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## Support mechanisms for social entrepreneurship in the Baltic Sea Region

This paper presents an overview of support mechanisms for social entrepreneurship available in the seven Baltic Sea Region (BSR) countries with references to the pertinent literature. Its main aim is to evaluate the mechanisms of support provided by state and local authorities in terms of their influence on the development of the social entrepreneurship sector. The research is based on a survey conducted among representatives of social enterprises from the seven BSR countries and focus group interviews. The hypothesis assumes that there is a great disparity in the level of support offered to social entrepreneurs in the researched countries; moreover, it is not the kind of support that is expected by entrepreneurs. The study revealed that the expected support mechanisms include: specialised institutions founded by the government, access to direct financial support, and infrastructure support aimed at increasing the capacity of social enterprises. The conclusion is that the existing support mechanisms require greater state and local involvement. Continued efforts are required to make them more accessible and better adjusted to the needs of social entrepreneurs in the researched countries.

Keywords: social entrepreneurship, support mechanisms, entrepreneurship, social enterprise

JEL classification: L31, L1, L38

### Mechanizmy wspierania przedsiębiorczości społecznej w regionie Morza Bałtyckiego

Artykuł przedstawia przegląd mechanizmów wsparcia dla przedsiębiorczości społecznej dostępnych w siedmiu krajach Regionu Morza Bałtyckiego (RMB) wraz z odniesieniami do dostępnej literatury. Jego celem jest ocena mechanizmów wsparcia rozwoju przedsiębiorczości społecznej oferowanych na poziomie krajowym i lokalnym z perspektywy ich wpływu na rozwój sektora przedsiębiorstw społecznych. Wywód opiera się na badaniu ankietowym przeprowadzonym wśród przedstawicieli przedsiębiorstw społecznych w siedmiu krajach RMB oraz badaniach z wykorzystaniem grup fokusowych. Hipoteza badawcza zakłada, że występują duże różnice w poziomie wsparcia dostępnego dla przedsiębiorców społecznych w analizowanych krajach, a dostępne formy nie pokrywają się z oczekiwaniami przedsiębiorców. Badania wykazały, że

oczekiwane przez przedsiębiorców społecznych mechanizmy wsparcia to: wyspecjalizowane instytucje finansowane doradcze, instrumenty bezpośredniego wsparcia finansowego oraz wsparcie infrastrukturalne. Wykazano, że mechanizmy wsparcia wymagają większego zaangażowania ze strony władz rządowych i regionalnych. Zaleca się także podejmowanie dalszych starań w celu ułatwienia dostępu do owych mechanizmów oraz lepszego dostosowania ich do potrzeb przedsiębiorców społecznych w analizowanych krajach.

Słowa kluczowe: przedsiębiorczość społeczna, mechanizmy wsparcia, przedsiębiorczość, przedsiębiorstwo społeczne

Klasyfikacja JEL: L31, L1, L38

## Introduction

Social entrepreneurship has been broadly characterised as the creation of innovative social ventures [Dees, Anderson, 2003; Cochran, 2007] and the use of market-based activities in order to meet social needs as well as receive earned income through innovations [Thompson, 2002]. Furthermore, social entrepreneurs are driven by the wish to meet the needs of society [Bornstein, 2004] as well as to develop personal moral values [Hemingway, 2005; Drayton, 2002], charisma [Roper, Cheney, 2005], and the skills of leadership [Thompson, Avy, Lees, 2000]. Social entrepreneurship contests traditional entrepreneurship theory; while conventional entrepreneurs aim to address the most profitable opportunities, social entrepreneurs address the opposite – difficult societal problems [Zahra et al., 2009]. The term is most commonly applied to the socially engaged private sector and the more entrepreneurial ventures in the not-for-profit sector [CCSE, 2001].

### 1. Theoretical review of social entrepreneurship support from the perspective of the stakeholder theory

The degree of problem solving success depends on the effectiveness of the system of 'support institutions' (including the legal, cultural, and organisational environment) and on creating an appropriate ecosystem for social entrepreneurship. Chell, Nicolopoulou, and Karatas-Özkan [2010] point out that in Europe there exist a number of models of social entrepreneurship. Country-specific influence factors lead to the formation of variations of social entrepreneurship and its ecosystems. The process of development of social entrepreneurship initiatives starts with the establishment of pro-active relationships with various stakeholders. In this regard, an important role is assigned to municipalities, which are expected to influence and support the development of social entrepreneurship in respective areas. The theoretical foundation of these relationships can be found by

exploring the stakeholder theory. The stakeholder theory accounts for all individuals who are socially impacted by or who have a social impact on an organisation through social drivers and barriers [Kusyik, Lozano, 2007]. A stakeholder is defined as an entity which 'either is harmed by, or benefits from the corporation; or whose rights can be violated, or have to be respected by the corporation' [Crane, Matten, 2010].

