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SOCIAL ENTREPRENEURSHIP IN CROATIA - OPPORTUNITIES AND CHALLENGES

SOCIJALNO PODUZETNIŠTVO U HRVATSKOJ – PRILIKE I IZAZOVI

ABSTRACT

Social entrepreneurship can be found in any kind of organization – from state schools to a retail business. Organizations which belong to sector social entrepreneurship have focus on social problems and initiate social change.

Social entrepreneurship in Croatia has not yet received the right opportunity. Individual efforts exist, but the real momentum and for meaningful results require systematic support of all social structures, education and networking.

Social entrepreneurship in practice faces with major obstacles and any attempt to systematically work on recruitment more difficult employ categories of society faces problems: lack of professional managerial structure capable of managing such enterprise, and sometimes even employees are not proficient enough; insolvency of civil society organizations in social entrepreneurship; very easy ability to turn into a gray zone of operations, primarily due to legal loopholes, and lack of sufficient support programs, political and general public are not sufficiently familiar with the concept and benefits of social entrepreneurship.

The aim of this paper is to analyze the current state of social entrepreneurship in Croatia and defining the direction of development of social entrepreneurship in Croatia in the future.

Key words: entrepreneurship, social entrepreneurship, Forum of Social Entrepreneurship

SAŽETAK

Socijalno poduzetništvo može egzistirati unutar različitih tipova organizacija - od državnih škola do maloprodaje. Organizacije koje pripadaju sektoru socijalnog poduzetništva usredotočene su na rješavanje socijalnih problema i pokretanje društvenih promjena. Socijalno poduzetništvo u Hrvatskoj još nije dobilo pravu priliku. Pojedinačni napori postoje, ali je pravi zamah i smisleni rezultati zahtijevaju sustavnu podršku svih društvenih struktura, sektora obrazovanja i umrežavanja.

Socijalno poduzetništvo u praksi suočava se sa velikim preprekama i svaki pokušaj da se sustavno radi na zapošljavanju teže zapošljivih kategorija društva nailazi na brojne

probleme, kao što su: nedostatak stručne upravljačke strukture, a ponekad čak i zaposlenici nisu dovoljno iskusni, insolventnost organizacija civilnog društva uključenih u socijalno poduzetništvo, vrlo jednostavna mogućnost prelaska na poslovanje u sivoj zoni zbog prvenstveno pravnih praznina i nedostatnih programa podrške, političke i opće javnosti nisu dovoljno upoznate s konceptom socijalnog poduzetništva i koristima koje ono donosi. Cilj ovoga rada je analiza trenutnog stanja socijalnog poduzetništva u Hrvatskoj i definiranje pravca razvoja socijalnog poduzetništva u budućnosti.

Ključne riječi: poduzetništvo, socijalno poduzetništvo, Forum socijalnih poduzetnika

1. Introduction

Social entrepreneurship can be found in any kind of organization – from state schools to a retail business. Organizations which belong to sector social entrepreneurship have focus on social problems and initiate social change. Social entrepreneurship is result of: the crisis of traditional welfare state and increased competition within the nonprofit sector (Perrini, 2006). Perrini quotes Borozga and Defourny, 2004; Matten and Crane, 2005; Matten, Crane and Chapple, 2003, the crisis of the traditional welfare state characterized by general slowdown in national economic growth rates and high unemployment, has been accompanied by a deep reconsideration of the social strategies employed by governments. In the process of global shift away from a social welfare state approach to development and towards a neoliberal approach has left unfulfilled an increasing number of social needs. In addition, cuts in public grants have compounded the problem, causing an unprecedented rivalry among nonprofit organizations, which, in the same time, are facing a greater demand for their services (Perrini, 2006).

Geoff Mulgan (2006) says that there are three areas where social entrepreneurship likely to have a comparative advantage over private enterprise or public enterprise:

- Ability to mobilize inputs – notably the contribution of voluntary labour or the willingness to work for less than a for-profit. Social entrepreneurship may be able to achieve a cheaper cost of capital through investors' willingness to take lower returns.
- Ability to design and run more effective processes – ways of working, motivating teams, distinct methods (like small schools), or business model which are not transferable to for-profit or state organizations.
- Their outputs contain an added value embedded in the product or service itself either through the ethos of the organization or through the ways in which the service is shaped.

