

Project CE Responsible

DELIVERABLE D.T4.2.1

INPUTS FOR CE SUSTAINABLE (SELF-FUNDED) FRAMEWORK MODEL TO SUPPORT SOCIAL INNOVATION

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Table of contents

1. METHODOLOGY	2
2. THE GOVERNANCE.....	4
2.1 Introduction.....	4
2.2 The historic evolution and the current national contexts	5
2.3 Identified drivers and barriers for Social Enterprises	8
3. BUSINESS STRATEGIES AND MODELS	13
3.1 Introduction.....	13
3.2 The business organization and planning	13
3.3 Trends and tendencies in social enterprises business models	22
4. AWARENESS AND RELATIONSHIPS IN THE SOCIAL ENTERPRISES WORLD	25
4.1 Introduction.....	25
4.2 Awareness	25
4.3 Relationships.....	27
5. INNOVATION OF SOCIAL SERVICES	29
5.1 Introduction.....	29
5.2 Social innovation	29
5.3 Support to social start-ups	31
6. CONCLUSIONS.....	33
7. RESOURCES.....	36



1. Methodology

The analysis work carried out to identify drivers for social enterprises and build a framework model to support social innovation, which will result in this deliverable, is co-developed by the eleven project partners cooperating within the CE Responsible project, like many of the previous analyses conducted in this project. Each partner is responsible for identifying the drivers related to their local context, using their own defined methodology, in order to meet all the specific local needs and working methods and combine them with the objectives of the project. This *let it be process* will allow each partner to better adapt the analysis to their own activities and to build on their existing stakeholder networks and working groups.

Part of the analysis is based on referenced documents and official websites (see Reference), investigated through the PEST approach. PEST is an acronym for Political, Economic, Social and Technological. PEST Analysis is a management method whereby an organization can assess major external factors that influence its operation in order to become more competitive in the market. As described by the acronym, those four areas are central to this model.

This analysis is often used to assess these four external factors in relation to particular business situation. Basically, a PEST analysis helps to determine how these factors will affect performance and activities of a business in the long-term. Within this project, the PEST Analysis was applied to identify drivers and potential challenges for Social Enterprises (hereafter SEs).

Being aimed to identify the main governance solutions and business models for SEs throughout Central Europe, the analysis is embedded in a context made of both the legal and the policy framework operating in the European Union and in each member state involved in CE Responsible.

The following chapters outlines the results of the above described methodology, organised according to the different issues addressed, and collecting inputs identified for each thematic area.

After the present description of the methodological approach (Section 1), we consider the governance of SEs and ETS sector in the different countries, focusing in particular to drivers and barriers as perceived by SEs themselves (Section 2); the subsequent part deals with the business models implemented by SEs to finance their activities (Section 3); then the report address the issue of self-awareness of the role of SEs and of their relationships with other kind of players, specifically the ones we labelled as *altruistic entrepreneurs*, i.e. socially responsible entrepreneurs (Section 4), before analyzing the degree of social innovation and of supporting to social startups put into practice by each national framework, and by European Union as a whole (Section 5). Sections 2-5 are always concluded with a SWOT analysis, reviewing in a schematic format the key results now (Strengths and Weaknesses) and in next years (Opportunities and Threads).

A final section of Conclusions summarizes the main outcomes of the study and the report.





2. The governance

2.1 Introduction

The terms SEs relate to different realities in the different European countries, with a new commitment of society and the socio-economic system for the achievement of objectives of equity, solidarity and social inclusion. They are production companies that produce or exchange goods and services without profit to achieve collective objectives and purposes of general interest.

A 2011 European document uses the term without distinction between social business and SEs, to indicate "the following types of business: those for which the social or corporate objective of the common good is the reason for commercial activity, often with high levels of social innovation; those whose profits are reinvested for the achievement of the social objective; those whose organizational model and proprietary system reflect their mission, using the principles of democratic participation and placing social justice at the centre" (*Bruxelles Com [2011] 682/2 Creating a favourable climate for SEs, key stakeholders in the social economy and innovation*).

They therefore play a plurality of roles. They create employment and therefore economic development. Also, they produce goods and services contributing to the construction of welfare systems, especially at local level. This happens through a set of services capable of responding to the needs of the population and, generally, aim to improve the quality of life, especially for the most fragile people.

In order to achieve these objectives, the SE requires complex governance, that is, a responsible and transparent management which may be required, among other things, to involve beneficiaries and workers.

For its own purposes, the SE offers its services, goods, services or promotional actions to society as a whole, but also specifically to public entities (bodies with competence in matters of welfare, culture, etc.) and to companies committed to social responsibility.

It is therefore evident that the characteristics of SE in the various countries are determined not only by the culture and solidarity traditions matured in different historical periods, but also by the present welfare model and by the different weight that the public part has in it.

A first step is to place the SE in the broader panorama of third sector entities. To this end it may be useful to dwell rapidly upon the National cases and the evolution of the SE sector through time.



2.2 The historic evolution and the current national contexts

The nine countries involved in CE Responsible share more than a single experience with respect to social issues and SEs functioning throughout recent history. As a matter of fact, Germany, Austria, Czech Republic, Slovakia, Hungary, Slovenia and Croatia have been characterized by the so called “Bismarckian legacy”, vehiculated by the belonging of all of them but Germany to the Austro-Hungarian Empire, that rooted between the end of XIX Century and the beginning of XX a strong third sector with a few large non-profit organisations closely associated with the State dominating the sector. This organisational welfare mix has been shaped by:

1. the strong influence of the Catholic Church and its close relationship with the State which has led to the establishment of some of the largest social service delivery organisations;
2. the strong influence of socialist politics and the close affiliation of large welfare organisations to political parties;
3. the corporatist approach to State regulation: a close relationship between major NPOs (Non-Profit Organizations) and the State, granting them the right to influencing decision-making on national legislation (Leichsenring 2001)

The combination of these developments has led to a strong social system, resistant to change, covering the majority of social services via few large welfare organisations, and little receptive to new entrants. Countries in this tradition are characterized by large and mostly State-financed non-profit organizations with close affiliation to public bodies, in contrast with the Anglo-Saxon tradition, where within the context of a liberal civil society regime, the sole social entrepreneur and his small business play a major role in delivering social services (Light 2006; Harding and Harding 2010).

In this way, in the Czech Republic and Slovakia a long and rich tradition of solidarity, mutual help, civil organizations and cooperatives stemmed out following the Czech National revival, with the first law defining cooperatives steps back to 1873 (the eldest productive coop in the country was established in 1892) and the same dynamics can be applied to Hungary, where the first cooperative dates to 1845. Slovenia has a long tradition of civil society self-organisation and self-reliance, and up until the end of World War II, associations and cooperatives were the primary providers of public goods and services, accounting around 6,000 associations and 1,700 cooperatives in 1938 (Črnek-Meglič and Rakar 2009), while Croatia in the same years saw the birth of brotherhoods and other mutual organizations related to Catholic Church, and of foundations with cultural and educational goals established by noble families.

In Germany, the second half of the 19th century saw the birth of hundreds of private charity organizations and social service institutions financed by donations and membership dues (Zimmer et al. 2005). The originally private initiatives developed into a system of five welfare associations (*Wohlfahrtsverbände*), which were granted privileged legal status and privileged public funding (Zimmer 2014). A culture of co-operation between public and private welfare provision have been developed simultaneously at the community level. This inaugurated a habit in public-private provision of social services still valid today and links private and public welfare institutions on all levels of government (Zimmer et al. 2005).



The second relevant hallmark is the end of the World War II in 1945, that determined for countries like Austria, Germany and Italy the enforcement of a highly developed and regulated welfare state, and for all other countries the subjection to the communist rule, both in the sphere of influence of USSR (Poland, former Czechoslovakia, and Hungary) in 1948, and under the Titoist regime in the newly established Republic of Yugoslavia (Slovenia and Croatia).

The new social environment imposed by communist regimes cancelled substantially any room for civil society, gathering all productive cooperatives and each association under the strict control of the government (Dohnalova et al., 2021). In Hungary, the establishment of new foundations was prohibited, being allowed just associations in some particular fields such as sports and leisure. Cooperatives membership was substantially compulsory for the population, and regulated by the National Government (Horvath, 2010). In Poland, a country with a long tradition in organization supporting disadvantaged people (young, poor, unemployed and disabled), foundations are formally eliminated in 1952 and their assets incorporated by the State (they will be restored in 1984), while associations were integrated into state-sponsored mass organization, fully controlled by the Government (Ciepielewska-Kowalik and Starwaska, 2021). In former Yugoslavia, civil society was marginalised by the paternalistic approach of the State.

This lasted until the 1990s, when the end of the socialist era, culminated in the civil war, pushed civil society to arise slowly, focusing on humanitarian assistance to displaced people. The transition took place in Czechoslovakia too (as known a unique country until 1st January 1993), when the “Velvet revolution” highlighted the relevancy of civil society and restored the central role of associationism in the country. In Poland civil-society groups arose since 1970s, joining forces within the opposition camp (civil rights movement, trade unions and the most famous Solidarność), with the strong support of Catholic Church. The process grew up during the 1980s, ending in 1989 with the overthrow of the regime (Ash, 2002; Kenney, 2008).