Blair et al. [1996] identified four types of stakeholder management strategies – supportive, non-supportive, mixed-blessing, and marginal – that may be adopted by organisations based upon the stakeholders' potential for threat and cooperation. In our context, the authors consider that it is worth involving supportive, collaborating with mixed-blessing, and monitoring marginal stakeholders.

Effective stakeholder management is possible if it is based on the analysis of stakeholders and their expectations. In the health care industry, for instance, the analysis is followed by the development of appropriate management strategies [Duncan, 1996], which is a critical part of success. As delivering health services is one of the most important functions of municipalities, they have to employ stakeholder (social enterprise) analysis to raise them to the highest possible level and increase their availability.

Stakeholder management strategies could be developed based on their potential power to influence outcomes. The core expectations of individual stakeholders seem to vary according to their particular interest or stake in the issue, including: profitability, financial growth, quality of leadership, adequacy of resource allocation, efficiency of resource use, as well as cost and quality of services [Riege, Lindsay, 2006]. In the relationship between a municipality and a social enterprise, both sides have particular interest in delivering the specific services to the inhabitants at the highest possible level, but also taking into consideration cost-effectiveness. Finally, it has to be stressed that the development of social entrepreneurship initiatives should result from the joint efforts of different stakeholders who seek for long-term benefits and gain synergies [Lauzikas, Cernikovaite, 2011].

## 1.1. Discussion

The social economy sector is based on a combination of entrepreneurial dynamics and civil initiatives focused on social purposes. The fusion of these two elements serves as a base for establishing social enterprises, which are often engaged in the delivery of social and work integration services to the disadvantaged and communities in urban or rural areas and therefore play an important role in terms of both territorial cohesion and the implementation of innovative solutions to social problems, especially poverty and exclusion. The development of social economy is stimulated and supported in all countries within the European Union. Moreover, the European Commission (EC) proposes a common social economy

policy at the European level. The European efforts to catalyse growth of social entrepreneurship include practices and policies targeted at the establishment of hybrid entities. In 2011 the EC, contributing to the creation of a favourable environment for the development of social entrepreneurship in Europe, established the Social Business Initiative; various European countries have also passed new laws to promote social enterprises. However, the level of development of social enterprises differs in every country depending on the history, the field's heritage, experiences, law makers and their interests, as well as their understanding of social economy.

The authors undertook to review and compare seven Baltic Sea Region countries with completely different political and economic backgrounds in terms of the offered support mechanisms, which appear to be one of the factors affecting the development of social entrepreneurship.

## 2. Support mechanisms for social entrepreneurship in the Baltic Sea Region

Seven countries will be briefly analysed in terms of support mechanisms for social entrepreneurship from the perspective of governmental, municipal, and private initiatives.

### 2.1. Denmark

In 2012, the Danish government set aside DKK 42.6mn to be used for the development of social enterprises in the years 2012–2015. In addition to the establishment of the Committee of Social Enterprises, the money was set aside to build up knowledge and intelligence in this area and to follow up on the recommendations of the Committee, one of which was the establishment of the National Centre for Social Enterprises. The Centre has launched a large range of efforts to support social enterprises. Its main aim is to strengthen the work of local authorities on developing social enterprises and exploring possibilities of creating a social finance market in Denmark.

In terms of private initiatives, in 2014 the Social Capital Fund launched a Social Start-Up, Denmark's first accelerator for social entrepreneurs, to give employment to the socially excluded. A spectrum of very different organisations is also available. Among the organisations that provide non-financial support to social enterprises and social entrepreneurs are Kooperationen, Social+, KBH+, Sociale Entreprenoreri Danmark, and a non-profit housing organisation BL.

## 2.2. Sweden

There is no ministry responsible for social enterprises and social entrepreneurship in Sweden. However, there is a number of government agencies supporting the development of the social economy sector, mainly the Swedish Agency for Economic and Regional Growth (Tillväxtverket), VINNOVA (Innovation Agency of Sweden), the Swedish Public Employment Service (Arbetsförmedlingen), as well as the Swedish Agency for Youth (Ungdomsstyrelsen).

