

THE COMPARATIVE ANALYSIS OF SOCIAL ENTREPRENEURSHIP

Abstract

This paper describes the concept of social entrepreneurship and suggesting the necessary amendments to the regulations in order to fully implement this concept in the Republic of Macedonia. This paper consists of five (5) parts, that are:

1. Introduction;
2. Social entrepreneurship in Europe;
3. Social entrepreneurship in the United States and in Great Britain;
4. Legal framework and challenges for development of social entrepreneurship in the Republic of Macedonia; and
5. Conclusion.

In the first part: “*Introduction*”, we define and explain the subject of our research, namely we explain the concept and the importance of social entrepreneurship. In the second part: “*Social entrepreneurship in Europe*”, we analyze the social entrepreneurship in different countries in Europe. In the third part: “*Social entrepreneurship in the United States and in Great Britain*”, we analyze in detail the social entrepreneurship in the United States and in Great Britain, which have different and more specific form of social entrepreneurship. In the fourth part: “*Legal framework and challenges for development of social entrepreneurship in the Republic of Macedonia*” we are giving explanations of the legal framework and challenges for development of social entrepreneurship in the Republic of Macedonia, and this part of the paper provides a critical review of the Draft Law on social entrepreneurship in our country. Finally, the fifth part of this paper is the “*Conclusion*”, in which we are giving our basic conclusions that arise from our paper.

It is our position, that almost all European countries direct their economic and social policies to the development of social entrepreneurship as one of the main generators of employment. Concerning Republic of Macedonia, it must point out the Draft Law on social entrepreneurship should be thoroughly reviewed in order to develop social entrepreneurship in the country and thus to make progress in several areas that contribute to the strategic goals of our country's EU integration process.

Key words: entrepreneurship, enterprise, social goals, social entrepreneurship, social enterprises.

I. INTRODUCTION

The subject of this paper is an analysis of *social entrepreneurship*. This concept actually means the process of creating a socio-economic structures, relationships, institutions, organizations and measures that result with sustainable social usefulness.¹ It is a model of using entrepreneurial behavior more for socially useful, and not so for profit purposes, in other words, profits or generated profits are used for the benefit of certain socially excluded or disadvantaged social groups, for creating innovation, for environmental protection or for promotion of certain social conditions.²

Social entrepreneurship can be expressed in various forms of organizations and operations, and mostly as *a social enterprise*. From there, the development of social enterprises as a form of assistance to social security of certain categories of citizens gaining in importance. Social entrepreneurship has *broader social utility* that can be realized through

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¹ Bornstein D., Davis S., “*Social Entrepreneurship – what everyone needs to know*”, Oxford, 2010, pp.1-7.

² Nyssens M., “*Social Enterprise*”, Routledge, 2006, pp.3-27.

the impact it has in terms of new jobs, the encouragement of social innovation, for reactivity and motivation of people for independent work and for self-employment.³

Social entrepreneurs and social enterprises create new possibilities, new forms of work and activity, new forms of organization of work, production, distribution and achieving income and profits which again is earmarked for social purposes.⁴ All this makes social entrepreneurship significant factor that creates a wider change and also change the modern economies that are more commonly called social and entrepreneurial economies.

The main reasons for the development of social entrepreneurship we find in the financial (economic) crisis, when people start to look for alternative ways of running their business; further opportunity for easy sustainability of these enterprises increase their attractiveness; increasing awareness of consumers and their interest of the way that products affect the environment is undoubtedly the third reason for the prevalence of social enterprises in the world; the fact that the increased number of successful social businesses in the world affects their development; and the existence of a number of social problems in society that require long-term solution, of course, affects the development of social enterprises. Therefore we believe that social enterprises are a key future element that will contribute to regional and local development of individual countries. Namely this has been proven in practice in many countries in Europe, and also in the United States (hereinafter - USA). So in this paper we're questioning: where is the Republic of Macedonia in the development of social entrepreneurship and what kind of issue is taken with regard to this development.

Therefore *the goal* of this paper is to stress the importance of social entrepreneurship and social enterprises in countries in Europe and the USA, as well as to indicate the necessary changes in the regulations in the Republic of Macedonia and the necessary institutional reforms, analyzed from different aspects in order to implement the concept of social entrepreneurship in our country.

