

WHAT BARRIERS PREVENT SOCIAL ENTERPRISES FROM IMPLEMENTING INNOVATION?

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ABSTRACT

Social entrepreneurship is characterised by a high degree of creativity and innovation, not only in technical terms but also in relation to management-social aspects. Social innovation is essential for the economic and social development of society. Social innovation is a relatively old phenomenon, but it has been brought to the forefront of attention and discussion only in recent years. In the Czech Republic, the implementation of social innovation is supported by projects from the European Social Fund, as well as the development of social enterprises. Social enterprises are nowadays regarded as some of the most typical representatives of social innovation. The aim of the paper is to answer the question about what prevents social enterprises from making changes that are innovative. If companies make changes, what are the main reasons for innovation and the benefits of these innovations for social enterprises? The survey was carried out on a sample of social enterprises in the Czech Republic and Slovakia. The questionnaire survey showed that social enterprises are forced to innovate in order to maintain their competitiveness on the market while retaining the interest of their customers. It is obvious that in the Czech Republic the government conception of social entrepreneurship and legislative definition of the social business that would direct the formation and development of social businesses in the long-term are missing.

Keywords: social economy, social entrepreneurship, social innovation, competitiveness

JEL Classification: D64, H43, O22

1 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 these socio-economic issues over 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. This concerns not just recognition of the enterprise but also recognition in the form of support, regulation and legislation by public authorities.

The importance of the third sector and its differentiation from the private and public sectors has grown significantly in recent years. Its economic significance 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 underestimated. In contrast, in developed countries, such as France, Belgium and Ireland, the social economy contributes to 10% of employment (Defourny, Pestoff, 2008).

Social economy and social entrepreneurship do not bring about innovation associated with ownership of companies. Social economy emphasises responsibility of social enterprise owners related to changes in 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).

1.1 SOCIAL ENTERPRISE – BEARERS OF SOCIAL INNOVATION

The 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).

Social enterprises try to meet the local needs using local sources, they enter into local partnership initiatives and contribute to local development. (Komora sociálních podniků, 2016).

A key objective of social entrepreneurship is the inclusion of disadvantaged people in the labour market and the resulting reduction in the dependence of people on state unemployment benefits. The state supports these social enterprises at the start of their activities and, tries to facilitate their establishment and further development of the enterprises. The social enterprise means an enterprise where people are recruited from target groups: *“It is built upon a partnership of public and private social sectors while providing public services and promoting public employment policy”* (Hunčová, 2007). A social enterprise is very exceptional since both these sectors work closely together here, and it can be understood as an executor of social policy. A social enterprise is supported by public (including EU) funding. Despite this funding, it remains an independent social enterprise and its decisions on business operations do not involve anyone from the outside.

Social enterprises are bearers of social innovation. The European Commission defines social innovation as follows: *“Social innovation can be defined as the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations. It represents new response to pressing social demands, which affect the process of social interactions. It is aimed at improving human well-being. Social innovations are innovations that are social in both their ends and their means. They are innovations that are not only good for society but also enhance individual’s capacity to act”* (Navrátil, Placier, 2016).

Social innovation is essential for the economic and social development of society. From the understanding of innovation as the ability to improve performance, diversity and the development of new products within the business environment,

society is moving towards understanding innovation in a wider context. Kadeřábková, Saman (2013) suggest that the current approach focuses on and emphasizes further innovation in research and development as well as social aspects, networking, innovation in services, creative industries, public sector etc

Social innovation merges into all parts of the public sector: education, health, social services, employment of disadvantaged people in the labour market, family policy. It does not necessarily have the character of a particular product or service. Companies and non-profit organizations usually create new, functioning social organizations through social innovation, but we cannot omit the influence of government-created organizations. The innovative capacity of organizations grows largely where cooperation between all three sectors (commercial sector, non-profit sector, government), exchange of experience and shared funding are facilitated.

Despite the current popularity and fashionability of the term in the media, social innovation has no exact definition. The opinions of the authors differ, especially in different countries, as social innovations in practice and the issues associated with them are shaped differently depending on the country, and social needs vary in the context of each individual or community.

Caulier-Grice, Patrick, Norman (2012) refer to social innovation as multidisciplinary as it is at the crossroads of various disciplines such as economics, public administration and public policy, business management.

2 MATERIAL AND METHODS

The aim of the paper is to answer the question about what prevents social enterprises from making changes that are innovative. If companies make changes, what are the main reasons for innovation and the benefits of these innovations for social enterprises?

In the Czech Republic there are 222 subjects: identified as social enterprises (indicator as of 23 September, 2018). This list can be found in the database of Czech Social Business administered by TESSEA and P3: People, Planet, Profit (České sociální podnikání, 2018). 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.