Authors Alex Nicholls and Albert Hyunbae Cho (2006) defined social entrepreneurship as a dynamically evolving phenomenon that engages a broad range of stakeholders and is articulated across different organizational approaches. The same authors in defining social entrepreneurship, where the market orientation is point of view, use definition of the Institute for Social Entrepreneurs (2005) which defines social entrepreneurship as the „art of simultaneously pursuing both a financial and social return on investment“ (the „double bottom line“), clearly enumerating the market oriented dimensions of social entrepreneurship. Perrini quoted „social entrepreneurship shares its business counterpart's strong drive toward innovation and change (Dorado and Heattich, 2004:6) and the ability to discover unmet needs and entrepreneurial opportunities (Casson 1982; Leadbeater, 1997; Shane, 2000). That, what

it distinguishing from business counterpart's is different long-term objective: the enhancement of global or local social conditions starting from a perceived social gap. Social enterprises have two aims: create economic value and in the same time achieve its' social mission. According to Perrini (2006) entrepreneurship, innovation and social change represent the ingredients or the social entrepreneurship formula. In that sense, *Entrepreneurship* is related by creating opportunity to launch a venture that generates profit by alleviating a specific social problem, and the more profits made, the more problem is alleviated (MacMillan and McGrath, 2000; Prahalad, 2004; Prahalad and Hammond, 2002); by looking identification of opportunities to bring into existence new goods, services, raw materials, and organizing methods that allow outputs to be sold in sustainable manner.

Schwab found organization defined social entrepreneurship as a approaches in solving economic and social problems to create social value. According to this social entrepreneurship is²⁸:

- About applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor.
- A term that captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines, grounded in certain values and processes that are common to each social entrepreneur, independent of whether his/ her area of focus has been education, health, welfare reform, human rights, workers' rights, environment, economic development, agriculture, etc., or whether the organizations they set up are non-profit or for-profit entities.
- It is this approach that sets the social entrepreneur apart from the rest of the crowd of well-meaning people and organizations who dedicate their lives to social improvement.

Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.

Social entrepreneurs themselves want to achieve social outcomes; that is what generally motivates them more than anything. Theories of social change have concentrated more on how ideas move people than how people move ideas (Bornstein, 2007:93). According to Schwab (2000) social entrepreneurs create social value through innovation and leveraging financial resources. They transform groups, organizations, or institutions. Social entrepreneurs take risks, they act courageously, they pursue new ways, and they are engaged and committed to create social value, to serve society, particularly the poor and marginalized.

Entrepreneurs tend to be the drivers of innovation in business, creating new business models that can turn into successful industries, social entrepreneurs are the frontline innovators who create new, more successful ways of bringing about positive social change. At the same time, it's important to develop knowledge around the innovations and successful paradigms that social entrepreneurs create, so that the media and researchers and policy makers have access to the data needed to convince people that these new models are primed for the level of investment required to bring about large-scale social change.

The Skoll Foundation (2005) noted that „unlike business entrepreneurs who are motivated by profits, social entrepreneurs are motivated to improve society“; they are „change agents for society, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society for the better“. In other words and by this definition of social entrepreneurs, creativity, innovation and resourcesfulness are the elements

²⁸ <http://www.schwabfound.org/sf/SocialEntrepreneurs/WhatIsasocialentrepreneur/index.htm> (20.04.2011.)

of entrepreneurship most relevant to social entrepreneurship. J. Gregory Dees (2001) defined social entrepreneurs as „change agents in the social sector“ who do the following:

- adopt a mission to create and sustain social value (not just private value);
- recognize and relentlessly pursue new opportunities to serve that mission;
- engage in a process of continuous innovation, adaptation and learning;
- act boldly without being limited by resources currently in hand;
- exhibit a heightened sense of accountability to the constituencies served and for outcomes created.

2. Differences between business and social entrepreneurship

Just as entrepreneurs change the face of business, social entrepreneurs creating solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur comes up with new solutions to social problems and then implements them on a large scale.

According Eleanor Shaw and Sara Carter (2007) business and social entrepreneurship differ in at last five important ways (Light, 2008:89):

- business entrepreneurship focuses on profits, while social entrepreneurship addresses unmet social needs.
- business entrepreneurship engages market forces, while social entrepreneurship draws upon and builds community support.
- business entrepreneurship involves financial risk, while social entrepreneurship depends on organizational and personal credibility.
- business entrepreneurship produces individual financial gain, while social entrepreneurship generates collective public goods.
- business and social entrepreneurship both involve creativity, but business entrepreneurship uses creativity to enter new markets, while social entrepreneurship uses creativity to solve intractable problems.