II. SOCIAL ENTREPRENEURSHIP IN EUROPE

The foundations of the establishment of the modern welfare state were laid in Germany in 1880 when the first Laws on Social Security were adopted. The term social entrepreneurship still first appears in France in 1970 and in Italy in 1980.⁵

The European Commission instead definition of social entrepreneurship, has given the framework for *the definition of social enterprise*. According to this definition, social enterprise has a primary objective to achieve social impact/outcome, and not to make profits for its owners.

The European Commission uses the term *social enterprise* that covers the following types of activities and businesses:⁶

- those whose society or social order is fundamental goal for the commercial activities and often have the form of innovation;
- those where profits are mainly reinvested in order to achieve their goals; and

³ Becchetti L., Borzaga C., "The Economics of Social Responsibility – The world of social enterprises", Routledge, 2010, pp.15-88.

⁴ Roger. M., Osberg S., "Social Entrepreneurship: The Case for Definition", Leland, Stanford Jr. University, 2007, p.35.

⁵ Grieco C., "Assessing Social Impact of Social Enterprises – Does one size really fit all?", Springer, 2015, pp. 13-15.

⁶ Fayolle A., Matlay H., "Handbook of research on Social Entrepreneurship", Edward Elgar, 2010, pp. 15-29.

- those in which the organization and management reflect the mission of the enterprise, using a democratic and participatory principles or principles of social justice.

In the European Union (hereinafter - EU) there are different *forms of organization of social entrepreneurship*, considering the conditions and characteristics of each country, which provides an opportunity for each country to develop a specific type and form of social entrepreneurship appropriate for their requirements and needs, that may be:⁷

- *First, “Co-operative model”* - where these cooperatives are aimed for *achieving social objectives*. This form is present in: Italy, Portugal, Poland, Hungary, Greece;
- *Second, “Cooperatives of labor integration”* (for example in Spain, such as services in the areas of health, education, culture or any activity of a social nature;
- *Third, “Cooperatives of general interest”* (for example in France there are companies whose activity is the production of products or provision services of collective interest);
- *Fourth, “Cooperatives of social solidarity”* (for example in Portugal, they are focused on work integration of vulnerable groups).⁸
- *Fifth, “Enterprise model or Company model, with different legal form”* – for this model of business is characteristic that *operate with limited distribution of profits*. They can be *limited liability companies* (this model is typical for Belgium), *associations and foundations* (for example Italy).
- *Sixth*, especially interesting is the *“model in the Great Britain”*, where there is a wide range of activities that suit the needs of the community.
- *Seventh, “Open form model”* – where the legal-organizational form is not important, but it is recognized and legally regulated social entrepreneurial activity. The model appears in Finland (Act on social enterprises in 2003) and in Italy.

Several EU countries (Belgium, Denmark, Finland, Lithuania, Slovakia and Slovenia) have a *legal status for social enterprises*. So, there are various *legal forms* (associations, cooperatives, etc.), *new legal forms of social enterprises arising from existing legal forms* (such as social cooperatives in Italy, and public interest companies in the UK⁹), *special legal status based on legally defined criteria* and *new legal forms that allow economic activities to non-profit organizations*.¹⁰

However, what is common to all forms of organization of social entrepreneurship is that *they are not profit-oriented*, which means that profits are reinvested in accordance with the established purposes and objectives of social entrepreneurship. Thus, social entrepreneurship is based on high ethical principles of human solidarity and mutual responsibility of those members of society who are unable to engage in the harsh conditions of competition.

⁷ KMU FORSCHUNG AUSTRIA Austrian Institute for SME Research, “*Study on practices and policies in the social enterprise sector in Europe – Final Report*”, Austrian Institute for SME Research and TSE Entre, Turku School of Economics, Finland, Vienna, June 2007, pp.47-50.

⁸ Borzaga C, Defourny J., “*The emergence of social enterprise*”, Routledge, 2003, pp.29-271.

⁹ Dine J., Koutsias M., “*Company Law*”, Palgrave Macmillan, 8th edition, 2014, pp.4-5.

