterprise activities can be funded through one own as well extraneous finance. Own resources include investments made by partners, members and shareholders (Dolejšová, 2008). The entrepreneurs may also start up the business through deposits forming the legal capital. Own resources also include generated profits, with the priority being to invest most of that profit back to develop the business because this meets one of the principles of social enterprise (at least 51% of profits must be reinvested in further development of the company).

Social enterprises which are limited companies, joint-stock companies or cooperatives are legally required to create a statutory reserve fund, other businesses may voluntarily established funds designated for specific purposes. Other financing options for social enterprises are external funding sources, which include bank and commercial loans, financial and operating leasing, grants, franchising and venture capital. However, such resources result in higher debt rate which is not desirable for social entrepreneurship, as indicated by Kalouda (2011). In 2014, the Business Corporations Act came into force, which defines social cooperatives. The act on the activities of social cooperatives, however, contains very strict limitations and it is therefore not a suitable form for entrepreneurship. Social enterprises choose their legal form of business for their activities according to their personal preferences and available resources.

1.3 Legal environment

In the individual EU countries there is no uniform model of European social economy law. Social economy is legally recognised in selected EU countries (Chorum, 2014).

Tab. 1: Overview of countries with social economy and social entrepreneurship legislation

Country	Legislation adopted in	Name of law
Finland	2003	Act on social entrepreneurship
Lithuania	2004	Act on social entrepreneurship
Slovakia	2004	Definition of social enterprises under Act No. 5/2004 Sb, on services in employment
Italy	2005	Act on social entrepreneurship
Poland	2006	Act on social cooperatives
Belgium	2008	Regional decree on social economy
Spain	2011	Act on social economy
Greece	2011	Act on social economy and social enterprises
Slovenia	2011	Act on social entrepreneurship
Portugal	2013	Act on social economy
France	2014	Act on social and solidary economy

Source: (Monzon, Chaves, 2008)

Social enterprises are subject to regulations introduced by a number of laws; however, none of them defines the term social entrepreneurship. Trčka (2014) states that social enterprises are mainly focused on creating jobs for disadvantaged people. Once the Czech Republic was established, the law took over regulation concerning non-profit sector entities (civic associations, foundations, churches) and the conditions for doing business and manage assets underwent only partial changes. It can be stated that the law of the Czech Republic does not prevent from social enterprises but does not promote them either. People, Planet, Profit (2016) point out that there are no rules set for social entrepreneurship such as the rules of profit.

2 Methods

This paper aims at identifying the main barriers to the activities of social enterprises. The paper investigates mutual relations and the role of social entrepreneurship in the segment of social economy and public policy.

The paper answers mainly the following questions:

- What role it played by public administration in social entrepreneurship?
- What are the main barriers to the social business operations?
- What are the possible challenges in the future to the development of social entrepreneurship?

To identify the main barriers to the activities of social enterprises a questionnaire survey was used. The form was distributed to 100 social enterprises, the selection was random and use was made of the Directory of social enterprises on the České sociální podnikání.cz website registering 230 social enterprises (as of 31st August 2016). Registration in the Directory of social enterprises is voluntary and therefore the exact number of social enterprises in the Czech Republic currently operating can not be determined.

The questionnaire survey was carried out in spring 2016, response rate was 30%. The online questionnaire contained 10 questions, of which some questions were open. The questions concerned mainly the legal form of the enterprise, reasons for selecting the legal form, strengths of social entrepreneurship, problems with entrepreneurship, funds used for business operations (various loans, operating subsidies, grants, donations etc.), opinions on the legislation, employment of disadvantaged groups and support by public administration and the state.

Based on the questionnaire survey evaluation we will be able to identify the main barriers that impede the effective functioning of social enterprises in the Czech Republic and to formulate possible future challenges to the promotion and development of social entrepreneurship.

We are aware that the research sample is not too large (we draw on the answers from about 13% of all registered enterprises in the database). Therefore, in the subsequent discussion, we base also on other research surveys, which were conducted in the years 2015 - 2016, so that we can generate results from these additional data that reflect the current state of social enterprises in order to formulate recommendations.

3 Problem solving

For the purposes of this survey, use was made of a standardised questionnaire, which was developed by the author. Questions asked in the questionnaire survey were answered by the businesses anonymously.

