
Barriers and Opportunities for the Development of Social Entrepreneurship: Case Study of Czech Republic

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Abstract

Social enterprises are becoming a powerful and effective tool for the employment of disadvantaged people in the labour market and are an effective tool of state and local governments in the fight against social exclusion, rising unemployment and segregation of excluded localities. 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. The paper aims at identifying the main barriers and opportunities to the activities of social enterprises.

The conclusions are drawn on the basis of a questionnaire survey conducted in social enterprises. The main barriers to the development of social enterprises are the non-existence of the social entrepreneurship act – the organisations are primarily business corporations, 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. The originality of this work lies in studying some aspects of barriers in social business. The Czech Republic is among the countries that discover the benefits of social entrepreneurship, especially at the regional level.

Keywords: social economy, social enterprise, public administration, Czech Republic

Introduction

The urgency of structural unemployment, social policy issues and the need for more active integration policies result in the question and need to establish suitable structures, that might, in certain areas, take over these socio-economic issues from the public administration. One of the possible alternatives is to address the issues related to social economy through social enterprises that provide alternative and complementary options to addressing these issues. The concept of social entrepreneurship has been adopted by some EU countries; nevertheless, this concept has not been socially recognised everywhere. It does not only concern recognition of the enterprise but also recognition in the form of support, regulation and legislation by public authorities.

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. (Defourny, Pestoff, 2008)

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Theoretical Definition of the Subject Matter

In terms of the third sector, the social economy is considered as an alternative to the public sector and the market. The traditional European concept implies connections with associations and cooperatives, unions and foundations that employ people from disadvantaged social groups. The society highlights the economic, social and local importance. (Defourny, Develtere, Fonteneau, 1999).

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. (Defourny, Hulgard, Pestoff, 2014).

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, Develtere, Fonteneau, 1999) 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. (Dohnalová, Deverová, Šloufová, 2012).

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. (Wildmannová, 2017).

Danish Technological Institute (DTI), 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”. (Danish Technology Institute, 2002).

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. (Hunčová, 2007).

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. (Dohnalová, Deverová, Šloufová, 2012)

Table 1. Overview of countries with social economy and social entrepreneurship legislation (Monzon, Chaves, 2008)

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

<i>Slovenia</i>	<i>2011</i>	<i>Act on social entrepreneurship</i>
<i>Portugal</i>	<i>2013</i>	<i>Act on social economy</i>
<i>France</i>	<i>2014</i>	<i>Act on social and solidary economy</i>

Social enterprises are subject to regulations introduced by a number of laws; however, none of them defines the term social entrepreneurship. Social enterprises are mainly focused on creating jobs for disadvantaged people. (Vyskočil, 2014) 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. There are no rules set for social entrepreneurship such as the rules of profit (Monzón, Chaves, 2008).

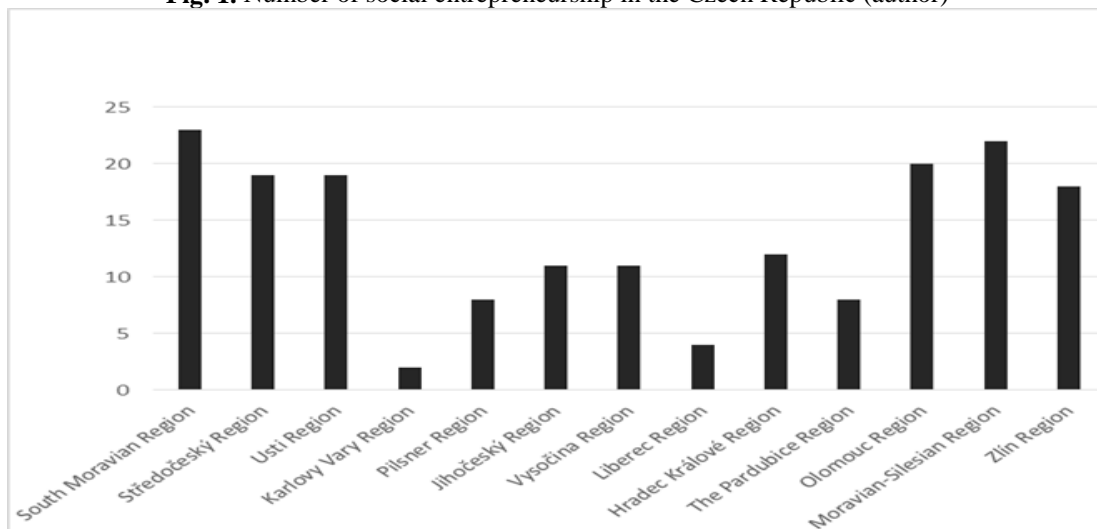
According to Vyskočil, social enterprises are governed mainly by the following acts:

