

SOCIAL ENTREPRENEURSHIP: DIVERSITY OF THEORETICAL CONCEPTS AND PRACTICAL APPLICATIONS IN CASE OF LATVIA

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Abstract

Purpose – Nowadays there is no any dominance observed among the different theoretical concepts describing phenomenon of social entrepreneurship. Therefore the aim of the present article was to explore various theoretical concepts of social entrepreneurship and to illustrate specific examples of their practical application in Latvia.

Design/methodology/approach – Literature studies, analysis of statistical data, logical and comparative analysis.

Findings – In the present article the authors expose their views on interpretation of term of social entrepreneurship, supporting the idea that economically effective business incentives and commercially successful solutions create the basis for gaining social benefits for the communities.

Originality/value – According to the most common approach applied for the analysis of social enterprises on the base of qualitative assessment of their social and economic performances, the various types and activity of already existing social organizations in Latvia is described.

Keywords: social entrepreneurship, social problems, business models.

1. INTRODUCTION

Social entrepreneurship as a separate theoretical concept has started developing in the second half of the 20th century. The reason was the presence of many unresolved social problems in different parts of the world. In Latvia, social issues are also urgent, but traditional programmes of state support and assistance currently are not efficient enough. This leads to the need of seeking for new forms and ways of solving social problems.

Therefore *the aim of the present article* was to explore various theoretical concepts of social entrepreneurship and to illustrate specific examples of their practical application in Latvia.

In order to fulfil the aim the following tasks were carried out:

1. To determine the core of social entrepreneurship and to point out its distinguishing features from the traditional business;
2. To identify the main prerequisites for start-up and development of social entrepreneurship;
3. To summarize the practical experience and contribution of social enterprises in the solving of social problems in Latvia;
4. To identify the main types of business models of social entrepreneurship.

The hypothesis of the research: summarizing the theoretical concepts and practical experiences on the field of social entrepreneurship creates a basis for identification of main business models of social entrepreneurship in Latvia.

This article provides an overview of studies on international experience of social entrepreneurship, as well as presents opinions of various authors (Gregory Dees, Janelle Kerlin, Kim Alter, and others) on issues of essence and forms of social entrepreneurship, prerequisites for its successful development. Also, the article summarises the views of authors on the interpretation of the term “social entrepreneurship” basing on idea of self-financing. A separate part of the study is dedicated to Latvia’s experience of social entrepreneurship and problems of its development. In the study of Latvian examples of social enterprises, major emphasis was placed on characterisation of social problem solved by a particular enterprise and description of mechanism chosen for solution of given problem.

During the carrying out of the study the following research methods were applied: monographic descriptive method, the method of analysis and synthesis, analysis of statistical data, logical and comparative analysis, generalization. As the informative basis of the article data of Central Statistical Bureau of Latvia (CSB) and Global Entrepreneurship Monitor as well as other scientific publications were used.

2. THEORETICAL BACKGROUND OF THE RESEARCH

It should be noted that no common approach currently exists towards the definition of social entrepreneurship. Despite many existing definitions, even the European Commission did not shape a unified concept when launching an initiative for the development of social entrepreneurship. Gregory Dees, co-founder of the Centre for the Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business, gives a brief enough definition of social entrepreneurship, seeing it as a solution of social problems by “entrepreneurial” means (Dees, 2001). Janelle Kerlin, Assistant Professor of Public Management and Policy at Georgia State University, has an opinion that “social enterprise — the use of market-based, civil society approaches to address social issues” (Kerlin J. A., 2009).

A more extended definition is delivered by founder and Managing Director of Virtue Ventures, Ltd., a company for promotion of social entrepreneurship practice in the United States, Kim Alter, who believes that “a social enterprise is any business venture created for a social purpose - mitigating/reducing a social problem or a market failure - and to generate social value while operating with the financial discipline, innovation and determination of a private sector business” (Alter K., 2007). If to take into consideration that social problems are solved, as a rule, by non-commercial organisations: non-profit, charitable NGOs through fundraising, sponsorship, special state funds - then social entrepreneurship is a different way to implement social activities. It is the entrepreneurial activity, with all its inherent elements (use of production resources, establishment of manufacturing processes, market behaviour, involvement in competition, achievement of financial viability, etc.), but extended towards solution of socially important problems. This is the meaning and mission of social entrepreneurship. Social entrepreneurship is based the functioning of the so-called social enterprises. An enterprise is considered social when it is involved in business activity with a social purpose (Public-Private Partnership Association, 2011).