Welfare State was one of the main features of renewed governments in the rest of Europe. In Austria, due to the push by the two dominant parties (the Social Democrats and the Austrian People’s Party), two persistent phenomena emerged: on one hand the strong influence of Non-Profit Organizations (NPOs) on politics; on the other, the implementation of a system which involves the labour movement, professional associations and the NPOs themselves in major decision-making processes (Neumayr et al., 2007). This system - called the social and economic partnership (*Sozialpartnerschaft*) - discuss issues of economic and social relevance with the aim of avoiding social turmoil by working out compromises on a voluntary basis (Reiner 2011). According to the critics, whilst granting great influence to civil society, it also contributed to the establishment of rigid power structures (Pennerstorfer et al. 2013).

In Germany, the welfare associations developed during the 1960s and the 1970s into the most important providers of social and health services (Anheier 2014; Evers, Schulze-Böing 2001) and the biggest private employers in Germany (Heinze et al. 2011). The specific interpretation of the principle of subsidiarity in Germany was incorporated in the late 1960s into the country’s social law, guaranteeing the Free Welfare Associations a privileged position within the growing market of social and health service supply by granting them public funding and protecting them against competition (Evers, Schulze-Böing 2001).



During the 1980s, structural unemployment and high inflation sent western welfare systems into a deep crisis: in Austria, the so called “Austro-Keynesianism” was reformed, leaving apart the strong emphasis on full employment in favour of experimental labour market policies aimed to activating self-employment and dealing with long-term unemployed marginalized groups (drug addicts, women after childcare break, unskilled and disabled). This process opened to a “social services market” populated by private organizations and SEs (Leichsenring 2001). In Germany, the institutional changes of the traditional welfare system in the late 1980s and 1990s were a driving force for the establishment of SEs, in last years pushed progressively from the introduction of market and competition elements in the welfare sector (Evers 2005; Heinze et al. 2011).

The third and, until now, last milestone to point out in Central Europe social politics development is the deepening of the European integration process, with the evolution of the deal that established the Economic Community in a real political subject (the European Union) in 1992, and the enlargement of the EU to include progressively Austria (1995), Hungary, Poland, Czech Republic, Slovakia and Slovenia (2003), and Croatia (2013). This meant the full adherence to the so-called *Communitarian Aquis*, i.e. to the array of rights, obligation and principles gathering and binding all Members States. Connected to our field of interest, this implies on one hand the introduction of a common framework legislation to regulate and direct the provision of welfare and social services according to the single European market principles, on the other the accession to the EU financing for this type of policies, starting from the European Social Fund (ESF).

The EU accession consolidated for many of the previous countries the process of transition opened by the historical facts of 1989-1992 and culminated with the end of the Communist rule. This stimulated the re-emergence of a plurality of civil society initiatives and witnessed the flourishing of a significant number of NPOs and the pioneering establishment of the first SEs. In Slovakia, entering the European Union promoted the process of legal institutionalisation of SEs through two distinct strategies: first, the reform in social services, which resulted in the transformation of the public-sector-driven institutional care model to a community-based service system, open to the participation of non-state actors in the provision of a variety of social services. Second, the legal recognition of SEs, prompted by the introduction of a legal framework specifically designed to regulate enterprises integrating disadvantaged workers, the so called WISEs (see *infra*), and followed by the acknowledgement of social economy and SEs (Act 112/2018). In Hungary, EU accession coincided with a season of reforms in the NPOs world, such as the establishment of the social company form (related to some kind of market activity) and the obligation for public-benefit companies to take the form of NGO, before a more centralized and national-oriented approach imposed the mandatory presence of institutional bodies (mainly local authorities) in the membership of social cooperatives and the registration as “foreign-funded” to all organizations receiving financing from organizations located outside the EU. In Croatia, the attempt of defining SEs through a devoted “Strategy for Social Entrepreneurship development” (2015) was informed by the EU interpretation of the SE concept, even though the implementation of the Strategy failed (Vidovic and Baturina, 2021). The same dynamics occurred in Poland, where the access to EU funds such as EFS and, mainly, the Equal programme stimulated the development of a market economy and contributed to the formation and development of non-governmental organizations (NGOs), including SEs (Praszquier et al., 2014).



The interpretation through the previous hallmarks gives back a picture for the evolution of NPOs and SEs sector that can be represented as follows:

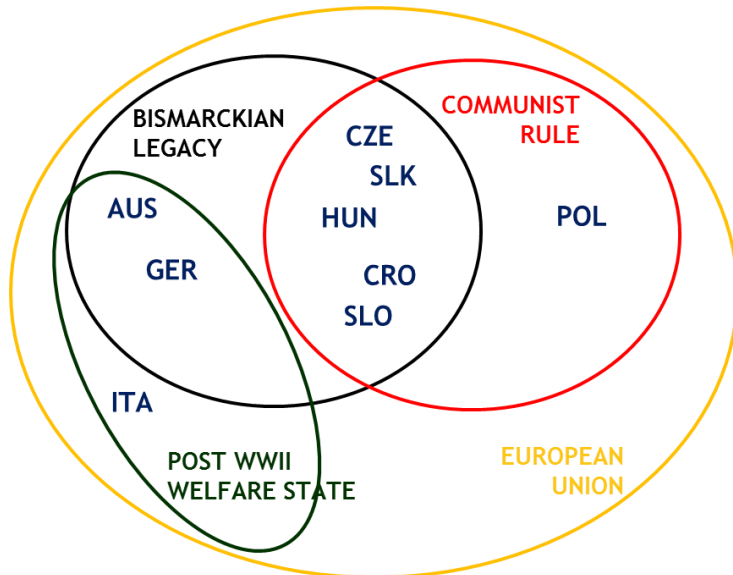


Fig. 1: Classification of countries according to NPOs sector's historic establishment

This represent the historic framework in which SEs are called to spread their activities in the considered countries.

2.3 Identified drivers and barriers for Social Enterprises

The previous section is aimed to define the long-run elements influencing the current activities of NPOs and SEs in the nine countries involved in the project. In this section we reconsider them together with the CE Responsible partners' contribution, to identify the main drivers and challenges that SEs must address for their day-by-day activity in the project area.

The general elements extracted from the analysis are:

- I. a long-lasting tradition of mutual help, civil organizations and cooperatives, coming from the so called "Bismarckian legacy" and the church;
- II. the caesura given by the WWII, that produced the enforcement of the welfare state in all countries, with the strong diversion of Western countries (Germany, Austria and Italy) from the others, where communist regimes imposed a rigid State control on civil society and organizations;
- III. the end of the communist rule, with the twofold legacy of a new flourishing of civil society (Solidarność in Poland, the Velvet revolution in former Czechoslovakia, the humanitarian assistance organizations after Yugoslavia disintegration in Slovenia and Croatia) on one hand, and the mistrust for cooperatives and other forms of socially organized work perceived as proper of the communist era;



- IV. the diffusion of common elements in the organization of welfare and third sector, due to the confluence of all considered countries in the European Union;
- V. the long-run welfare state crisis, that pushed the privatization and the use of managerial mechanisms in the sector, and a higher recourse to grants and projects-based financing;
- VI. a resurgent State control on organizations and civil society in some countries, drawing attention of the European union itself.

Starting from a so rich endowment of hints and trends, CE Responsible partners have inquired the most relevant drivers and obstacles detected in the CE countries for the activity and the success of SEs. The general picture highlights many common items, but even place-based idiosyncratic differences.

Among the formers, many partners coincide in reporting as drivers the existence of **networks** supporting the SEs. They include social entrepreneurs (likewise Austrian SENA - Social Entrepreneurship Network of Austria) and organizations (Austrian Arbeit plus, gathering 200 non-profit and labour market-oriented SEs), funding organizations (Austrian Vienna impact Hub, Pioneers of Change), places for exchange of information, good practices and connecting universities, SEs, and public institutions (German Social Impact Hub and SEs Academy, Slovak Business Agency), associations supplying professional services (Slovenian CNVOS). Finally, in all involved countries is active Ashoka organization, with the international Ashoka Support Network (ASN) backing all Ashoka Fellows and Changemakers¹.

A recognized driver is given by the **public financing**, still the first source of resources procurement for SEs. In Austria, this aspect is covered by The Financing Agency for Social Entrepreneurship (FASE), supporting selected SEs in the procurement of growth capital. In Germany, a wide range of public institutions is devoted to financially support SEs, both at the national and at the regional level (Kreditanstalt für Wiederaufbau, KfW). In the Czech Republic, main supporting schemes for SEs are non-specific and available in the form of grants for SMEs by Ministry of Trade and Industry. The same is reported in Croatia, with State institutions granting investment aid for entrepreneurship development. Hungary, on the contrary, claims the current absence of national grant schemes and the total reliance on EU sources for SEs.

The situation is different with **private financing**, reported more often as a barrier than as a driver for SEs growth. Nonetheless, interesting experiences have been implemented in Austria with the “Social Entrepreneurship Venture Capital Fund” launched by fair-finance in 2019, and the loans with a preferential rate to SEs provided by ERSTE bank’s SEED programme. The same opportunity is available also in Slovakia and Czech Republic, while we can find KPMG’s Programme for a Responsible Society and MagNet Bank’s programmes in Hungary, and some opportunities by local banks (Deželna banka Slovenije and Delavska hranilnica) in Slovenia.