- Act no. 89/2012 Sb., Civil Code
- Act no. 90/2012 Sb., On Business Corporations
- Act no. 563/1991 Sb., On Accounting
- Act no. 455/1991 Sb., On Trades (+ Act on doing business in tourism etc.)
- Act no. 262/2006 Sb., Labour Code
- Act no. 137/2006 Sb., On public procurement
- Act no. 435/2004 Sb., On employment. (Wildmannová, 2016)

Current structure of social enterprises in the market in the Czech Republic

Figure no. 1 indicates that most social enterprises are located in the South Moravian Region (23 social enterprises), followed closely by the Moravian-Silesian Region (22) and the Region of Olomouc (20). The graph is based on the database of Czech social business administered by the organization TESSEA and the company P3 – People, Planet, Profit. This website gives information about the indicators of selected social enterprises such as field of activities, destination, employed groups etc. Due to the fact that it is voluntary for social enterprises to get registered in the database, the data is not statistically relevant. Still, we can say that the number of social enterprises is growing, which is caused by the transformation of current businesses into social enterprises, the transformation of NGOs into social enterprises and the establishment of new social enterprises.

Fig. 1. Number of social entrepreneurship in the Czech Republic (author)



The most commonly employed target group is people with disabilities. The most employed group of disabled people are physically disabled people (over 50%), followed by people with intellectual and mental disabilities.

The main activities of social enterprises are gardening services, vegetation management, maintenance and cleaning services. Furthermore, social enterprises are involved in accommodation and catering services and food processing.

Material and methods

The paper aims at identifying the main barriers and opportunities to the activities of social enterprises.

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 2017). Registration in the Directory of social enterprises is voluntary and therefore the exact number of social enterprises in the Czech Republic currently operating cannot 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.

Results and discussion

The questionnaire was anonymous, the responses were subsequently evaluated with the results presented below.

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.

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. The respondents identified the social dimension of their business as a strength.

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% – in the same proportion they answered that they did not receive any subsidies). 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;

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- 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.

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” (South Moravian Region, 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.

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.

Conclusions

This paper has identified the main barriers and opportunities to the activities of social enterprises. Answers to the survey questions are based primarily on the conducted survey. The survey results indicate that the main barriers to the development of social enterprises is the non-existence of social entrepreneurship law, inadequate definition of the social enterprise (what criteria are to be met by a social enterprise). Social enterprises do not receive support in public processes (socially responsible public procurement proceedings). What is also missing is a systematic setup of financial support for social enterprises (soft loans, credits).

The objective of this paper is to contribute to the debate about social entrepreneurship. Currently, application deficit may be observed in the social entrepreneurship market. What is now being drafted is the social entrepreneurship act; however, the local governments are not ready to cooperate with social enterprises or give advice to the social enterprises. Another problem is a lack of social innovation capacity (insufficient innovation offer) and, to some extent, weak innovation demand (i.e. demand for effective solutions to social issues) (MPSV, 2016).

Apparently, the only prospective way forward is to diversify the factual focus of support programmes and their capacity, to actively seek innovative capacities and opportunities, and to actively promote the innovation demand (public and private) for social impact.

It is therefore necessary to implement collaboration with local social enterprises into local strategies, bring this initiative to the level of cooperation with the public sector (e.g. by creating social incubators and platforms) and encourage this type of local business – e.g. by awarding socially responsible contracts.

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