¹⁰ Wilkinson C., Medhurst J. et al., “*A map of social enterprises and their eco-systems in Europe*”, European Commission, Employment Social Affairs and Inclusion, December 2014, p.4.

Although on the EU level, there is *no specific legislation on social entrepreneurship* due to the different social systems, however, the EU devotes considerable attention to social entrepreneurship. Namely *several documents for social entrepreneurship*¹¹ were adopted which recognized certain common features, including: a democratic way of organizing, participation of workers in decision making and implementation of socio-economic targets and the principle of solidarity, volunteerism and social responsibility.

The European Commission in the framework of the Platform against Poverty and Social Exclusion in late 2011 launched the *Initiative for social business* that defines social entrepreneurship and social enterprise as a segment that has to serve the interests of local communities (social, environmental objectives) rather than making profit. It suggests that social enterprises are a key element of the European social model, for support the efforts of the European Commission to create a policy framework and action plan for promotion of social enterprise and expansion of social innovation.¹²

Also the *Strategy of EU 2020*¹³ pays special attention to social innovation as a goal in the implementation of measures and policies of employment in the EU member states. European Council in December 2015 adopted *Conclusions on the promotion of the social economy* as a key driver of social and economic development of Europe. In this document, the European Council recognizes that "the social economy is getting more political visibility as a sector which is an important pillar, particularly in terms of employment and social cohesion throughout Europe and which also is key to achieving the objectives of the Strategy of Europe 2020".¹⁴

III. SOCIAL ENTREPRENEURSHIP IN THE UNITED STATES AND IN GREAT BRITAIN

1. Social Entrepreneurship in the USA

Over 90-ty years the main actor in the field of social economy became the Alliance for Social Entrepreneurship, which has defined social enterprise as "any work or strategy of nonprofit organizations whose earned income is invested in support of charity".¹⁵

This reflects a fairly broad, *market-oriented concept of social enterprise*. Commercial nonprofit approach is no longer the focus, but the focus is more "business approach with social purpose", which covers all forms of employment initiatives.

On the other hand, is the "*School of Social Innovation*",¹⁶ which highlights that the innovation process, profit or not, must be primarily oriented towards society change or social change. Social entrepreneurs are defined as those that are making the change because they are the holders of "new combinations" in at least one of the following areas: new services, new

¹¹ Resolution of the European Parliament 2008-2250 (INI); <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2009-0062&language=EN>.

¹² Bruun N., Lorcher K., Schomann I., "*The Lisbon Treaty and Social Europe*", Oxford, 2012, pp. 261-307.

¹³ European Commission, COM (2010)2020; <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>.

¹⁴ European Council, (2013), "*Conclusions on the promotion of the social economy as a key driver of economic and social development in Europe*", retrieved on 15.03.2016, available at: <http://goo.gl/Cu9X8u>.

¹⁵ Colker M., "*When is separate unequal? Disability Perspective*", Cambridge University Press, 2009, pp.1-39.

¹⁶ Lecklair M., "*Philanthropy in transition*", Palgrave Macmillan, 2014, pp. 89-131.

quality services, new production methods, and new production factors, new forms of organization or new markets.¹⁷

Therefore, social entrepreneurship may be more a matter of social impact and outcome, than a matter of income.

This mixture between philanthropic and commercial activities, combined with a number of interested parties (stakeholders) from different sectors (profit, non-profit, public sector) creates a very wide range of social enterprises in the United States.¹⁸

2. Social Entrepreneurship in Great Britain

The essential contradiction of most regulations that deal with social entrepreneurship in the EU, is the way the Great Britain legally define it and its decision is considered one of the currently best solutions for smooth and effective development of social entrepreneurship in any domain with any purpose.

The Great Britain has no specific law on social enterprises, however, by using an Amendment to the Company Act in 2005 defined special status form of social enterprise - *enterprise acting in the interests of the community (Community Interest Company - CIC)*. This legal form allows anyone, for any goal and purpose, to be engaged in any entrepreneurial activity provided to prove that it was done with intent to hold societal and social objective.