The **political support** to SEs operation is not so plain and accepted throughout the central Europe. As a matter of fact, the only countries with a full and specific legal framework on the issue are

¹ Ashoka is a worldwide active NGO, established in 1981 by US social entrepreneur and former Mc Kinsey executive Bill Drayton. Currently Ashoka is a network of SEs active in more than 90 countries throughout the world and involving more than 3,700 activists (“Fellows”).



Slovenia (Social Entrepreneurship Act, introduced in 2011 and amended in 2018), Italy (Reform of the third sector through Delegated Law 106/2016 and Legislative Decree 117/17), and Slovakia (Act no. 112/2018 Coll. on Social economy and SEs). For many of the remaining countries, political support is appointed to strategical plans, as occurring in Austria (Government program 2020-2024 on the role of "social entrepreneurs") and Croatia (National Strategy on civil society), while five out of six parties in German Parliament demanded improvement of the economic and social conditions of SEs. Another kind of support is reported as cooperation projects among SEs and local governments in the Czech Republic.

Another issue is the **awareness** about the importance of SEs in institutions and civil society. A growing knowledge and feeling of awareness of the importance of the SEs sector in State, regional and local institutions is conveyed in Croatia and Slovenia (in this case in form of growing support of local socially and environmentally responsible products and services by consumers), while in Germany it cannot be disentangled from the increasing awareness in society for emerging problems such as climate crisis and lack of education opportunities. Furthermore, in Germany proving the social responsibility activities implemented has become legally required for a larger share of corporates, forcing a higher awareness in the entrepreneurial world. Nonetheless, even in the same countries characterized by the raise in awareness is reported a low perception of SEs results (for instance in Croatia, besides Slovakia) and a feeling of blurriness with the landscape concerning NPO and SEs' world (in Austria, Poland and Slovakia) starting from the difficulty in distinguishing SEs from other kinds of legal organizations (Czech Republic, Germany).

A quite common tool to raise awareness and strengthen networks is the conception of **prizes** to be awarded to SEs and NPOs. The most relevant are reported in Austria (Social Impact Award, activated even in Slovakia, Trigos Award, Next Award, Austrian SDG Award, ...), in Germany (Sustainable Social Entrepreneurs, granted by the Federal Ministry of Economics since 2009) and in Hungary (UniCredit bank's "Social Innovation" competition, activated even in Slovenia), even though in the latter case with the weakness of being tailored on large companies, rather than on micro and SMEs.

A perceived point of relevance is associated to **start-up** SEs (to which is dedicated even next section 5.3), with both supporting services for the start-ups of social entrepreneurs (Austrian Chamber of Commerce) and a dedicated grant from Austria Wirtschaft Service (AWS Social Business Call), with a maximum of € 100,000.00 awarded to start-ups in the field of social innovation and the labour market. Finally, it must be noticed the new attitude of some Croatian Unicorn companies² such as Infobip, Infinum, and Rimac in investing in their socially responsible activity and subcontracting smaller local businesses with positive impact.

Finally, **other drivers** have been idiosyncratically related to just one country and social system. This is the case for educational and training programmes on the use of digital tools for SEs, for mentoring activities and for the self-investment of financial revenues as a mean for SEs' growth.

² The definition of "Unicorn companies" identifies private start-up companies with a stock value over one billion dollars.



The barriers identified for the full success of SEs are equally interesting than the elicited drivers. The more cited obstacle is the mentioned blurriness of the **legal framework**, lacking a precise definition of SEs and a dedicated law in all countries, except for the cited ones (see *supra*).

One of the direct effects of the weakness of legal anchoring is **insufficient direct financing**. Due to a tangible scepticism from financial institutions towards the profitability of SEs, and to the poor diffusion of fair finance institutes in many Central Europe countries, NPOs show an excessive dependence on public funds and grants, mostly from the European Union, implying financial instability. This entails a downside competition among SEs on inadequate resources, with the further issue of the poor co-financing ability for most of them, and a squeezing in the salaries for the workers of the sector. In some other cases (Slovenia), the analysis pointed out even a request for tax incentives and exemptions, even though in most countries tax breaks schemes are available (see *infra*).

A second group of barriers for the development of the third sector is related to **institutions**. The main problem is the overly bureaucratic and administrative system, perceived as very demanding for organizations weak in staff and still based on voluntary work. Support from institutions to SEs is fragmented and short-termed, even because of the poor institutional coordination at different levels (national, regional and local). This favours ETs (Third Sector Organization Entities) stronger and already funded, accentuating the path dependency³ of the development process for organizations, and the in/out group feeling for newcomers.

The third and last group of obstacles deals with the **distinctive features** of the SEs. They are burdened with low internal education and experience with respect to administration and business skills, entrepreneurship and knowledge of digital tools, and representing a very small fraction of the overall economy, a still infant sector with low innovation force.

³ In Economics “path dependence” is any situation where the final outcome observed is the effect of the historic sequence of moves that led to it. This means a persistency and a self-fulfilment of the outcome difficult to be changed.



<p>Strengths:</p> <ul style="list-style-type: none"> - Common EU accession; - Bruxelles Com [2011] 682/2 - Long tradition in mutual help - Existence of networks supporting SEs - Public financing - Prizes to grant innovative ideas and start-ups - Raising popularity among respective communities 	<p>Weaknesses:</p> <ul style="list-style-type: none"> - Mistrust for socially organized work in former communist countries - Public finance crisis - Nationalist revival and state control on civil society - Insufficient private financing - Lack in legal framework, with blurry definition of the sector and of SEs - Bureaucratic and administrative approach by institutions (EU included)
<p>Opportunities:</p> <ul style="list-style-type: none"> - higher levels of cooperation among SEs organizations, local governments and private sponsors 	<p>Threats:</p> <ul style="list-style-type: none"> - Persistence of ineffective SEs governance models - Funds availability (public in particular)

Fig. 2: The governance issue, SWOT Analysis



3. Business strategies and models

3.1 Introduction

ETS, and even more so SEs, imply a complex organization, which also differs by type. A complexity that must consider some aspects.

Broadly speaking ETS and SEs operate in the social, cultural health, leisure sports, environmental sectors, etc. They produce goods and services that contribute to the construction of welfare systems, especially local ones, through a set of services to respond to the ever-changing needs of the population, and more generally aim to improve the quality of life, especially for the most vulnerable people.

ETS and SEs must relate not only to traditional public customers (through various forms of collaboration regulated by cooperative or competitive instruments), but also private, socially responsible companies, which could commission them precisely the activities with which they concretely exercise social responsibility of business.

In order to achieve their objectives, ETS and SEs must activate responsible and transparent management which may be required, among other things, to involve beneficiaries and workers. To support social entrepreneurs in the long term (those who have already gained experience especially in collaborations with public bodies, but also new start-ups) it is also necessary to invest in improving entrepreneurial skills, orienting them towards economic and social innovation.

In next Section we outline the main business models and framework for ETS organizations in the involved countries, searching for trends and similarities that could act as ideal-types for ETS functioning.

3.2 The business organization and planning

According to national regulation, common law practice and habits in funding and in strategic orientation by institutions, the scenarios for ETS and SEs are quite different in each country.

In **Italy**, the third sector was born fragmented into many different entities (social cooperatives, voluntary work, committees, foundations, various associations). Nonetheless, organisations of the third sector which activated spontaneously and in a fragmented way among civil society, have been codified in a set of laws on voluntary work, social cooperatives and social promotion associations only in the early 1990s. Social cooperatives, automatically recognized as SEs by the 2006 third sector reform, are classified since 1990s in “type a” and “type b” cooperatives, with the former addressed to services for the elderly with minor disabilities, etc., and the latter carrying out various productive activities of goods and services (e.g. public parks maintenance, separate waste collection, social places management, etc.) with the main mission of including different kinds of disadvantaged workers (mental and physical disabled people, ex-addicted, ex-convicted).



The third sector actors asked to be recognized as a partner capable of entering into the programming of social policy (as it was partially recognized by the law), individual services or actions, thus being recognized as an attentive “sensor” of the needs of the population and a flexible implementer of actions with new working methods and new responses to the ever-changing needs of the population. This type of collaboration between public and private has always been flanked by financial contributions in support of initiatives promoted by various associations, through specific financing lines linked to the types of subjects (e.g., free forms of association) or to the topic (e.g., educational poverty).

The most recent and widely used definition of “Municipal and Community Welfare” (Law 328/2000) recognizes the role of the public as a guarantor of citizens' rights and as a manager of services, both directly and in entrustment (outsourcing) to subjects third parties; but it comes to recognize the third sector, as well as the civil society initiative, a further important role in building community ties. In other words, the community becomes a resource for welfare.

The Third Sector Reform (Delegated Law 106/2016 and subsequent Legislative Decree 117/2017) focused on a multiple and quite different operators: very large cooperatives of many hundreds of employees (members and non-members) in which internal mutuality prevails, which require complex managerial management, and smaller cooperatives, often born to offer solidarity to particular groups of fragile population, in which social and political commitment prevails over community problems. The reform introduced the regulatory category of “Third Sector Organisation” (ETS) into the legal framework for all organizations in possession of specific characteristics: lack of profit; civil solidarity and social utility purposes by carrying out activities exclusively or primarily of general interest.