As regards the interviewed entities, the prevailing legal form was commercial company (48%). The respondents indicated that they wish to be a "normal" business which means that they prefer the legal form of commercial companies. The second most important legal form was represented by cooperatives and social cooperatives. Then there were institutes, self-employed and civil associations. Those responded to the question focused on the choice of legal form mostly as follows: the closest to the idea of social entrepreneurship, simple establishment, public trust, business experience with this legal form, the possibility to apply for grants and the possibility to take care of people with disabilities.

As regards employment, they clearly indicated that they employ disadvantaged groups (this was the response provided by over 70% of respondents), mainly people with disabilities and the long-term unemployed. To the most cited disability type belonged the physical and mental handicap, followed by visual and hearing impairments. The respondents identified the social dimension of their business, employment of marginalized groups and publicly beneficial goal as a strength.

In their businesses, the respondents were mainly engaged in the following activities: horticultural services (24%), sales (18%), followed by activities in the field of hospitality industry, accommodation, farming and food production.

As regards financing, the answers were identical: most of the social enterprises receive contributions for their employees (45%), which explains the answer to the question about the strong aspect of social entrepreneurship - employment of disadvantaged people. Other major funds are in the form of their own resources. The respondents often mentioned the discrepancy between operating and investment subsidies. As the main source of funding they reported EU funds (54%) and grants from other entities (24%) – the social entrepreneurship is mostly supported by regions, followed by municipalities, whereas the

last place belongs to the State (only 3% of respondents were subsidized by the State). The subsidies to organizations and contributions to employees may accumulate.

As regards the profit over the past year of doing business a total of 70% of all respondents answered positively. This indicates that social entrepreneurship develops in a positive direction and it proves viability of this kind of business.

Another question concerned the non-existent law on social entrepreneurship. 58% of respondents said that it is necessary to adopt a law on social entrepreneurship, the others could not comment.

The respondents most often apply the Employment Act, tax law, hygiene regulations, Trade Licensing Act, Civil Code, Business Corporations Act and standards concerning the physically handicapped.

The question of what change or support from the government the respondents would appreciate was answered as follows:

- clear definition of social entrepreneurship,
- better financial support, tax incentives,
- changes in public procurement,
- public awareness raising and promotion of social entrepreneurship.

According to the questionnaire survey the social enterprises would like to have adopted a clear and precise definition of social entrepreneurship and a better financial support from the State. The reason for the better financial support was provided by one of the respondents: "*also the volunteering costs something.*" Two respondents would welcome a discrete advisory assistance for aspiring social entrepreneurs in the form of a helpdesk, where they could send their questions regarding the legislative, taxation or financial support.

4 Discussion

What role is played by public administration in social entrepreneurship?

As part of the theoretical definition of social entrepreneurship the following definition was adopted by Hunčová (2007) "the concept of social enterprise is built upon the partnership between the public and private sectors in providing public services and promoting public employment policies" [10]. This indicates that the process of social entrepreneurship must be implemented in partnerships between social business and public administration. This was confirmed in the questionnaire survey where the most employed group was disabled people. This is also confirmed by another survey conducted at the Faculty of Economics and Administration in spring 2014 where the respondents were beneficiaries - social enterprises within Call 30 "Social Economy". The respondents here most frequently employed people with disabilities. The businesses receive contributions for these people from the labour offices. There is a clear line of cooperation with labour offices and search for suitable job seekers. The most commonly employed group of people with disabilities is people with physical disabilities.

Another role of social entrepreneurship is the social dimension. It's not only about employing the excluded people in the labour market, but mainly about redistribution of profits back into the organisation. Here the social enterprises may redistribute their profits into investment processes or into staff training.

A concrete example of cooperation between social enterprises and public administration is the development strategy of the South Moravian Region. The short implementation plan titled "Human Resources Development Strategy of the South Moravian Region 2016 - 2017" (2016) states that incubators for social enterprises will be established with this activity managed by the Chamber of Social Enterprises (association of legal entities) and the co-operating entities being the South Moravian Region and municipalities. Further cooperation is envisaged with the South Moravian Innovation Centre, which is a Europe-wide recognised authority in the field of innovation and incubation processes in the Czech Republic and the Brno university.