For her research, the author chose social enterprises not only in this country but also in the Slovak Republic. Slovakia was selected primarily to compare whether different approaches and legislation in another country actually have an impact on the development of social innovations in social enterprises.

Currently, seven social enterprises are registered in Slovakia all registered businesses were contacted for research purposes. These social enterprises in Slovakia are mainly located in small and medium regions of up to 12,500 inhabitants. For this reason, regions with a comparable population size were selected for research in the Czech Republic. These smaller regions are predicted to have higher levels of poverty and social exclusion. They were selected for the Czech Republic, which in the end represented a comparable number of inhabitants of Slovakia. In this way, approximately the same value was obtained from the demographic point of view. Of the 104 social enterprises (which were generated from the selected regions for comparison), 33 enterprises fulfilled the prerequisite for operating in small and medium-sized region.

The survey was carried out by a quantitative survey through a standardized questionnaire in August 2017, and it was compiled by the author. The questionnaire contained some open questions, but most of the questions were closed with the choice of answers, and if a respondent did not choose any of the answers, they could answer another answer. The questionnaire survey was executed in two rounds because the rate of return in the first round was only 17.5%. In case of non-responding companies, telephone interviews were also conducted. After the second round, the rate of return increased to 52.5%. The big issue in the survey is that the email addresses on the website were not up to date or belonged to employees in the company who did not feel sufficiently competent in terms of the job position to complete the questionnaire.

3 RESULTS AND DISCUSSION

Through social innovations, social enterprises respond to the requirements of unsatisfied social needs, work on sustainable growth, emphasize social cohesion, generate inclusive growth by providing goods and services in an entrepreneurial and innovative way to achieve social goals (priority is not given to achieving own profit). It can be argued that the purpose of their existence is to create economic and social changes that, among other things, contribute to the Europe 2020 strategy (European Commission, Social Business Initiative, 2011).

The questionnaire survey was attended by 21 companies, including 7 Slovak companies. The questionnaire survey showed that 17 enterprises were involved in social innovation, five social enterprises responded negatively. At the same time, these respondents stated that they have been doing social innovation for the last two years. These respondents were also asked what kind of innovation they are introducing in their social enterprise. The questionnaire survey shows that up to 65% of social enterprises are dedicated to innovation in organizational structure, 56% of enterprises are dedicated to innovation in their products, 41% to innovation in business management, and 41% to manufacturing innovations. The table below shows that 29% of respondents stated that they are introducing technology innovations and only 6% devoted to innovation in the services provided.

Tab. 1 » Types of innovation introduced by social enterprises

<i>Types of innovation</i>	Number of responses	% share
Product innovation	10	56 %
Innovation in manufacturing processes	7	41 %
Technology innovation	5	29 %
Innovation of organizational structure of the company	11	65 %
Innovation in management	7	41 %
Innovation in services provided	1	6 %

Source: own processing

3.1 THE MAIN REASONS FOR THE DEVELOPMENT AND INNOVATION

The reason for innovation in an enterprise should not concern only profit-making but also an increase in the efficiency of available resources in an enterprise, be it human capital or financial capital, improved workflow, strengthened social capital in the region thanks to expanding cooperation and contacts. At the same time, it should also include job sustainability. The spread of social innovation through social entrepreneurship focuses on providing innovative solutions to outstanding issues, value creation, and social entrepreneurship and social innovation (Social Entrepreneurship and Social Innovation, 2010). There are many reasons why social enterprises are engaged in social innovation. For some social businesses, it is a means of maintaining the market. Another issue in the research focused on the main reasons for social innovation.

Tab. 2 » The main reasons for social innovation in a social enterprise

<i>The main reason for innovation</i>	Number of responses	% share
The need for market	3	18 %
Financial grant	2	12 %
Maintaining our own competitiveness	13	76 %
Maintaining jobs	1	6 %
Improving the quality of the services provided	1	6 %
Expansion of activities into new areas	1	6 %

Source: own processing

The questionnaire survey shows that up to 76% of all respondents replied that they are innovating to maintain their own market competitiveness. This corresponds to the response of 12% of respondents that the main reason for innovation is the need for market. Two social enterprises have been innovating because of a grant. Only individual responses from social enterprises have listed reasons for social innovation to maintain jobs, improve the quality of services provided and expand their activities to new areas.

3.2 BENEFITS OF INNOVATION

Innovation of business entities brings about positive changes in certain forms. These benefits for the enterprise may include, for example, development of new products, increased labour productivity, increased company turnover, increased competitiveness, reduced costs or increased profit. Every enterprise that is engaged in social innovation should be able to identify the effect of introducing social innovation into the process. In the framework of the questionnaire survey, we investigated the benefits of implementing social innovation for a particular social enterprise.