The main change for all entities involved is the transition from an unformal to a professional responsibility which corresponds to a series of obligations that make them similar to companies (accounting obligations, statutory financial statements, social report and other obligations in case of larger ETSs). In this context, SEs are not intended as a new legal form, but as a characteristic of the subjects previously indicated and of other subjects such as General partnership and Limited liability company (ltd), provided that they meet the characteristics described for ETS. SEs mainly carry out an economic activity. For this reason, social cooperatives and their consortia are automatically recognised as SEs. In addition, they must ensure that stakeholders are involved in the governance of the company.

Due to the role that the ETS must play in raising the levels of active citizenship and in supporting the development of community welfare, particular interest must be placed in the institutes of co-programming, co-planning and accreditation. The co-planning concerns specific projects for which the collaboration between public and private overcomes the competitive modalities such as those activated by the tenders and experiments cooperative relationships, which provide for an extended participation of the subjects interested in the design in various ways, before and after the “expression of interest” of the public body.

Austria's Third sector has a long tradition dominated by the so called “Big Five” - the five large welfare organizations closely associated to the political parties and to the Catholic Church -



entrusted to carry out most of the public sector's social services. This affiliation results in a number of fields: sports, automotive clubs, alpine associations etc, and ends in a reduced possibility for independent providers to survive (Pennerstorfer et al. 2013).

A partial exception is given by cooperatives, historically rooted in Friedrich Wilhelm Raiffeisen action during 19th and 20th centuries, creating one of the best-known brands in Austria due to the territorial ramification of the homonymous bank (nowadays a public limited company and still the third largest bank in Austria), but also owner of 800 other cooperatives (all in the field of agriculture). Another relevant producer cooperative is the "Lagerhausgruppe" (depository warehouses, supplying goods for agriculture and construction), with 117,000 members, mostly in dairy (they produce 95% of Austrian milk).

Apart from cooperatives, the model of services provision based on public expenditures get into crisis in the 1980s, and from the 1990s onwards measures to reduce public cost of service production started. Applying new public manage approaches, but also under the influence from the European procurement directive, a shift from lump sums to performance-related payments and service contracting was initiated (Neumayr et al. 2007), increasingly opening the field to new SEs. Since 2005, 30.6% of total NPOs revenue was commissioned based on performance-based contracting (49% in the area of social services), with only 13.1% still being paid out in lump sums, spreading a new market-based approach even through traditional NPOs (Lehner 2011).

The role of venture philanthropy and charitable foundations is still young and emerging in recent years. ERSTE Foundation, Martin&Gerda Essl Foundation, Georg Starhemberg and the Turnauer family are some of the foundations interested in the issue, as well as some corporate sponsors (Coca Cola, A1). However, there is still large potential for further growth of investment from charitable foundations as international comparison confirms: whereas annual financing from charitable foundations amount to 1-5 € per person, the same indicator in Germany amounts from 180 to 230 €. In addition, the low number of charitable foundations is explained by scholars with restrictive tax regulations, a small number of role models, lack of transparency in the foundation sector, and, most importantly, the assumption that "it is the State's most fundamental task to realize social agendas" (Schneider et al. 2010).

In **Germany**, the debate on SEs developed in correspondence with new national caesuras such as the establishment of the Ashoka and the Schwab Foundations as umbrella organizations supporting the development of social entrepreneurs, suddenly followed by other champions in the German foundations' world (Mercator, Vodafone, Bertelsmann). Finally, the need to economize due to the budget cuts in late 1980s and 1990s, raising awareness that new ideas for potential links between the market and the State were needed (Evers, Schulze-Böing 2001).

All SEs pursue economic activities, but their nature is heterogeneous, depending on donations, membership fees, committed stocks, private capital and mixtures between all of them (Pöllath 2011). The MEFOSE survey⁴ highlighted the hybrid financial structures of SEs, relying on different

⁴ The MEFOSE study was conducted by a consortium of several German universities over two years (2010-2012) and was the first large scale attempt to assess the phenomenon of social entrepreneurs in Germany.



sources. Albeit the heterogeneity of fonts does not vary according to organizational size, the percentage of performance-based funding deriving from the social insurance system and public authorities gains importance with it (Scheuerle and Glänzel 2012). Self-generated profits and financing through bank investments play in the German case, a quite marginal role.

As anticipated in previous Section 2, financing of SEs is frequently described as one of their major obstacles for the sector development (Achleitner et al. 2011; Schwarz 2014; Vollmann 2008). In MEFOSE study 48% of the 1,700 surveyed SEs report the financial sustainability as the main challenge for their survival (Scheuerle and Glänzel 2012): since SEs operate under a broad range of legal forms, often hybrid, their needs are not well-addressed by the existing financial system. The same survey distinguishes between internal and external financing for ETS. The former refers to earned income from (profit-oriented) business activities and own capital resources (Vollmann 2008; Spiess-Knafl 2012). Part of (profit-oriented) business activities are also social services compensated by the government, and traditionally provided by the Free Welfare Associations (Spiess-Knafl 2012, Evers, Schulze-Böing 2001, Zimmer 2014).

External financing can be derived from a broad range of sources. On the one hand, income sources including, donations, price money, volunteer activities, fellowships and diverse incomes like foundation capital. Although it is regularly argued that Germany has a strong attitude to donate, such foundation grants and donations amount only to 3.4% of non-profit income (Schwarz 2014). In recent years the financial support for SEs increased significantly, especially in the form of price money and fellowships, with prominent examples such as the Ashoka fellowship or the Social Impact Start.

Since many SEs in Germany work under the legal form of associations, membership fees are considered as a separate category of external financing (Scheuerle and Glänzel, 2012). In the category of external capital stock Germany currently witnesses a diversification: loan banks and other financial institutions interested in financial returns are, however, of little interest for SEs due to the high financial return requested (Achleitner et al. 2011). More recently financial institutions providing socially responsible investment emerged in Germany. One model emphasizing the maximization of social returns by minimizing financial return is still in its early development stage.

The second model focuses on the maximization of financial returns by fixing a minimal social return. Moreover, grant-making foundations provide external income for SEs, as well. However, such financial support is often granted as project funding and hence disadvantages sustainable organizational development. More recently foundations started to change their funding approach towards a more sustainable and cooperative model (Spiess-Knafl 2012), project funding remains, however, in general the main funding practice in this area. Venture philanthropy in Germany is turning into an attractive alternative investment scheme, although still in its infancy; so are social capital markets, which are described by experts as an important precondition for the development of SEs (Achleitner et al. 2011).

Three financial development phases can be identified for German SEs along time, going from the establishment (pilot) period, to the scaling up phase (Freiburg and Dienst 2014): during the pilot



period, SEs establish their organizations. The Finanzierungsagentur für Social Entrepreneurship (FASE), a financial agency for social entrepreneurs established as a spin-off by Ashoka Germany, estimates that during this period SEs need investments up to 50,000 Euros, which they mostly raise through donations, prizes, fellowships or private capital, often in form of loans (Freiburg and Dienst 2014). Financial supporters for this early development stage of SEs are foundations, mostly in form of project funding, fellowships, such as the Ashoka fellowship, but also prizes as awarded by the Social Impact Labs. During the second stage, SEs tend to develop hybrid financing structures in the range between 50-250,000 Euros (Freiburg and Dienst 2014). Only a quite limited number of financial institutions provide resources at this stage for social projects (Schwarz 2014), among them, the joint program of the KfW and the BMFSFJ and the aforementioned FASE agency. To convince potential investors, solid business plans are necessary and these demand resources and support by experts is one of such financial programs. Nonetheless, financial support institution assisting SEs in this development stage are still rare. The third and last development stage refers to SEs able to scale up their operational business, mostly in the range from one million Euros onwards (Freiburg and Dienst 2014). For this phase, financial institutions such as BonVenture or Auridis can provide support.

The MEFOSE survey estimated that SEs in the first development stage were the most numerous (103 out of 208), while 41 SEs were in the second stage, and 64 in the third one. Those numbers reflect the underdevelopment of the financial system for SEs in Germany, especially for the early stages, that produces only a little number of SEs successfully reaching the final phase.

In the **Czech Republic** the legal framework acknowledges as SEs exclusively the Work-Integration SEs (Act 435/2004). However, thanks to EU ESF, the notion of SE has become broader, encompassing job creation even for socially disadvantaged groups such as young people and women, homeless people, former captives, victims of crime and domestic violence, people with addictions, and so on.

In this wider sense, SEs include public benefit organizations, associations, legal persons established by church and religious entities performing economic activities to support disadvantaged groups, cooperatives, business companies with purposes other than business; self-employed people from disadvantaged groups.

In the current Czech social economy system, four main models are available (Dohnalova et al., 2021).

1. Associative, involving civil society organizations and NGOs; related to the changes enforced with the New Civil Code in 2014; it stands on the presence of volunteers in the organization structure.
2. Cooperative, both productive and social cooperatives, the latter active in job-creation, social services and health care, housing and sustainable development. A cooperative cannot perform activities different from the ones for which it has been founded.