The shortest definition of social enterprise is given the coalition of UK social enterprises: “a social-purpose enterprise” (Social Enterprise UK, 2011). In other words, it is a business of which profit is directed mainly to the social needs or solution of most pressing social problems.

Social enterprises provide social services and/or produce goods and services for socially disadvantaged persons, as well as produce goods or provide services for the ordinary market, but at the same time solve social problems of employing people previously alienated through their insufficient qualifications, social or professional problems, etc. (Global Entrepreneurship Monitor, 2009). The examples of social problems successfully solved by social enterprises in different countries are presented in Table 1.

Above examples of successful social entrepreneurship differ from each other both in economic and social environment by problems to be solved, target groups, magnitude and results of activity. But there is what they have in common: first, they all produce the common weal, i.e. solve some pressing social problem, help a particular group of people; secondly, they are efficient, that is, they solve social problems, skilfully using available material, human and financial resources.

A special role in the development of social entrepreneurship is played by entrepreneur Bill Drayton, founder of the “Ashoka” Global Association of Social Entrepreneurship Leaders in the United States. He has figuratively and most clearly described the purpose of a social entrepreneur: “Social entrepreneurs are not

content with just giving people fish or teaching how to fish. They will not stop until they revolutionise the very fishing industry" (Batalina, 2008).

Table 1

Examples of successful social enterprises

Social objective / social problem	Social enterprise	Results achieved
Eradication of poverty and women's support in Bangladesh	Grameen Bank, engaged in micro-crediting, provision of medical, telecommunication services, manufacture of food products, etc. Founded by Professor Muhammad Yunus in 1976.	- alleviation of poverty, unemployment, illiteracy of rural women; - 12 thousand people are employed in the network; - ensures 1.5% of GNP.
Creation of jobs and economic development opportunities in Basque territory (Spain)	Mondragon Cooperative Corporation (MCC) – wide social network engaged in vocational training, manufacture and distribution of domestic goods, automobile spare parts, equipment for supermarkets, etc., provision of financial services. Founded in 1950-1960.	- about 70 thousand jobs established; - the region has achieved highest income per capita and lowest economic disparity level; - ensures 3.7 % of GDP.
Availability of medical aid and drugs for destitute social groups	The Institute for One World Health (IOWH) – pharmaceutical non-commercial company. Founded by Victoria Hale in 2000.	- methods are found for efficient production of cheap medical drugs for treatment of diseases neglected in society.
Recycling of postconsumer plastics; Employment of garbage collectors	Conserve India – recycling of postconsumer plastics into a new material: "handmade recycled plastic". Founded by Anita Ahuja in 1998 in Delhi	- employment of non-qualified, poor group of population; - mitigation of ecological problems.

Source: (Batalina 2008), summarised by the authors

From the above it follows that social entrepreneurs need to be good professionals, able for innovations in business and radical changes in society.

Summing up the views of various researchers allows singling out the following characteristic features of social entrepreneurship, which detail its essence:

1. Setting of social objectives;
2. Development of entrepreneurship on innovative basis;
3. Achievement of sustainable commercial effect ensuring self-repayment and competitiveness;
4. Utilisation of profits for the development of social enterprise.

Authors of this paper have analysed the differences between the idea of doing traditional business and functioning of social enterprise basing on features such as mission of enterprises, their utilisation of profits, existence of target groups, and consequences of economic activity (see Table 2).

The main distinctive features of a social enterprise are:

1. Superiority of social mission over business. Social enterprise is intended to solve a real social problems or substantial alleviation thereof, while the social effect is not a by-product of the activities like in business but a targeted direct result.
2. Profits are reinvested into implementation of social mission. The income earned does not change the nature of the organisation since it does not become a target of business but significantly extends the capabilities of already undertaken mission (Batalina, 2008).
3. Target groups, the beneficiaries of social goods, are the least protected and least well-off segments of population having no financial resources or political tools to meet their basic needs by their own (Batalina, 2008). In case of traditional business the target groups are owners, employees, recipients of goods and services, society or only the owners.