Micro Fund West is an initiative and a funding organisation owned by civil society organisations and focused mainly on cooperatives and social enterprises. It is also supported by the Business Region Gothenburg, which has provided SEK 5mn to the fund. Two more initiatives also play an important role – Micro Fund Z (Jämtland County) and Micro Fund East (Stockholm County). Additional non-financial support is also available from a spectrum of very different organisations, such as the Forum for Social Innovation (MSI) – a platform for academia, industry, as well as government and non-profit organisations that want to take part in the development of social innovation and social entrepreneurship.

## 2.3. Estonia

Over the recent years, the Estonian civil society organisations have had access to a variety of funds primarily via the National Foundation of Civil Society – a civil society fund established in 2008 and financed by the Ministry of the Interior, which reaches the social enterprise sector mainly through financial and substantive support. Furthermore, the County Development Centre network, consisting of fifteen organisations located in each county, provides free-of-charge consultation services to companies, local governments, NGOs, as well as social entrepreneurs on how to develop their knowledge and understanding of social enterprises. The service is available everywhere, but its quality varies depending on the county. Most importantly, access to funding specially intended for business development is very limited.

## 2.4. Finland

In accordance with the Finnish legislation, a social enterprise can apply for the same financial support as any other company (loans, start-up grants, aids, etc.). On the one hand, no funds have been allocated to social enterprises so far. On the other, companies have many possibilities to choose from. For example, special start-up grants are available for start-up entrepreneurs.

Similar procedures apply to training support, i.e., social enterprises can use the same services as other enterprises. There are multiple such services and many of them are provided by the state free of charge (especially the services of TE-centre). Training courses aimed at social enterprises have been offered by, e.g., Kasvuhuone cooperative/Social Entrepreneurship Academy of Finland cooperative and KSL Civic Association for Adult Learning.

## 2.5. Latvia

Support for the social economy sector in Latvia at the national level is envisaged to start in 2016/2017. Meanwhile, there exist support programs directed at the integration of the unemployed and small business development. One of the State Employment Agency's (SEA) supportive activities in the field of employment is the provision of subsidised workplaces, e.g. in enterprises employing the disadvantaged and the unemployed. The subsidy consists of one-year co-financing of an employee's salary, an extra payment to a manager who deals with the person with special needs, and the coverage of costs related to the adjustments of a work place, if needed.

A few private initiatives have also been introduced to support social enterprises (e.g. Reach for Change). The weakest point of social entrepreneurship support is still the lack of a permanent support centre that would deliver information, training, and knowledge on an ongoing basis.

## 2.6. Lithuania

Until now, little or no financial support has been provided to social enterprises in Lithuania, since such entities have not yet been defined and accepted by the government. However, a rudimentary model of social enterprises – social firms – have been in operation since 2004 and receive ca. EUR 8mn a year in subsidies for the creation of jobs for vulnerable groups of people.

Responsibility for supporting social entrepreneurship is spread among different ministries: the Ministry of Economy is concerned with business setup, financial engineering and promotion, as well as social innovation, the Ministry of the Interior coordinates the support for urban communities, the Ministry of Agriculture supports rural communities and social entrepreneurship initiatives, and the Ministry of Labour and Social Affairs will provide funding to social service providers, inclusion initiatives, and NGOs.

Recently, a few private initiatives (e.g. Reach for Change, Socifaction – some of them based on EU funding) have been organised, which offer non-financial support to social entrepreneurs.

## 2.7. Poland

Since 2014, the National Programme for the Development of Social Economy (KPRES) has been operating in Poland, which describes a support system for the representatives of the social economy sector. The system is implemented through specialised institutions or consortia of institutions – so-called Social Economy Support Centres (OWES) – which operate throughout the country and have to be accredited and granted a certificate for conforming to the KPRES standards. Their main task is to assist in the creation and development of social economy entities (mainly social cooperatives and non-governmental organisations engaged in economic activities). Social enterprises can also benefit from other support instruments, primarily loans and grants offered by financial institutions, but also financial support from the Labour Offices, which ensure:

- grants for the establishment of social cooperatives and creation of new jobs in the existing ones,
- refund of social security contributions from the Labour Fund (elements of social care insurance, which constitute part of the employee pension).

## 3. Results of the online survey

### 3.1. Data collection methodology and sample characterisation

The research was based on the triangulation principle in order to compare the factors affecting the development of social entrepreneurship in the Baltic Sea Region using different research methods. Different techniques and tools were used at particular stages, including mainly:

- desk research,
- survey among representatives of social enterprises in the authors' countries,
- focus group and individual interviews with experts in the field of social economy.