3. Business, involving companies (ltd and public companies) and self-employed individuals; they can be for- and non-profit.
4. WISE (see *supra*), the most frequent SE in the Czech Republic and the only form of SE officially defined and recognized; it is even the only form that can apply for the grants of the Human Resources and Employment programme of the Ministry of Labour and Social Affairs). It is mainly connected with the employment of disabled people.

According to Act No. 112/2018, SE activity in **Slovakia** is defined by following criteria:

- a. it performs an economic activity in a systematic and independent way, in its own name and under its own responsibility;
- b. its main objective is to achieve a measurable positive social impact;
- c. it achieves a positive social impact through the production (or distribution) of goods or the provision of services (...);
- d. it creates a profit from its activities and uses more than 50% of the profits after taxation for achieving its main objective as referred to in point b); II. distributes part of the profits under the Commercial Code, and divides it according to procedures and rules that do not disrupt the main objective as defined in point b);
- e. it involves stakeholders in the management of its economic activities.

It has to be underlined that a particular entity performing activities in the social economy is not necessarily a registered SE, but a “social-economy subject” according to Act No. 112/2018, i.e. associations, foundations, non-investment funds and NPOs providing public-interest services, religious associations, trade companies, cooperatives or individual entrepreneurs who (1) are not mostly or fully financed and managed by the state; (2) perform activities pertaining to an area of the social economy (i.e. their main objective is to achieve a positive social impact); (3) are not-for-profit, or use their profit to achieve a positive social impact.

Social-economy subjects are established and managed under the specific legislation related to their legal form (e.g. civic associations are managed under the Associations Act).

Based on legal forms, sectoral affiliation, social aims, fields of economic activity, scale and kind of employment, different NPOs models are available in the **Hungarian** practice. They range from associative forms active in alternative and solidarity economy (time banks, *kalàkas*⁵, etc...) to social enterprises running market activities (Enterprising Civil Society Organization, start-ups) to work-integration entities, whose first mission is job-creation for disadvantaged job-market groups (women, ethnic minorities, disabled).

⁵ Kalakàs is a local term to identify a reciprocity-based form of exchange of work.



Quite idiosyncratic of the Hungarian reality are the so called “local development community enterprises”, i.e. local project serving the development of a village, usually supported by local government and hiring through public-work programmes;

The advantage of the **Polish** regulations is that it gives the possibility to choose between numerous organizational forms according to planned activities. The most popular social enterprises are cooperatives (both traditional and social), entrepreneurial non-profit organizations (NGOs, associations and foundations, faith-based charities), vocational-activity establishments.

The majority of NGOs in Poland are registered as either associations or foundations. Barely mission-oriented at the beginning, they are increasingly more involved in ensuring financial sustainability (Praszkier et al., 2014).

Cooperatives are registered as private enterprises. Notwithstanding a two centuries history and 15 operational branches, traditional cooperatives play nowadays a rather insignificant role in the SE landscape. On the contrary, due to 2006 new legal framework providing supportive policy measures for their set-up and operation, social cooperatives appeared. Their role is the social and work integration of marginalized groups (i.e. individuals in danger of social exclusion, unemployed, low employability prospects, disabled, homeless, alcohol or drugs addicted, ex-prisoners and refugees); the inspiration was the Italian law on social cooperatives. Being a quite new phenomenon, many social cooperatives are still in the infant phase, trying to secure economic sustainability, mostly related to regional grant opportunities of ESF. They increased from 70 in 2007 to 1,600 in 2017 (900 active), being definitively institutionalised in 2010s (Ciepielewska-Kowalik, 2021).

Social cooperatives rely on ESF and supportive measures. In 2017 they produced an annual income of 70 million euro, 73% from market revenues, 25% of resource mix, 2% others (such as members' fees). They employed 5,500 workers with specific or regular contract and 3,200 on civil-law basis (Ciepielewska-Kowalik, 2021).

After many years we can observe a growing cooperation between SEs and the public authority, in particular with local governments, as well as with the Offices of Labour and Social Welfare Centres. On the other hand, the relationship between the administration and SEs is still characterized by a high degree of bureaucracy. Initially, the activities of SEs focused mainly on the employment of excluded people. Over the years, social companies have started to provide more specialized goods, such as care services for the elderly, cleaning and catering services. It also evolves in the domain of arts and crafts. Social enterprises, to a greater extent have become competitive to business.

The activities of some SEs exert also a positive impact on the integration of NGOs which often have influence on the formation of local laws. Some organizations grew to such an extent that the current leaders are educated in order to launch and conduct further communities abroad. Maintaining contact with social entrepreneurs from other European countries (France, Germany, Denmark) has become a common practice. It allows consolidating and duplicating good practices



from abroad on the Polish ground. Moreover, thanks to support networks small initiatives can survive. Networking is a good practice, popular also within the country (Praszkier et al., 2014).

For most NPOs and cooperatives it is easy to find no long-term strategy, insufficient competence in the board members, and the prevailing underestimation of marketing (Przywara, 2013). At the same time, SEs are often filling a significant gap on the job market and are becoming an only chance for the disenfranchised persons (Praszkier et al., 2014).

A financial capital is needed, especially at the initial phase, when an enterprise is being established, as well as later at the stage of development and promotion. At this point it would be advisable to think about future strategy, which would guarantee financial independence and self-reliance.

Banks still play a minor role in the development of social economy. They are reluctant to offer loans either for the start-ups or for the development of SEs. Nonetheless, some financial institutions promote the development of social enterprises, such as the National Economy Bank, which provides loans for a start and development of social activities.

SE in **Croatia** is organized according to three main models (Vidovic and Baturina, 2021):

1. Employment purpose (or “people-driven”);
2. Financial sustainability goals (or “income-driven”);
3. Search of innovative solutions (or “innovation-driven”)

“People-driven” SEs are *de facto* “Work-Integration SEs” (Borzaga et al., 2008) driven by the intention of creating job opportunities for vulnerable people with limited access to the job market. As a consequence, their economic activity is mainly chosen to suit the capacities of those vulnerable groups. Usually they operate under the cooperative legal form and are financed by EU programmes and other strategies for work integration.

“Income-driven” SEs are income generating company not for the purpose of generating profit, but to ensure the economic sustainability (and visibility outside the social market) of the socially oriented parent NPO. Due to limitations, the most common legal form in this case is Ltd for the “trading arm” subsidiary of an NPO, running youth hostels, restaurants, companies providing services to other SEs,

“Innovation-driven” SEs are motivated by the provision of new solutions to a recognised social or environmental problem not met by the social system. The starting point is the majority of cases the development of an innovative project, which grows up to the establishment of a SE. This kind of entities have good scaling up potential and the opportunity of transferring know how at a higher level, even though their operativity remains local the most (Brandsen, 2014). The common legal form in this case is Company, mainly ltd. Among the existing cases, a university spinoff producing



hi-tech systems for voice-operated home devices, waste collection through cargo-bikes, communication tools for people with dyslexia or visual disabilities (Vidovic and Baturina, 2021).

Apart from the previous ideal-types, SEs tend to mash up together different legal forms and different source of financing. As a matter of facts, one of the main problems is short-living of SEs due to the failure in achieving financial sustainability, mostly since changes in 2000s, that reduced the donor-based funding and forced most active SEs to a stronger market orientation.

The National Strategy for Social Entrepreneurship development (2015) failed in channelling the huge EU funds on SEs, while the social-investments market is still in its infancy phase, crowdfunding likewise. As a consequence, SEs suffer from a deep shortage of resources. Beside from public funds (the majority of which coming from EU funds), SEs experience few other funding opportunities.

Slovenian SEs rely on two streams of external financing: (1) financial products offered through the Good Exchange programme initiated by SKUP (a community of private associations); and (2) smaller bottom-up initiatives (e.g. the start-up fund within the social incubator KNOF).

According to stakeholders, financial supply does not currently meet SEs' demand, while investors notice that SEs lack a viable business model (Šporar et al. 2018). As a matter of fact, the social investment market remains underdeveloped, and the public sector still provides the majority of services. In terms of private investors, the first private impact investment fund (i.e. Fund05), was established in 2012.

Nevertheless, most SEs seek financing opportunities through regular commercial bank loans, using their own property as collateral. Access to loans is a challenge due to the nature of SEs business models and their past financial results, that often suffer from liquidity issues. In the Slovenian financial network, several initiatives offer seed money but do not specialise in SEs.

In 2012 and 2013 the Unicredit Foundation launched a programme of financial awards for the best SEs as a banking sector financial initiative. Two other local banks (Deželna banka Slovenije and Delavska hranilnica) have special offers for SEs. Albeit crowdfunding has not yet developed among Slovenian SEs and crowdfunding platforms are accessible to all, they lean primarily toward start-ups (Babič and Dabič Perica 2018).

In terms of public financing, EU funds are widely available and represent a high share of SEs financing (Šporar et al. 2018). Even though an element of market competition exists among organisations that apply for public tenders, funding acquired through national and European public tenders is perceived as public source in Slovenia. A total of 818 million euro has been allocated from the European structural and investment funds in programme period 2014-2020⁶.