Table 2

Principal differences between social entrepreneurship and traditional business activities

Distinctive features	Social enterprises	Traditional business
Mission	creation and maintenance of common weal	various commercial objectives of specific business
Utilisation of profits	reinvested into carrying out of social mission	spent for needs of owners
Target groups (beneficiaries)	least protected and least successful groups of population	owners, employees, society (if business is socially responsible)
Economic consequences	entails some social transformations, increases aggregate economic efficiency by introducing new resources into circulation	can cause harm to health, environment, well-being of people in order to please owners receiving super-profit

Source: summarised by the authors

4. Social entrepreneurship increases the economic efficiency as it introduces into economic circulation the resources (material and labour) which previously were not used in such quality. Solidarity and trust of people becomes stronger when they share a common goal. As to the results of traditional business, they can be both positive (if the business is socially responsible), and negative for society. Since commercial law does not specify social responsibility for business activities, some of them only increase the number of social problems. For example, banks and crediting companies transfer all risks upon their clients and in case of unfavourable market situation people are deprived of all their property. Some companies in order to receive super-profits can use environmentally hazardous materials and dangerous technologies thus causing harm to human health and nature.

3. SOCIAL ENTREPRENEURSHIP IN LATVIA

A prerequisite for creating the conditions for the emergence of social entrepreneurship in Latvia is the existence of social problems, such as unemployment, low level of employment among older people and youth, poverty of particular population groups, isolation of people with special needs and disabled persons, uneven development of regions, etc.

Growing unemployment in the country negatively affects the welfare of different age and social position groups of population. Data of Latvian statistics demonstrate the decrease in employment of population. Employment among the economically active population has dropped from 68.3% in 2007 to 59.3% in 2010. Moreover, employment among senior people has decreased within this period from 57.7% to 48.2%, respectively (Central Statistical Bureau, 2011).

Loss of job or earning additional to pension means the increased risk of poverty. Statistical data demonstrates that the fastest growth in risk of poverty takes place among people of active working age (from 18 to 64). Thus, percentage of people of active working age exposed to this risk has increased by 3.9% between 2009 and 2010. Women being most vulnerable to poverty risk (4.3%) (Central Statistical Bureau, 2011).

Uneven development of regions in Latvia is evidenced by data on GDP per capita where years 2007 and 2009 were chosen for comparison selected, corresponding to periods of greatest economic boom and recession, respectively (see Figure 1). The highest level of this indicator is observed in the Riga Region (over 9.7 thousand lats per capita) and a significantly lower in Vidzeme Region (3.8 thousand lats), Zemgale Region (3.7 thousand lats) and Latgale Region (3.1 thousand lats) (Central Statistical Bureau, 2009). Analysis of government expenses for social protection shows that their major part is made up by pensions paid. In 2010 they accounted for 51% of total expenditures (see Figure 2) while less than a half of funds allocated by government is left for solution of other social problems (Central Statistical Bureau, 2010).