Tab. 3 » Benefits of innovation for the social enterprise

<i>Answers</i>	Numbers of responses	% share
Development of new products	3	17 %
Increasing labour productivity	1	6 %
Increase in company turnover	2	11 %
Growth of competitiveness	11	61 %
Increase in profit	0	0 %
Cost reduction	3	17 %

Source: own processing

The responses show that social enterprises see the growth of competitiveness on the market as the main reason for innovation and that other companies have developed new products and reduced production costs. Only two companies said that thanks to innovation, they increased the turnover of the company and one enterprise increased labour productivity.

If we also take into account innovation, social enterprises are looking for customers, and they are inspired by cooperating companies as well as competitors. Few companies are inspired by their own ideas and their own needs, only one surveyed company is looking for incentives to innovate in foreign literature.

As a reason for introducing social innovation, businesses primarily address local solutions and civil society development, expand existing activities, and increase employment.

3.3 IMPORTANCE OF SOCIAL INNOVATION FOR SOCIAL ENTERPRISES

Social enterprises are nowadays considered typical representatives of social innovation. What is their main difference from private sector business? Social enterprises, when carrying out their activities, focus on the social benefits they can create on the basis of social innovation. It is just the creation of social benefits and the innovative approach that is a major difference between social entrepreneurship and other forms of business in the public or private sector.

What is the goal of social enterprises following the introduction of social innovation? The questionnaire survey shows that social enterprises, as business entities, are seeking to gain financial independence, which is based on the introduction of innovations into their business activity. Social enterprises have indicated their own competitive edge as the main reason for introducing innovation. Companies try to keep up with their competitors while keeping their customers' interests in mind. And that cannot be achieved without innovation. Competitiveness is based on the entrepreneurial use of unique local specifics, meeting customer needs, creating products and services that are tailor-made to customer requirements and creating value for a product or service and engaging disadvantaged people in the process. (Lubelcová G. et al., 2011).

What types of innovation do social enterprises mostly focus on? The research shows that most social enterprises focus on product innovation and innovation in the organizational structure of the enterprise. Other innovation activities include innovation in management, innovation of manufacturing processes, technology and innovation in the provided services. It is precisely the introduction of innovative practices that promises social enterprises better results than the current way of functioning. Indeed, after the introduction of social innovations, has the situation of social enterprises improved in the market?

Based on the research, we can conclude that social innovation has a positive impact on the functioning of a social enterprise. Most businesses consider it an essential prerequisite for the development of their business. Social enterprises consider the growth of competitiveness, reduction of costs, the development of new products and increased turnover of the company as the main benefits of social innovation. In social innovation, social enterprises are not the driving force. Who or what is the

main initiator for implementing social innovation in an enterprise? The answers to the questionnaire survey show that the main source of ideas and requirements for innovation are the customers themselves who, by their unfulfilled needs, create a market space for manufacturers and distributors to create new or improve the existing products and services. Social enterprises consider market sources, cooperating firms and competitors as the initiator of innovation.

4 CONCLUSION

The paper aimed to answer the question about what prevents social enterprises from making changes that are innovative. If companies make changes, what are the main reasons for innovation and the benefits of these innovations for social enterprises? The results of the research have confirmed that social enterprises place emphasis on innovation, especially by innovating their internal organizational structure and products. The main reasons for innovation have been for companies to maintain their competitiveness in the market. Social enterprises are aware that the decision to introduce innovation does not always guarantee success in the innovation activity.

Social enterprises are making changes and want to continue to do so. So what are the barriers to social innovation? There is no legislative and systemic framework in place for social entrepreneurship in the Czech Republic. Social enterprises feel the lack of cooperation with the public sector. Social enterprises do not receive support in public processes (socially responsible public procurement). What is also missing is a systematic setup of financial support for social enterprises (soft loans, credits).

The research has been carried out only on a number of social enterprises operating in the Czech Republic. However, it can be inferred from the results that innovation is a key element in maintaining the market and other social enterprises. In Slovakia, research has been carried out on all existing social enterprises and it is clear from the results that the responses in both countries do not differ significantly. Social businesses address the same challenges and try to keep up with market innovation. Based on the research, we can conclude that social innovation has a positive impact on the functioning of a social enterprise. Most businesses consider it an inevitable condition for the development of their business. Social

businesses consider the growth in competitiveness, cost reduction, new product development and increased turnover as the main benefits of social innovation.

It is therefore necessary to incorporate collaboration with local social enterprises into local strategies, take 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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