Hence, most SEs currently finance their operations through public grants, the sale of goods and services, and regular commercial bank loans. Furthermore, donations do not present a well-

⁶ Established goals include the support to at least 270 SEs and 12 SEs' networks (Babič and Dabič Perica 2018).



developed source of finance for social enterprises, since the tax allowance system does not particularly stimulate donors. Sponsorship has become more common, however, predominantly from sport organisations.

In the discussion on public financing, stakeholders raised the principal issue of a lack of long-term strategy in SEs financing. Firstly, their main activities aimed to the public good are predominantly based on short-term project financing, with constant applications for public tenders. Secondly, the employment of people from vulnerable groups predominantly relies on short-term, public entity solutions. As a consequence, some stakeholders believe that insufficient government financing presents a barrier for the development of SEs, whereas others consider precisely the dependence on government sources the key barrier.

3.3 Trends and tendencies in social enterprises business models

From the previous *excursus* on the functioning of ETSs in Central Europe countries, we can extract a set of useful information for the framework models used by SEs in the area.

The first one is that SEs are characterised by high levels of complexity, and their operational model descends from the general legal and institutional framework where they are requested to work.

Born to deal with social welfare provision and, as regards cooperatives, with agricultural work, after last reforms the fields of operativity for SEs are nowadays very wide, going from environment to culture, from political criticism to local development, besides of any kind of social related activity (social services and support to fragilities, child- and elder-care, healthcare, housing, management of social spaces, and so on).

The multitasking attitude is not independent from the hybrid financial structures of SEs, substantially obliged to be available for three or four different financial internal and external sources, often granted in the form of project funding and not covering ordinary activity.

This happens from 1980s, when the prompting raise in oil prices and the long-run increase in public expenditure generated the so called “stagflation” (a crisis of the word “stagnation” and “inflation”, until mid-1970s showing themselves only in reciprocal alternance, never together). This implied severe difficulties for public finance and the crisis of the post-war welfare state, that suggested in Western countries a progressive shift from budgetary financing to performance-related payments and service contracting.

From a financial perspective, the standard evolution of SEs in the considered countries passes through three phases:



- the pilot phase, when the organization is established, often due to the contribution of a foundation or of a public institution (in non-rare cases represented by a money prize awarded to a business idea for social innovation);
- the development phase, when hybridization of financial sources takes place, together to market orientation;
- the scale up phase, when resource flow is more continuous and the activity of SE gains in stability

Due to both the lack in financial support during the second phase and the difficulties in business planning, only few SEs reach the third phase and consolidate.

With respect to activities, the analysed systems show that ETSs and SEs are ranging from strictly public to open-to-market activities, and from entrepreneurial to volunteer orientation.

A first model is given by solidarity economics initiatives, a redefinition of community-based practices to deal with main social and economic problems, often with a strong political criticism commitment (against neoliberalism, pro-environment and feminism, supportive towards immigrants, and so on). It involves primary civil society and relies on the activation of volunteers in the organization.

Another model widespread in the whole region is the cooperative one, both productive and socially oriented. The first one - that have been the economic pillar in former-communist countries and is still a relevant economic form in a very developed area such as the Metropolitan City of Bologna - is common in agriculture and the food industry, commercial retail and constructions, while the second is active in social and public services provision, like health care, housing and - from more recent times - sustainable development.

Social cooperatives cover partially a field of activity in some countries managed by “Work-Integration SEs” (Borzaga et al., 2008), i.e. aimed to the creation of job opportunities for vulnerable people with limited access to the job market, such as the aforementioned WISE (the only kind of SE officially recognized in the Czech Republic), Croatian “People-driven” SEs and Italian B-type cooperatives. In Italy in last years a new kind of cooperative is coming out: it is called “Community cooperative”, it has still problems of legal identification at the national and at the regional level, and it is recourse to in inner and marginal areas of the country, to deal with depopulation, closures of commercial activities, and day-care to still remaining inhabitants, often aged. This category of ETSs stands on professional workforce and on public budget, mostly assigned through tenders and in form of grants.

Other kinds of ETSs are more market-oriented, taking the standard forms for companies (ltd, public companies, ...) or the one of Enterprising Civil Society Organization, when expression of CSOs engaging increasingly in market activities (organic production, running bookshops, services in the consultancy market) to complement private donations and public grants, getting in this way higher financial sustainability. Many SEs belonging to this group are social start-ups, in some cases “commercial arms” of NPOs born to deal with a specific economic issue, but with a strong social



or environmental emphasis, and a pro-innovation attitude; they are usually active in the fields of Information Technology, waste management, and culture.

<p>Strengths:</p> <ul style="list-style-type: none"> - Multitasking attitude of ETs - Different business models applied, from semi-public to market-oriented - Existing funding programs for SEs 	<p>Weaknesses:</p> <ul style="list-style-type: none"> - Need for different financial sources - Progressive shift from budgetary financing to performance-related payments and service contracting - Few SEs consolidating to the scale up phase (infancy of the sector)
<p>Opportunities:</p> <ul style="list-style-type: none"> - Evolution of the market and of ETs' skills - Tax reforms for the benefit of ETs - New fields of development related to climate and environmental issues 	<p>Threats:</p> <ul style="list-style-type: none"> - Persistence of blurry legal frameworks - General reduction in consumer purchasing power (even due to pandemics) - Absence of a strategic policy approach by governments

Fig. 3: The business model issue, SWOT Analysis



4. Awareness and relationships in the Social Enterprises world

4.1 Introduction

A relevant step of this work is aimed to consider the degree of internal and external awareness for the activities and the social impact of both SEs and standard companies.

The issue deals with the promotion within the enterprise ecosystem of Corporate Social Responsibility (CSR), i.e. the *process* whereby firms integrate social, environmental and ethical concerns into their core strategies, operations and integrated performance, in close collaboration with their stakeholders, with the aim of maximizing and sharing the creation of value for their owners/shareholders, stakeholders and for the society as a whole on one hand; of identifying, preventing and mitigating their possible adverse impacts on the other.

Public authorities have an important role in supporting and encouraging companies to conduct their business responsibility. European Union in particular, introduced over last years a mix of voluntary and mandatory actions to promote CSR and implement the UN 2030 agenda for sustainable development. In 2011, the European Commission adopted its renewed strategy for CSR, which combines horizontal approaches to promote it with more specific approaches for individual sectors and policy areas. More specifically, the EU's policy is built on 2011 renewed strategy for CSR, which stresses the importance of enhancing the visibility of CSR and disseminating good practices, through the integration of CSR into education, training, and research. The strategy also improves self and co-regulation processes and companies' disclosure of social and environmental information.

In this section we report the analysis carried out on Central Europe countries with respect to the issue of awareness on SEs activities from both business companies and ETS (Section 4.2) and on the existing relationships between the two kinds of activities (Section 4.3)

4.2 Awareness

CE Responsible partners have been requested to highlight the most relevant drivers and obstacles detected in the CE countries for the full unfolding of “awareness” as previously described. This lead to the following list of elements. The drivers can be classified in three groups according to the subject.

The first group deals with CSR, whose progressive success implies a higher permeation of the two worlds of SEs and business companies. Such a success is both market- and institution-driven, being on one hand motivated by the attitude of consumers, company stockholders and investors to ask for social responsibility, on the other stimulated by public intervention in forms of legal obligations and financial incentives.



In this way, CSR activities are reported as “progressively considered a ‘must have’ for Austrian companies”; Czech companies demonstrate more concern about their CSR, even due to investors increasing attitude with ethical issues, while in Croatia employees from companies with a CSR policy are reported as “happier” by a statistical investigation. The voluntary nudge to CSR is proper also in Poland, where largest joint-stock companies (the so called “WIG20”) strive to conduct regular non-financial reports on their companies' social activities.

Nonetheless, CSR is even pushed forward by many public policies, from EU regulations, that show greater acceptance of social responsibility in business, to Slovakian National CSR strategy (created as a part of National Sustainability one), the measures promoted by Austrian Ministry of Social Affairs, the obligation for German large companies to publish reports on their social and environmental impact, from 2020 extended to their suppliers, while tax-deduction for costs related to CSR activities is claimed in Slovakia.

The second group of drivers is related to the shift towards green policies and the environmental friendliness of companies progressively demanded by consumers and stakeholders: climate and social issues are highlighting the need for companies to consider goals and target different from profits, even in response of the increasing awareness of customers in both responsible consumption (local, organic, fair trade products, etc.) and social and environmental behaviour of providers

The third and last group is associated to distinctive features of single countries and ranges from the existing long tradition of cooperation between for-profit companies and ETSs (Slovenia) to the increasing presence of SEs and widening of the ecosystem connecting them to corporates (Germany), from the higher attention for social impact stimulated by social media and internet instantaneous dissemination of information (Slovakia) to the presence of a national network for social responsibility, exchanging knowledge, innovation and good practice (Slovenia), or the need for social welfare organisations and public institution to identify innovative solutions to social problems (Germany).

A set of obstacles on the way of awareness has been recognised by partners with a prominence of two kinds of them: the first one is the low visibility of achieved positive effects on business of social entrepreneurship and CSR (Croatia), due to both the lack of knowledge and information within organizations about CSR (Slovenia) and to the existing ambiguities in social and environmental impact data and reporting, being procedures not standardized across the EU (Germany).