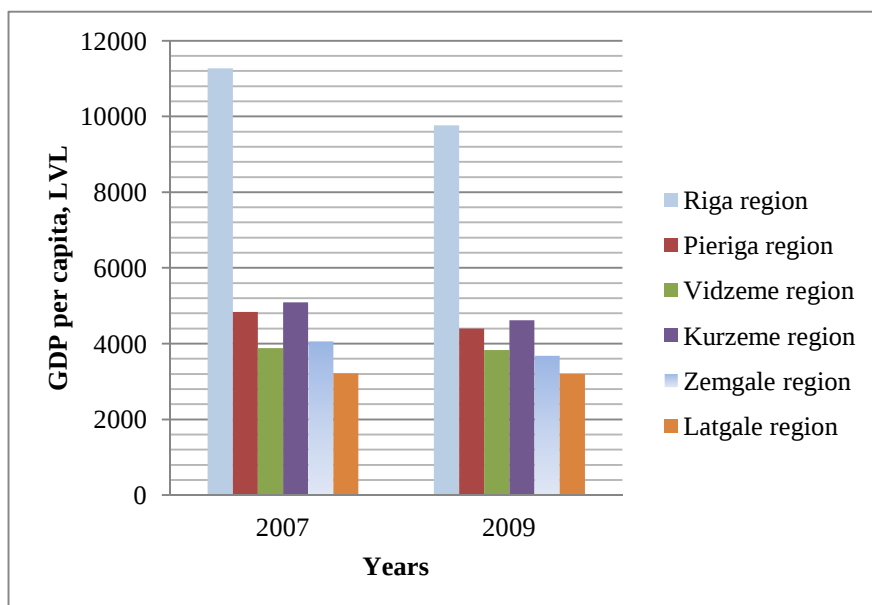


Figure 1. GDP per capita in Latvian regions in 2007 and 2009, LVL

Source: CSB data

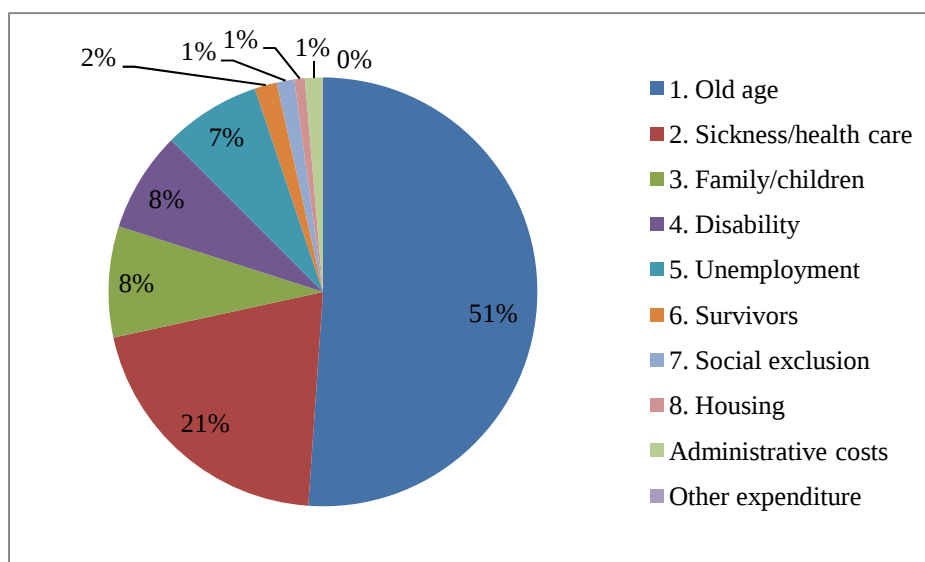


Figure 2. Structure of expenditures on social protection in Latvia in 2010, %

Source: CSB data

Economic problems in the country have led to a strong migration. People are leaving the countryside for towns and cities or outside Latvia in search of work and more decent life, which in the future can only aggravate social problems in Latvia.

Existence of many economic and, consequently, growing social problems contributed to development of various social initiatives in Latvia. Report on global monitoring of business activity gave the assessment for development of social entrepreneurship in Latvia as on 2009 compare to other world countries. Only 1.9% of adult population in Latvia is engaged in social activities, which is the mean value compared to 22 analysed countries. The highest level of this indicator is observed in the USA (4%) while the lowest one in Spain - about 0.6% (Global Entrepreneurship Monitor, 2009).

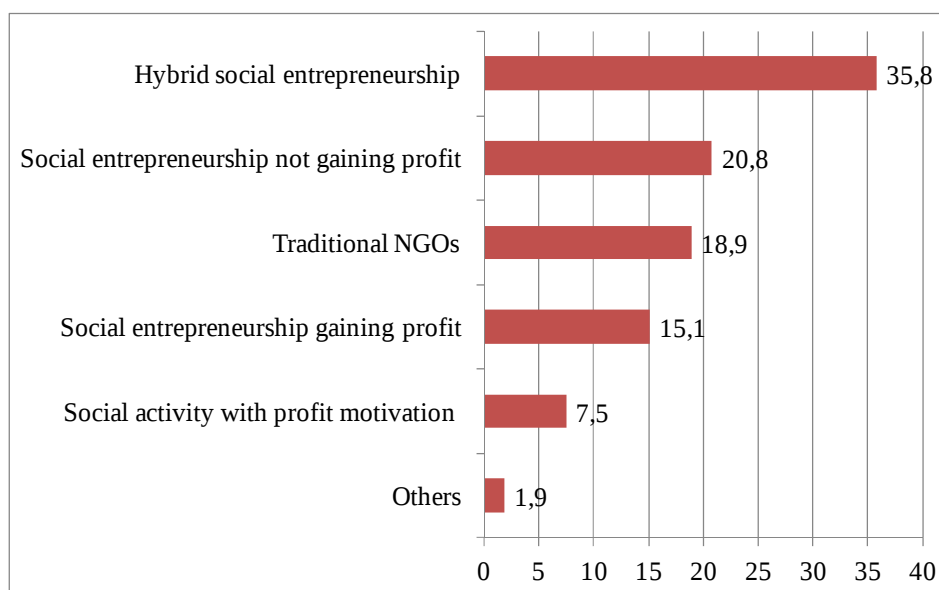


Figure 3. Types of social entrepreneurship in Latvia in 2009, %

Source: *Global Entrepreneurship Monitor (2009)*

Social activity is combined with business only in 0.2% of cases in Latvia, which is relatively low figure compared to countries such as Switzerland, Hungary, Iceland, China, Croatia, France, Romania, Norway, etc (Global Entrepreneurship Monitor, 2009).