The social nature of the enterprise is proved by a separate statement (*community mission report*) which specify how the objectives for which the undertaking enterprise is based, was contributing to the community or specific social group.

The legal form of the CIC may be a limited liability company or joint stock company, whereas most of the profit (70%) must be reinvested and the rest can be divided in the form of dividends.

CIC is committed to the authority that gives permission for work and supervise, to submit an annual report for work (social mission report), the content of which is prescribed by law. This report contains nominal and real indicators, based on measuring the social impact of CIC. Management and decision making in the CIC is identical to any other form of corporate governance and is carried out in accordance with the share capital of the company, but it must be taken to meet all the statutory objectives of community interest for which CIC is established. This enterprise of interest to the community is not the preferential tax regulations on any basis.¹⁹

IV. LEGAL FRAMEWORK AND CHALLENGES FOR DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN THE REPUBLIC OF MACEDONIA

By the time of writing this paper the concept of social entrepreneurship in the Republic of Macedonia is not adequately regulated in our legal system. In fact there is no legislation which will comprehensively regulate this matter, although in several laws²⁰ and policies in the country there are certain provisions that contribute to support the future development of social entrepreneurship.

¹⁷ Mook L., Whitman J., Quarter J., Armstrong A., “*Understanding the Social Economy of the United States*”, University of Toronto Press, 2015, pp.3-37; 235-251.

¹⁸ Gidron B., Hasenfeld Y., “*Social Enterprises an Organizational Perspective*”, Palgrave Macmillan, 2012, pp.71-91.

¹⁹ Companies (Audit, Investigations and Community Enterprise) Act 2004, Chapter 27, pp.1-81.

²⁰ The Company Law, The Law on Associations and Foundations, The Law on Cooperatives and The Law on Employment of Disabled Persons.

The Ministry of Labor and Social Policy is the creator of the *Draft Law on social entrepreneurship*. Analyzing this Draft Law on social entrepreneurship, we can conclude that *its objectives* are: regulating issues and solving institutional foundations for action by many organizations and entities in the field of social entrepreneurship, precisely define the regulation and distribution of obligations and responsibilities of the competent authorities in the field of social entrepreneurship, and the involvement of local government, civil society and other forms of action, to raise the potential that will benefit the growth and development, reducing unemployment and strengthening social cohesion and through increased employment opportunities, poverty reduction and lower volume of expenses for social purposes. The law encouraged new forms of organization, employment and work and provide social innovation in this area. At the same time create opportunities for the expression of social innovation and practical foundation for educating citizens about their use, and thus creating conditions to promote economic and social development. The principles on which the law is based are: solidarity, voluntariness, equality, and prohibition of discrimination, performing activities of non-profit basis and increase employment and promote employment in social enterprises and non-profit entities.²¹

However, *our criticisms of this Draft Law on social entrepreneurship* we refer to some aspects of it, namely:²²

- ✓ *First*, social enterprises are defined as entities that employ marginalized groups and thereby limits the concept of the type that includes a working integration and does not recognize other forms of social enterprises.
- ✓ *Second*, the Draft Law provides a limited scope of users which do not match the needs of established social enterprises.
- ✓ *Third*, the measures set out in this Draft Law are not open to all existing and potential social enterprises, especially in terms of tax benefits.
- ✓ *Fourth*, the lack of motivation of legal entities to registered social enterprises in the country because the Draft Law does not correspond to their concept of operation and there is no permanent employment of persons, while simultaneously facing administrative burden and unclear registration procedure and also high penalties.

In relation to the identified *challenges for the development of social enterprises in the Republic of Macedonia*, we should point out that they are divided into external and internal, which are:²³

- ❖ The *external challenges* include: the lack of an enabling legal environment, which includes recognition of social enterprises, tax breaks, subsidies and other financial support; the lack of infrastructure to support social enterprises, such as accelerators, access to capital, etc.; the lack of interest and economic stability of potential users to purchase the products/services offered by these companies; the lack of appropriate state management principles and the lack of an adequate system for financing social and other services provided by social enterprises and non-profit

²¹ Ministry of Labor and Social Policy, The Draft Law of Social Entrepreneurship, Skopje, July 2015, p.5.