The second is the high monetary and resource costs of measuring, validating, and certifying social impact, so that just big corporates can afford them (Germany, Slovakia, Slovenia).

Furthermore, it has been highlighted on one hand the managerial slackness in guiding CSR (Slovenia) or environmental (Austria) adjustment processes for their companies, even for lack of internal competencies (Czech Republic), on the other the still insufficient level of national promotion of the need for CSR initiatives (Slovakia, Hungary), for instance in the form of tax incentives (Slovenia).



As a consequence, CSR seems to remain a question of goodwill for big companies, whereby they are neither hindered nor particularly encouraged (Austria, Croatia).

4.3 Relationships

Contacts and collaborations among business companies and SEs are already ongoing in many Central Europe countries: in Austria, there is a long history of companies long supporting associations or NPOs, while some SEs' business models are based on cooperation with conventional companies (e.g. social supermarkets). The same happens in Croatia, with CSR programmes of large companies often including cooperation with SEs (business-to-customer engagement, employee-to-employee collaboration, supply chain optimization, growth consultancy, marketing and visibility), and in Germany, where collaboration between SEs and other stakeholders is increasingly seen as relevant for building an innovative and inclusive economy, and the growing awareness about the behaviour of corporates, and the demand for accountability boost likelihood of collaborating.

To develop and consolidate the relationship, **opportunities** have been highlighted by the local analyses, such as a further raise in awareness of profit-oriented companies on SEs, to respond accordingly to their needs (Austria) or the put into practice of assistance and some kind of tutoring by major corporations, to ease the access of SEs to financing prospects, new markets, and investments (Poland).

A second family of drivers calls into question an institutional action. In this sense, requests involve tax reliefs for companies for products purchased from SEs (Croatia), the implementation of programs addressing scouting, acceleration and support to SEs (Czech Republic), and the consolidation of the legal framework pushing big corporates to report their social and environmental impact, signalled as a primary cause of collaboration among them and SEs (Germany).

Finally, a strong driver for supporting linkages between the two kind of companies has been indicated in the creation of virtual and physical networks such as ZICER, the Zagreb innovation centre working as a network platform (Croatia), a trend deeply facilitated by digitalization and technology (Austria, Hungary, Slovakia and Slovenia).

The reported **impediments** are manifold and heterogenous. The first one is that collaboration is not natural and asks for transaction costs to be overtaken by both sides: for SEs, can be difficult to comply with the requirements set by business corporates to be included in their suppliers' CSR programmes, for corporates CSR is rarely seen as urgent (Germany) or difficult to be understood (Slovenia). Another barrier to overcome for collaboration is the objectives alignment between the two kinds of enterprises (Slovakia), and even the use of the same technical language (Hungary) that hinder finding a common base (Slovenia).

The second group of obstacles is related to politics. The most often mentioned lack of a defined legal framework for SEs deters collaborations with existing companies in many countries (for



instance Germany), but even the missing political will to encourage focused networking between stakeholders is pointed out (Croatia, Slovakia, Hungary).

The last group, the most numerous, claims for the inadequacy of SEs - mainly with respect to the financial knowledge - as the key obstacle for collaboration. The reported issues regard the small scale of the SEs ecosystem (Germany) and the absence of scaled SEs that would serve as a good practice example (Croatia); their non-competitive attitude, responsible for their relying on public financing (Croatia, Slovenia, Poland, Hungary); the lack of managerial skills among SEs to interest for-profit business partners (Slovenia). A second suggested limit of SEs is technological illiteracy, which causes SEs to lag behind the corporate and business sector (Croatia, Germany, Slovenia, Hungary).

<p>Strengths:</p> <ul style="list-style-type: none"> - Higher attention for CSR from producers and consumers; - Higher request for environmental and social issues (critical consumption); - EU and other institutions support to CSR; - National tradition in mutual cooperation; - Established networks and incubators; 	<p>Weaknesses:</p> <ul style="list-style-type: none"> - Low visibility for CSR's positive effects; - No official reporting system for CSR impact; - Cost of the activities; - No legal obligation for CSR; - SEs' financial and technological illiteracy;
<p>Opportunities:</p> <ul style="list-style-type: none"> - Increase in legal obligation to CSR reporting; - New tax incentives; - raised awareness about benefits from collaboration among for-profit entities; 	<p>Threats:</p> <ul style="list-style-type: none"> - Lack of focus on the collaboration;

Fig. 4: The awareness and relationships issue, SWOT Analysis



5. Innovation of social services

5.1 Introduction

Innovation is currently considered the main ingredient to have stable and durable development in any human activity. Besides of being a topic complex and difficult to be dealt with itself, social innovation is a quite neglected issue. It has been defined by the WILCO project as “ideas which are turned into practical approaches, and which are new in the context where they appear and attract hopes for better coping strategies and solutions and are marked by a high degree of risk and uncertainty” (Welfare Innovations at the Local level in favour of Cohesion, WILCO, 2014)⁷.

In this chapter we consider at first the relationship with the issue of social innovation in each involved country (Section 5.2), and then we focus on start-ups and on the services that could support their establishment (Section 5.3). The latter treatise calls into question the concept of *altrpreneur*, namely a socially responsible entrepreneur not running a SE *strictu sensu*, but a business company.

5.2 Social innovation

Social innovation is often unintended (Kesselring and Leitner, 2008). The authors identify key barriers to the diffusion of social innovation in the need for radical rethinking in politics and economy, the lack of sustainable funding, limited public awareness and legal conditions.

Performing an analysis on 25 projects submitted to a social innovation prize in 2007, they conclude that social innovation is mainly localized within business enterprises and traditional NGOs, and they show that especially small enterprises have significant potential for innovation whereas larger ones are more prone to follow institutionalised guidelines in relation to societal engagement.

In many countries the role of stimulating and supporting social innovation is demanded to public prizes, that play the role of advertising social innovation, among other SEs, business companies, and other kinds of stakeholders. This is the case for Austria, where in 2004 a prize awarding social innovation (“Sozialmarie”) was launched. Three years later, ERSTE Foundation launched a biennial award fostering social innovation called EFASI (ERSTE Foundation Award for Social Integration), with more than one million euro awarded so far.

The afore mentioned MEFOSE study considers social innovations and their relations to German SEs, finding that 31.1% of the surveyed organizations described their products and services as innovations, 30.7% as addition to the existing offers and 38.2% as in competition with the existing services and products (Scheuerle and Glänzel 2012). Nonetheless, the study tends to reject the interpretation à la Vidovic and Baturina (2021), according to whom social entrepreneurship is

⁷ Funded by the EU, WILCO project aims to examine, through cross-national comparative research, how local welfare systems favour social cohesion. Special attention is paid to the missing link between innovations and their successful transfer and implementation to other settings.



innovation per se, warns against the overrating of the innovative scope of products and services provided by ETs and claims for further studies on the real innovation by SEs.

In the Czech Republic, there is non-direct support to social innovation, but the general backing schemes for SMEs can lend support to SEs via the network of regional innovation centres or the Technology Agency of the Czech Republic, aimed to favour applied research (Fraňková, 2019). In addition, the public benefit organization P3 (People, Planet, Profit) promotes innovative approaches to business with a positive impact on society.

The debate on social innovation in Hungary is still poor and monopolized by approaches coming from abroad. As a matter of fact, the most active “school of thought” on social innovation in Hungary are NESsT and Ashoka (Fekete et al., 2021). NESsT is an international NPO founded in 1997 with the purpose of promoting SE as an effective tool to take care of and solve social problems, that places a strong emphasis on the importance of innovation. Its operational model, activated in 10 countries of the world (among which Croatia, Czech Republic, Hungary and Slovenia), provides for financial support (donations, loans and shareholding), education and mentoring during the first 9-12 months, and for incubation in the timespan 24-48 months. Ashoka, the previous mentioned international network of social operators, is more focused on the innovation potential of social entrepreneurs, defined as “individuals who put forward and implement system-changing solutions to the world’s most urgent social problems”.

Notwithstanding the relevance of EU programmes for the growth of social economy in Poland, in the operators’ words it is difficult to find innovative projects arising from them, mostly due to the bureaucratic management of the programmes itself. As a consequence, the main support to social innovation comes from foundations (Stocznia, Barka) and from Ashoka Organization, whose approach is favouring the connection and the networking of activists to promote social entrepreneurship (Sadowska, 2009)⁸.

In previous pages, a specific model of Croatian SE, primarily driven by the idea to offer a new solution to a recognised social or environmental problem has been remarked. The motivation lies specifically in implementing an innovative response to a need met by the social system and still unsatisfied. The innovation can take many different forms, from providing an innovative community service to developing high-tech facilities for vulnerable or deprived social groups. According to findings, most of the social innovations remain local, and they are only rarely transferred on a broader scale.

Social innovation is directly cited in Slovenian 2018 amendments to 2011 Act on Social Entrepreneurship, stating that the normative aims to “(...) Facilitate the implementation of social entrepreneurship in all areas of economic and non-economic activities, going beyond the integration of vulnerable target groups and the provision of social services of general interest and offering more opportunities for social innovation”. Nonetheless, local stakeholders complain about

⁸ The relevance of networking and free relationships among agents for innovation is a notion belonging to the theory of complexity, which claims that the basis for innovation is a generative environment. In this sense, the main task for policy makers invested with the issue of innovation is thickening the relationships among agents, an objective that can be pursued through networking (Lane and Maxfield, 2004).



the expectation of no change in Slovenian SEs development due to a lack of innovation (Bradač Hojnik, 2020): they remark that social innovation is a still neglected issue in Slovenian social economy, only partially covered by some tenders and funds.