The main stakeholders affecting social enterprises are public administration, the European Union and the non-profit sector. The most engaged entity is the public administration. The problem is on the part of the state as social economy is not defined and what is also missing is allocation to a respective government department. Currently, the social economy and social entrepreneurship falls under the Ministry of Labour and Social Affairs - social benefits, under the Ministry of Industry and Trade-economic benefits and the Ministry for Regional Development - local benefits. Bednářiková, Francová (2011) observe that this issue is also handled by the Government Council for Non-Governmental Non-Profit Organisations and the Agency for Social Inclusion. As stated by Wildmannová (2016), in terms of the concept of setting up the social entrepreneurship, the main role must be played by the state and public administration, which will define legal criteria for social enterprises. All this must respect the socio-economic trends resulting from the development in Europe. Consequently, the public sector will establish the environment for social activities within the context of regional and local policies - for the establishment, support and development of social entrepreneurship.

McNeill (2013) points out other important stakeholders who can contribute to the development of social entrepreneurship include educational system, especially secondary schools and universities. The future graduates must be prepared for this possibility of this type of innovative business. Currently, social entrepreneurship is taught at a large number of universities and interest in this topic in the academic environment is on the rise. Given that social entrepreneurship is more specific than traditional business, it is necessary to adapt the curricula accordingly. The weakness of the Czech educational system is interdisciplinary collaboration, inadequate legislation, complexity and the slow accreditation of new subjects.

Another outstanding issue related to social entrepreneurship is the very absence of a social entrepreneurship act. Most of the respondents in our survey confirmed the need for statutory regulation of social entrepreneurship associated with better systematic financial support, tax reliefs, etc. The same results were obtained from the questionnaire survey conducted by P3 in 2015 (Questionnaire survey evaluation, 2016): 80% of respondents expressed a positive attitude to the adoption of the social entrepreneurship act.

Currently, the act is being drafted in the Czech Republic. Along with the preparation of the social entrepreneurship act, the development strategy of social entrepreneurship in the Czech Republic is being drawn up by the Ministry of Industry and Trade. The future social entrepreneurship act applies especially to SMEs. This was also confirmed by the survey where the respondents were mainly small businesses. The social entrepreneurship act has also impacts both on public budgets and business environment. The social entrepreneurship act should not create a new legal form, it only sets the characterisation to be met by the

natural or legal business entities that wish to enjoy the status of a social enterprise, or the integration social enterprise, and benefits arising from such a status.

Ministry for human rights and equal opportunities legislation (2016) states that the development of the legal environment for social entrepreneurship will contribute to the development of social economy. The legal regulation of social enterprises and the subsequent definition of specific benefits for these businesses will encourage the initiative of individuals and communities related to the establishment of social enterprises in order to actively address problems in their municipalities and regions. The development of social enterprises will also contribute to the employment of disadvantaged people in the labour market and will address problems associated with poverty and social exclusion. Last but not least, the clear legislative basis for the characterisation of social enterprises can also facilitate decision-making of financial institutions whether these enterprises should receive financial support, e.g. loans and credits under certain favourable conditions. Financial institutions tend to be immature in this respect and start-up social businesses without any track record and guarantees are risky clients for the banks.

Conclusion

The paper focused on identifying the main barriers to the activities of social enterprises. These barriers were identified on the basis of a questionnaire survey in a group of social enterprises. Based on the responses we examined mutual relationships between social enterprises and public administration and potential challenges for the development of social businesses.

The main barriers to the development of social enterprises are the non-existence of the social entrepreneurship act – the organisations are primarily business corporations (predominantly limited companies), insufficient determination of whether the business is an integration social enterprise and what criteria should be fulfilled. Social enterprises are not supported by public processes - such as socially responsible public procurement. What is also missing is a system of financial support for social enterprises. It must not be ignored that social entrepreneurship needs to have quality criteria defined, as is the case of social services. A certain legislative definition of social enterprises has been established in several countries, examples of good practice come from Poland and Slovakia. As no legislative definition has been made in the Czech Republic, these countries might be an inspiration. In Italy, Great Britain, USA, Belgium and Finland there are also political initiatives supporting this type of business.

The discussion shows that this does not concern only the social sphere but social entrepreneurship consists mainly of business environment and support for local initiatives. All this should be reflected in the drafted social entrepreneurship act that would be appreciated by a majority of the survey respondents. One of the possible challenges in the future may be the formation of an interconnected network of social entrepreneurship stakeholders: public administration, businesses and local stakeholders. One possible recommendation is the implementation and the emergence of social incubators providing methodical advice on the formation, business plan, risk identification and target groups of employees and funding. This intention is one of the sub-questions that can be followed up by additional surveys.

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