Structure of social activity in Latvia by types of enterprises is presented in Figure 3. Hybrid social enterprises dominate among participants of social activity (35.8%), which have purely social purposes and additionally conduct some business activity. Also, a significant proportion belongs to non-profit social organisations: traditional NGOs – 18.9%, and innovative - 20.8%. The share of social enterprises engaged in business activity and oriented to receive profit utilised for social purposes was 22.6%.

Social initiatives turned out to be implemented in Latvia mainly via non-governmental organisations at the expense of funds received from sponsors or from various charity organisations. The share of such organisations in Latvia is higher compared to other countries. At the same time, the share of social enterprises conducting business activity and focused at making profits is by almost 2 times less compared to other countries (Global Entrepreneurship Monitor, 2009). Consequently, it can be concluded that social entrepreneurship in its modern understanding is developed in Latvia even less than in other above-mentioned countries.

Collection and summarisation of data on social entrepreneurship in Latvia allowed finding out that the first social enterprises having a social mission and conducting business activity only have appeared within 2009 and 2011.

Table 3 lists Latvian social enterprises, which was possible to identify according to accessible information in the Internet as well as according to their own declaration about themselves as social enterprises. Additionally the enterprises mentioned were eager to get sufficient level of income in order to be independent on any kind of governmental support according to their social mission declared.

The following social initiatives can be singled out from enterprises presented in Table 3:

1. Employment of socially disadvantaged or insufficiently protected groups of population (such as young mothers, schoolchildren, teachers);
2. Training and assistance in developing skills in people of different ages (the organization of the Film School -“Kinoskola”);
3. Combining in a single employment project with environmental orientation (implementation of “Buteljons” and “Foldlife” projects);
4. Helping people with limited mobility - manufacture and sale of special mobility aids at privilege price (Dizz, Ltd.)

Table 3

Activity of the Latvian social entrepreneurs

Name of social enterprise	Activity
Ltd. Ziedot.lv	Enterprise provides various business services (consulting, accounting, etc.) directing its profits for charity projects sponsored by Ziedot.lv (http://www.socialaisuznemums.lv/2323)
“MAMMU Production” Ltd. (better known as “Mammu salles”)	Provides young mothers with possibility of earning by performing various orders at home, such as scarf knitting (http://www.mammu.lv/)
“Foldlife”, Ltd. THE CARDBOARDERS	Furniture making of cardboard, ecological design (http://www.foldlife.lv/lv)
“Majas svetiba” Ltd.	House plants exchange station, plant care consultations, hotel for plants (http://www.majassvetiba.lv/)
“Buteljons”	Making of design articles from glass container: drink glasses, vases, candlesticks (http://www.facebook.com/Buteljons)
“Hopp”, Dizz, Ltd.	Manufacture of vehicles for people with physical disabilities (www.hopp.lv)
Fondation “Kinoskola”, Cinema School Formation	For people of various ages: training in basics of professions associated with cinema industry. Providing possibility to demonstrate amateur films, etc. (http://www.kinoskola.lv/)
“Flag workshop”, Riga History Company, Ltd.	Making and sale of various souvenirs (middle-age flags, coats of arms, etc.). Employment and training of pupils and teachers (http://www.rigahistory.lv/lv)

Source: summarised by the authors

Depending on method for funding of social programmes aimed at realization of the organisation’s social mission, can single out different business models of social entrepreneurship having obtained a wide spread in Latvia (see Figure 4).