The online questionnaire was distributed across the BSR countries via social media and emails. In Poland, due to the language barrier, phone interviews were organised to reach the target audience. In total, 97 replies were received.

Only one out of five sections of the survey is included in the analysis of the results. The first question concerned the overall national support. 24% of the respondents stated that there was no national support available, also 24% stated that the offered support was dissatisfying, 19% admitted that they did not know about any support, and only 8% were satisfied with the offered support. It is therefore important to stress that the level of satisfaction at the regional level was quite low. A similar situation could be observed at the municipal level, where the

share of satisfied organisations was even lower, and the share of organisations stating that there was no support available – higher. Finally, tools supporting the development and enhancement of social enterprises have been assessed.

Table 1. Support tools for social entrepreneurship available in the Baltic Sea Region

Support tools	Total replies	Percentage
Business advisory and coaching (long-term coaching dedicated to the development of economic activities, creating business plans, selling strategies, etc.)	52	53.6
Advisory (basic legal, procedural help, providing relevant clear and exact information)	31	32.0
Professional expert advisory (marketing experts, lawyers, accountants, HR experts, etc.)	46	47.4
Training courses for the staff (on the functioning, legal restrictions, management systems, etc.)	20	20.6
Vocational training courses for the staff (raising professional qualifications)	9	9.3
Regular networking activities	30	30.9
Regular promotion of offers (among public institutions and local communities)	44	45.4
Grants for establishing social enterprises	46	47.4
Grants for increasing employment	41	42.3
Preferential loans	24	24.7
Preferential credit guarantees	18	18.6
Social clauses in public procurement	42	43.3

Source: Own elaboration based on the survey results.

According to the data, the three leading support methods are: business advisory and coaching, professional expert advisory, and grants for the establishment of social enterprises.

#### 4. Results of focus group interviews

The focus group interviews were conducted in six countries: Latvia, Lithuania, Estonia, Finland, Poland, and Denmark, among representatives of social economy support centres and networks, social cooperatives, non-profit companies, NGOs, public institutions, and private sector companies.

The questions were structured to identify the main challenges facing new social enterprises in such key aspects as: legal framework, human resources, support mechanisms, and external image. Only support mechanisms are analysed in this paper. The availability and suitability of both financial and substantive support

mechanisms was mentioned as a critical challenge and the condition that has to be fulfilled for an organisation to become a beneficiary.

In Estonia, the interviewed by and large acknowledged that business support measures mostly neglected social enterprises and that there was a need for stable, regularly provided measures for both social start-ups as well as those enterprises that need resources for growth.

The Lithuanian Ministry of Economy has delegated to a public agency – Enterprise Lithuania, which is in charge of promoting exports and entrepreneurship in the country – the task of developing the capacity of social enterprises by providing them with advisory services. Although the process is just in its initial phase, it is expected that the consulting capacity of Enterprise Lithuania is going to expand next year, and the Rural Development Support Centre under the Ministry of Agriculture is working hard to support rural communities that are planning to set up social enterprises.

Experts in Latvia consider combining grants and mentoring to be an efficient support mechanism, while grants alone were regarded as a bad and unsustainable practice. Sufficient mentor competence, which integrates mainstream business expertise and an understanding of social entrepreneurship, is given great significance. In addition, it was underlined that a tax release can be an important support mechanism. However, the lack of social investors and donors was agreed to be the weak point.

In Poland, experts pointed to the availability of many financial and non-financial support mechanisms, including advisory services and training courses. Several years ago a network of OWES was established and since then its services have been tested quite intensively, which allowed to conclude that the number and variety of training courses should be tailored to the needs of social enterprises and a long-term, elaborated mentoring and training support are significantly more preferable and vital than the possibility of receiving grants. Concerning grants, well-thought-out return mechanisms should be introduced. There exists a national programme aimed at supporting the development of social economy with infrastructure in each region and district, supervised by the ministry and an independent commission, which constitutes a crucial point in the new European financial framework for 2014–2020.

In Denmark, experts noted that there were few support mechanisms available, but considering the size of the sector (only three hundred entities), social enterprises were still better supported than average SMEs. The best support mechanisms are the Social Capital Fund programs: Social Growth and Social Start-Up. The experts also stated that non-financial support should be integrated into the existing business support system.