²² Regional research project "*Challenges and opportunities for employment of marginalized groups in social enterprises*" - implemented by partner organizations: Reactor - Research in Action, Connect and Public from the Republic of Macedonia. Partners: Albania from Albania and the Center for Peace and tolerance in Kosovo, and supported by the Regional program for support of research in the Western Balkans, Skopje 2016, p.7.

²³ Ibid., pp.3-4.

organizations generally; difficulties in access to skilled labor; and the lack of flexible policies for the labor market to enable innovative approaches to work placements for disadvantaged groups.

- ❖ The *internal challenges*, however, are including: limited capacity and resources of social enterprises for growth and for providing highly professional services; the lack of effective and efficient sales and distribution; and low constitutive solidarity base.

We believe that these obstacles should be eliminated in the Republic of Macedonia in order to develop social entrepreneurship.

V. CONCLUSION

Social entrepreneurship is one of the basic socio-economic instruments that successfully dealt with economic and social problems in societies, performed social and society inclusion of the population and thus improves social cohesion. Social entrepreneurship and social enterprises are the leading social force in the field of creating new values and developing economic activities in the social sector, in the area of social innovation, ecology and sustainable development. Almost all European countries direct the available their economic and social policies to the development of social entrepreneurship as one of the main generators of new jobs.

As for our country, we believe that the Draft Law on social entrepreneurship in the Republic of Macedonia should be thoroughly reviewed, since it is limited to the types of social enterprises engaged in work integration.

The development of social entrepreneurship in the Republic of Macedonia will make progress in several areas that contribute to strategic goals of our country's EU integration, including: social cohesion, job creation, combating poverty, sustainable local and regional development, better governance and development of participative democracy. Namely, the development of social entrepreneurship in the Republic of Macedonia will contribute to:²⁴

- strengthening social solidarity and cohesion of the various vulnerable groups;
- strengthening society for innovative solutions to social, economic and environmental problems;
- providing additional coverage of social services and products;
- development of new employment opportunities and new jobs;
- sustainability of civil society organizations that provide services for specific target groups;
- ensuring social inclusion and employment of marginalized groups (youth, women, persons with disabilities, unemployed, welfare recipients, minority groups, etc.).

The introduction of a comprehensive and wide regulation of social entrepreneurship and social enterprises in the Republic of Macedonia should aim to:²⁵

- ✚ Defining and recognizing the broader concept of social entrepreneurship and social enterprises;

²⁴ Stojkovski, Z., "Guide for the development of social enterprises in the Republic of Macedonia", USAID, April 2016, pp.10-11.

²⁵ Regional research project "Challenges and opportunities for employment of marginalized groups in social enterprises" - implemented by partner organizations: Reactor - Research in Action, Connect and Public from the Republic of Macedonia. Partners: Albania from Albania and the Center for Peace and tolerance in Kosovo, and supported by the Regional program for support of research in the Western Balkans, Skopje 2016, pp.11-12.

- ✚ Recognition of the status of social enterprises in accordance with the historical heritage of our country and the existing models of social enterprises;
- ✚ Introduction of general scope of users, producing goods and services;
- ✚ Definition of support measures that are available on an equal basis in all policies;
- ✚ Creating administrative requirements proportionate to the size of social enterprises and benefits which are provided by the state.

We believe that it is necessary to provide cooperation and coordination between different institutions in the Republic of Macedonia, and the adoption of a national strategy for social entrepreneurship. At the local level are also necessary strategies that will manifest local needs.²⁶

We believe that the measures to encourage social entrepreneurship should include financial and other measures for its promotion, development of systems of information and education on social entrepreneurship, preference of certain specified public contracts, for municipal involvement in the implementation of policies and measures to create new business opportunities for social enterprises, incentives in taxation, especially in the initial years, exemption from payment of social contributions, utilization of funds for the welfare to subsidize new jobs and other regulations. Measures to create a favorable business climate for social enterprises should include financial and other measures to provide spatial, technical and other conditions for the creation and for operation thereof, including innovation centers and business incubators for the development of social entrepreneurship, co-financing for starting social entrepreneurship and creating new jobs.

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²⁶ Ibid., p.12.

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