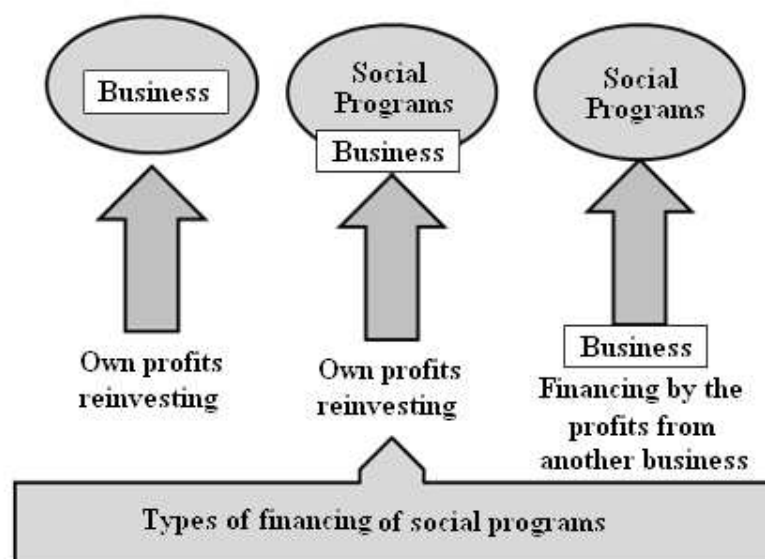


Figure 4. Business models of social entrepreneurship in Latvia

Source: summarised by authors

The present scheme does not consider the case when a social programme is implemented at the expense of just the independent individual donors and grant programmes. According to the opinions of study group engaged in present research, the principle of independency from individual donors and grant programmes is one of essential characteristics determining the core of social entrepreneurship. Peculiar feature of the first business model is that the business is created by people for whom a social program is provided for, such as in case of "Mammu Production", Ltd. and Riga History Company, Ltd. The second model for the implementation of social programme creates a business that ensures its funding and implementation, Dizz, Ltd. being such example (see Table 3).

The third model features the case where a social program is financed at the expense of profits gained from other business. This model is realised by Ziedot.lv, Ltd (see Table 3). To implement social programmes, individual organizations can be created whose activities may be non-profit. For achieve maximum effect from introduction of social entrepreneurship in Latvia, just models based on the principle of self-financing should be supported.

At present time various state and public organisations are involved in support of social entrepreneurship in Latvia, such as Soros Foundation, State Employment Agency, European programme "Progress". Entrepreneurs themselves think that slow development of social entrepreneurship in Latvia results from the absence of law on social entrepreneurship which would give the definition of this economic phenomenon, define clear criteria for such activity as well as fix exemptions and preferences for enterprises carrying out their activity for solution of social problems.

Researchers can also contribute to the development of social entrepreneurship in Latvia. The objective of future research is to assess the degree of effectiveness of business models employed by Latvian social entrepreneurs, study the obstacles to development of social entrepreneurship and working out of recommendations for implementation in Latvia of most appropriate models of social entrepreneurship.

4. CONCLUSIONS

1. Theory of social entrepreneurship is still very young and many of its definitions and classifications contradict each other making difficult to work out an appropriate regulatory framework conducive to its development.

2. Main features of a social enterprise are the following: formulation of social goals, innovation-based development of entrepreneurship, achievement of sustainable commercial effect ensuring self-repayment and competitiveness, utilisation of earned profits for development, ethical perfection of the leader and culture of organisation, ecological responsibility the enterprise.

3. Main differences of social entrepreneurship from traditional business are: a particular social mission; direction of gained profits solely for the implementation of this mission; choice of target group of beneficiaries consisting of least protected and least well-off segments of population, the results of activities aimed at increasing aggregate economic efficiency and living standards.

4. Existing social problems and inefficiency of traditional social activities create preconditions for development of social entrepreneurship in Latvia.

5. Types of social entrepreneurship used in Latvia distinguish in a higher share of non-profit organisations compared to other countries and a significantly lower proportion of social-purpose enterprises focused at profitable and self-financed business activity.

6. The first social enterprises that have developed for themselves a social mission and are conducting business activity only appeared in Latvia within 2009 and 2011. Their activity is aimed at helping the poor (Ziedot.lv, Ltd), employment of socially disadvantaged population categories ("MAMMU Production", Ltd), training and assistance in development of skills of different age people (Riga History Company, Ltd., Cinema School Kinoskola), helping people with limited locomotion ability (Dizz, Ltd.), assistance solution of environmental problems (THE CARDBOARDERS Ltd., Buteljons).

7. Slow development of social entrepreneurship in Latvia is affected by the lack of social entrepreneurship law that would provide the definition and clear criteria of such activities as well as fix exemptions and preferences for enterprises carrying out their activity for solution of social problems.

8. To gain maximum effect from introduction of social entrepreneurship in Latvia, it is necessary to support the development of social business models based on the principle of profitability and self-financing.

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