Roger L. Martin and Sally Osberg (2007:34-35) believe that the critical distinction between entrepreneurship and social entrepreneurship lies in the value proposition itself. For the entrepreneur, the value proposition anticipates and is organized to serve markets that can comfortably afford the new product or service, and is thus designed to create financial profit. From the outset, the expectation is that the entrepreneur and his or her investors will derive some personal financial gain. Profit is *sine qua non*, essential to any venture's sustainability and the means to its ultimate end in the form of large-scale market adoption and ultimately a new equilibrium. The social entrepreneur, however, neither anticipates nor organizes to create substantial financial profit for his or her investors – philanthropic and government organizations for the most part – or for himself or herself. Instead, the social entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large. Unlike the entrepreneurial value proposition that assumes a market that can pay for the innovation, and may even provide substantial upside for investors, the social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own. This does not mean that social entrepreneurs as a hard-and-fast rule shun profitmaking value propositions. Ventures created by social entrepreneurs can certainly generate income, and they can be organized as either not-for-profits or for-profits. What distinguishes social entrepreneurship is the primacy of social benefit, what Duke University professor Greg Dees in his seminal work on the field characterizes as the pursuit of “mission-related impact” (Dees, 2008).

The traditional distinctions between the for-profit and nonprofit sectors are blurring. Sally Osberg²⁹ explains: „In some cases, the single bottom line is no longer a sufficient measure of whether a public company is doing well or not. Take the reality of climate change and the environmental and economic risks inherent in continuing our reliance on fossil fuels. We're beginning to see more and more businesses and their management teams come to the realization that our dependency on oil comes with costs that eventually will impact their businesses, if not their bottom lines, and they're beginning to appreciate the importance of factoring those costs into their business models. In fact, there's a growing awareness in corporate America that companies need to have a triple bottom line — that they should be accountable for the social and environmental impacts of their activities, as well as their profits.“³⁰

Entrepreneurs are driven to demonstrate results, they're driven to prove that their innovation is worthy of investment and can achieve the kind of impact they think it can. For a more traditional organization the increased emphasis on demonstrating results could dampen its desire to innovate. But not for the entrepreneur, and certainly not for the social entrepreneur.

3. Social entrepreneurship in Croatia - opportunities and challenges

Social entrepreneurship in Croatia has not yet received the right opportunity. Individual efforts exist, some of them are very successful story, but the real momentum and for meaningful results require systematic support of all social structures, education and networking. The concept of social entrepreneurship in Croatia, was introduced as an exit strategy of foreign donors who wanted to strengthen the association and ensure their sustainability, to prepare them for a period after they leave Croatia. But apart from them and organizations on the field, no one had recognized the importance and opportunities of social entrepreneurship. The government doesn't deal with these issues, which are extremely important for future development. “Social entrepreneurship has been identified as one of the themes in the Strategy for creating seminally environment for the development of civil society, but it is negligible what is done in accordance with the set objectives. The reasons are various, but one of them that was provided a lot of carriers of development, but they all had at least questionable decision-making power.”³¹

Forum of Social Entrepreneurship in the Republic of Croatia was established in 2009, and the initiative for its establishment initiated by the Association Slap from Osijek. Forum is an informal network of organizations, individuals and other interested stakeholders with the aim of creating an enabling environment for social entrepreneurship and human economy in Croatia. In its nature, Forum promotes and positions the concept of social entrepreneurship as a model of integrated and sustainable social development in Croatia. Empowerment, advocacy, education and networking are essential elements of the mission of the Forum, which should contribute to the creation of new economic and social platform in Croatia. With civil society organizations, they are interesting cooperatives, companies, public sector, entrepreneurs, educational institutions, experts, social banks, investors, funds, unions, business centers, and ultimately all citizens. Forum members see their role in creating the

²⁹ SALLY OSBERG has served as president and CEO of the Skoll Foundation since 2001. Before joining Skoll, Osberg was executive director for the Children's Discovery Museum of San Jose. She sits on the boards of the Oracle Education Foundation and the Children's Discovery Museum. Her essay on philanthropy's changing landscape is included in *Social Entrepreneurship: New Models of Sustainable Social Change*, published in 2006 by Oxford University Press.