In Finland, experts agreed that emphasis should be placed on introducing more new funding methods, such as social impact bonds, and more and better organised initiatives should be developed.

## Conclusions

As stated in the EC's synthesis report on social enterprises and their eco-systems in Europe [2015, p. 14], social enterprises – not only in the Baltic Sea Region, but also in the whole Europe – are perceived as 'a dynamic, diverse and entrepreneurial movement encapsulating the drive for new business models that combine economic activity with social mission, and the promotion of inclusive growth'. The purpose of this article was to compare and review seven Baltic Sea Region countries and analyse them in terms of the available support mechanisms, which are perceived as one of the factors hindering the development of social entrepreneurship. The study has established that while most of the BSR countries offer support mechanisms (both financial and substantive), their forms, availability, and suitability vary [Lepoutre et al., 2013].

The political environment of a country profoundly shapes the conditions under which social entrepreneurship operates [Vollmann, 2008]. The research has also shown that there is a great difference in the level of development of support mechanisms among the BSR countries that entered the EU before and after 2004. In Sweden, Denmark, or Finland there is a far more advanced understanding of social economy in general and social entrepreneurship in particular, whereas Poland, Latvia, Lithuania and, to some extent, Estonia are still in the process of formulating their offers towards social entrepreneurs and adjusting their activities to their needs.

The main support mechanisms available for social enterprises in the Baltic Sea Region countries include the following:

- specialised government institutions operating at the national or regional/municipal level that support the development of social entrepreneurship and offer various services (financial, educational, logistic, marketing etc.),
- access to direct financial support for new and growing enterprises (including loans and credit lines, grants and subsidies) from both public and private funds,
- development of forms of cooperation with other stakeholders on the market, especially NGOs,
- infrastructure support (to increase competitiveness and capacity),
- advocacy to create a favourable environment for growth and to promote a positive perception within the society and among traditional, business-oriented companies.

This study has raised important issues concerning the quantitative and qualitative aspects of support mechanisms, which vary considerably among the researched countries. In Denmark and Sweden, private banks and government institutions offer a wide range of financial aid programs, whereas in Southern and Eastern Baltic countries, such as Poland, Lithuania, Latvia, and Estonia, financial support is very limited or non-existent. Social enterprises, like any other, require external finance to start up and scale up their activities [EC, 2015]. Therefore, in Finland they are treated like any other start-up businesses and can apply for any grant scheme or funding available in the market. This approach is unique in the BSR and results in a substantial financial support for social enterprises.

Similarly, the level of engagement of public institutions and regional authorities in supporting social entrepreneurs varies in the analysed countries. Overall, this study strengthens the idea that their involvement results in a greater number of social businesses, improved communication strategies for the civil society, and, overall, in more developed and innovative support mechanisms for social entrepreneurs. The case of Denmark has demonstrated that there is a need for municipalities to come up with better engagement strategies in other BSR countries as well. Not only does interaction between the government, local authorities, and social entrepreneurs enhance the multilevel governance approach in the public administration, but it also enables the adjustment of the available support mechanisms and tools to the concrete and specific needs of Danish social entrepreneurs. The case of Sweden has confirmed these findings. The case of Latvia, on the other hand, has additionally revealed that social entrepreneurs in smaller municipalities and rural areas face major problems when confronting the local administration with requests for any kind of a support.

Finally, the online survey indicates that the most recognised forms of support are:

- educational services (business advisory and coaching, including consultative services provided by associations and educational institutions),
- financial services, especially funds for the establishment of social enterprises or income tax reliefs,
- promotional activities targeted at local stakeholders and civil society, spreading information on social entrepreneurship and local initiatives in this field.

These results suggest that it is crucial to seek solutions to the barriers and challenges hindering the growth of social entrepreneurship in the BSR. It is also necessary to devise cooperation models for traditional and social enterprises, as their co-existence on the market is essential for the economic development of a country. Moreover, support mechanisms for social entrepreneurs are often based on the mechanisms widely used for traditional business. There is a need for a more structural and coherent framework supporting the social enterprise sector in the BSR countries. Furthermore, a clear political will and state-ownership is

necessary for these enterprises to successfully operate on the market. Although some research has been carried out on support mechanisms for social entrepreneurship in general, no universal mechanism of support for all BSR countries has yet been established. The existing support mechanisms must therefore be further developed and new, innovative methods of support must be introduced. This is an important issue for future research, as the development of social economy faces surprisingly similar barriers in the whole region.

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