³⁰ From interview with Sally Osberg 2006 (<http://www.skollfoundation.org/sally-osberg-interview-with-mitch-nauffts-for-philanthropy-news-digest-building-the-field-of-social-entrepreneurship/> 15.05.2011.)

³¹ Sonja Vuković, President of Forum of social entrepreneurship in Croatia, december 2010

Croatian society and economy which will be based on universal human values of solidarity, unity, social responsibility, social and economic sustainability. And with respect to labor as the fundamental social, creative and spiritual values that give joy and provide earning potential and quality of life for all community members.

“Forum should have the leading role in the region in promotion of social and economic changes with the built Croatian model of encourage the development of social entrepreneurship. That is planned to accomplish through an effective and influential systems and support networks and resources that promote social and human economy, civic engagement, and the integration of all three sectors. The idea is to establish of financial institutions to support socially responsible investing.”³²

The idea is to develop a model of corporate investment in social entrepreneurship. Among other things, the idea is to encourage international cooperation with the themes of social entrepreneurship and development of education for social entrepreneurship. Record unemployment in 2010 and the generally poor state of the economy had slowly forced the state institutions to consider alternative means of employment. One of those ways is socially employment. “In 2009 the nonprofit sector in Croatia was employed 19 228 persons. When you add the number of employees in cooperatives, which by its definition is something that might get into social entrepreneurship, then get a figure of 22 230 employees in that sector. This is 1.5% of total employment in Croatia and this figure is considerably smaller than, for example, the Netherlands, where we talk about 10%, but was still higher than in Slovenia, which is 0.5%.”³³

Social entrepreneurship in practice faces with major obstacles and any attempt to systematically work on recruitment more difficult employ categories of society faces problems: lack of professional managerial structure capable of managing such enterprise, and sometimes even employees are not proficient enough; insolvency of civil society organizations in social entrepreneurship; very easy ability to turn into a gray zone of operations, primarily due to legal loopholes, and lack of sufficient support programs, political and general public are not sufficiently familiar with the concept and benefits of social entrepreneurship. Therefore, areas of intervention Forum social entrepreneurs are³⁴:

1. The legislative framework (creation of an enabling legislation, define the principles, areas of activity, the subjects who may be carriers of social employment conditions, rights and obligations);
2. Construction of capacities and creation of support infrastructure for all subjects of social entrepreneurship by creating a reference support centers, and establishment of regional and national forum for social entrepreneurship;
3. Provide funding support for both the initial investment in social entrepreneurship, and sustainability in the later stages of the entrepreneurial business;
4. Encourage businesses to be more actively involved in social programs, employment programs, both through co-financing of the non-profit enterprises, and ensuring market access and the provision of mentoring services to organizations that deal with non-profit entrepreneurship;
5. Encourage joint public social employment programs, for public, business and civil society at local levels;

³² Sonja Vuković, President of Forum of social entrepreneurship in Croatia, april 2011

³³ Igor Vidačak, Office for Cooperation with NGOs of Government of the Republic of Croatia, december 2010

³⁴ Sonja Vuković, President of Forum of social entrepreneurship in Croatia, march 2010

6. Through the media to promote best practices and systematic work on education of public sector about the possibilities of social entrepreneurship;
7. Encourage networking with similar organizations in Europe and worldwide.

4. Conclusion

Social entrepreneurs themselves want to achieve social outcomes; that is what generally motivates them more than anything. Theories of social change have concentrated more on how ideas move people than how people move ideas (Bornstein, 2007:93). According to Schwab (2000) social entrepreneurs create social value through innovation and leveraging financial resources. They transform groups, organizations, or institutions. Social entrepreneurs take risks, they act courageously, they pursue new ways, and they are engaged and committed to create social value, to serve society, particularly the poor and marginalized.

Social entrepreneurship in Croatia has not yet received the right opportunity. Social entrepreneurship in practice faces with major obstacles and any attempt to systematically work on recruitment more difficult employ categories of society faces problems. Forum of Social Entrepreneurship in the Republic of Croatia takes significant efforts to develop social entrepreneurship in Croatia and create a legal framework for its action.

Partnerships and regional cooperation are one of the most important factors in the development of social entrepreneurship. Collaboration with local communities in achieving greater social inclusion of Croatian citizens it is important in that matter.

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