At the end of this review, some few lines to describe two interesting social innovations that have been conceived in the area: the Slovakian “Municipal SEs” and the Italian “Community cooperatives”.

A Municipal SE is a social entity initiated by local government and whose operation is monitored by the municipal council. It can be registered under various legal forms (usually a ltd. company), but all sharing the feature of having as majority owner a municipality or a regional government. The development of Municipal SEs started in 2005, in the context of an EU EQUAL initiative addressed to facilitate the access to official labour market of people from the Roma community.

From a theoretical perspective, the classification of Municipal SE among enterprises is arguable, due to its deep anchoring in public administration. Nonetheless, Municipal SEs are a good model to implement social innovation in areas where institutions other than local governments often do not exist.

The same habit of working in areas deprived of firms, economic activities and human resources characterizes Italian Community cooperatives too. Born in Emilia-Romagna, Community cooperatives are rapidly spreading throughout the whole country, mostly in marginal areas hampered by population decline, ageing and, as a recursive consequence, progressive cut in public services to the citizenship. In these places, a group of inhabitants establishes a new cooperative involving as far as possible the living forces still remaining, and providing a multiple set of services to residents: medicine, mail and groceries delivery, management of places for sociality (bar, social centres), tourism activities (hotel and restaurants management, guided tours, bike-rental), house-works, but even more sophisticated services such as health- and childcare or the management of public goods.

Community cooperatives are imposing as an effective tool to take care of crisis in sustainability of both entrepreneurial activities (the so-called market failures) and of social protection based upon the fiscal deal (the so-called public failures). They are a form of multifunction SE to deal with flexibility to multiple needs of local communities, in particular in declining areas.

5.3 Support to social start-ups

Social start-ups are often cited as an example of social innovation. The CE Responsible project as addressed the issue of the kind of services currently available for this type of SEs and of the services still lacking in which the relationships with altruistic entrepreneurs could be effective.

Among the former, the involved partners have listed: the start-up service of the Austrian Chamber of Commerce, for supporting new SEs and the just mentioned AWS Social Business Call, that grants



100,000 euros per start-up; numerous websites that connect business angels and start-ups in Croatia; existing incubators and accelerators for start-ups, increasingly open to SEs, in Germany.

Among the latter, from monetary support and knowledge transfer to the development of joint business models (Austria); service development, promotion, knowledge sharing, a relationship as regular customers for SEs, networking opportunities (Croatia), the establishment of a system of shared professionals/experts and the provision of useful contacts in relevant specializations (Czech Republic); business knowledge transfer (in form of training, legal assistance, invitations to cooperation, financing, space to work, or business contacts), co-marketing of the activities of social start-ups as complementary to their own (Poland); legal services, strategic planning, project and organization management, accounting, marketing and public relations, advocacy, management of social media (Slovenia).

This claim for a model in three steps for this relationship, illustrated as follow: at the first (or “Philanthropic”) stage, social start-ups are considered as recipients of activities from altruistic entrepreneurs, helping with marketing activities, legislative and basic knowledge exchange. At the second (“Transactional”) stage, resource-exchange activities are established, such as depth mentoring, networking and sponsorships, funding. At the third (“Integrative”) stage, the two subjects are ready to merge missions, people, and activities.

At last, five categories of support from altruistic entrepreneurs to social start-ups are desirable:

- I. **Funding:** supporting the seed-funding of social entrepreneurs
- II. **Scaling:** supporting the growth of social entrepreneurs
- III. **Mentoring:** supporting the business structure of social entrepreneurs
- IV. **Networking:** creating new connections for social entrepreneurs
- V. **Internationalizing:** supporting the global dimension of social entrepreneurs

<p>Strengths:</p> <ul style="list-style-type: none"> - The role of prizes for social innovation; - EU programmes for social economy; - Existence of relevant social innovation (Slovakian Municipal SEs, Italian Community cooperatives); - Existing services for social start-ups in some countries 	<p>Weaknesses:</p> <ul style="list-style-type: none"> - Low public support to social innovation in many countries; - Bureaucratic approach of EU programmes; - Bottlenecks in transition of SEs from start-up to long-term development and growth;
<p>Opportunities:</p> <ul style="list-style-type: none"> - Involvement of altruistic entrepreneurs in supporting social start-ups; 	<p>Threats:</p> <ul style="list-style-type: none"> - Economic difficulties stopping private support;

Fig. 5: The innovation issue, SWOT Analysis



6. Conclusions

The research on ETs and SEs in the EU Central Europe programme's countries highlighted many similarities and some differences that influence directly the implemented business and operation models. Borzaga and Defourny (2001) suggest three factors to explain country variations in the social economy sector throughout Europe:

1. the level of development of the economic and social systems;
2. the characteristics of the welfare systems and of the traditional third sector;
3. the nature of the underpinning legal systems.

Since a unanimous definition of SEs is still missing, a broad definition, including social entrepreneurial activities in their different manifestations, stretching through all legal forms and stages is advisable. The understanding of social entrepreneurs could support an all-inclusive discussion by practitioners and academics of social entrepreneurs, support mechanisms for these actors, the dissemination of potentially included social innovations and their future role in the changing relationship between the state, economy and private sector, centering the debate on the changing relationship between the state economic and private sector.

The legal forms under which SEs operate have been repeatedly described as no obstacle on one hand, and a major challenge on the other. Many stakeholders regard the introduction of a legal definition of SEs as undeniably important. At the same time, they fear that the law can create more administrative pressure and restriction, while not bringing enough significant advantages for SEs in terms of tax breaks, specific financial instruments and so on. It would be advisable to establish a special legal form under which the combination of public interest and profit orientation is supported, and the administrative demand simplified. An alternative approach could be the increase of support institutions and mechanisms assisting SEs in their endeavor to find and establish a fitting legal form for their needs.

The research on SEs has a strong focus on current developments while neglecting their historic predecessors and possible path dependencies. The trajectories of social entrepreneur development over time should be researched profoundly to deepen the understanding of these actors and their role in the emergence of basic legal stipulations of (non) profit organizations, the welfare state and its future development possibilities.

Just a historic analysis can capture the low level of trust in NPOs when performing economic activities in the countries subjected to the Communist rule after the WWII (Fekete et al., 2021), or - on the opposite - the scepticism towards the market of the welfare state countries, where social pressure is still relatively low. Albeit having gone through various phases of budget consolidation, many countries, still maintains a relatively high level of social welfare and a low level of unemployment, which might decrease the perceived need for new actors and solutions or respectively, explain the small size of SEs, focusing on relatively small target groups "left behind". The welfare State is a priority, so that the "problem-solving tool" represented by social entrepreneurship, aimed to find more economic and less cost intensive ways of handling social services (Loidl-Keil 2002), is not perceived as a need, nor fully accepted.



A common feature is the overlapped perception of the SE concept with the task of work integration of the hard-to-place unemployed. The strong orientation towards people distant from the job market is also one of the reasons why SEs are often conflated with local initiatives that aim to create job opportunities in general. It is usual for a municipality or an NGO creating a number of job positions, fully subsidised through public employment services, and calling such an initiative a SE. However, these initiatives, in most cases, do not exhibit one of the primary characteristics of social entrepreneurship: the fact of supplying goods or services on the market or of engaging in commercial activity; the jobs created within such initiatives are fully dependent on external financial subsidies.

Even though there is a general expansion of the social system, groups are still “left behind” even further: people with no entitlements (women with insufficient skills, out of work for suspended periods), unskilled, older, migrants. Furthermore, the existing rigid system might benefit from new, innovative solutions to social issues, especially in areas where needs are quickly changing, or new social problems might be triggered by demographic evolution.

In this sense, another challenge comes from acknowledging and finding support for the whole spectrum of activities and potential of SEs. Both traditional (i.e. work integration) and nascent fields of engagement of SEs (for instance local food production and distribution, environmental issues, refugees’ integration), cultivate promising approaches.

A significant progress in development of social entrepreneurship have been observed during the last two decades, for many countries due to the EU accession. Nonetheless, the complexity of regulations matched with a heavy bureaucracy, for instance in EU funding, are still a relevant obstacle to the establishment of new social enterprises and the development of existing ones, implying time and energy consuming and being detrimental to innovative ideas. The risk is to divert many social activists from experimenting/piloting own ideas to grant-hunting instead, reducing the innovative force of the system and its market orientation.

The future development of SEs depends on the interpretation of their definition and role in the society. For instance, some stakeholders consider them primarily as enterprises while others aim to strengthen the role of non-profit associations and private institutes. This would imply a potentially divided future. Namely, the sector may develop a private market orientation, or it may lean more heavily on state “obligation” to support its development, compensating for the production of public goods and services what the declining welfare state could no longer provide.

The main reported weaknesses in the ETS sector are the short-run strategy, imposed by uncertainty in future financing, the related issue of accessing to capital, the lack of entrepreneurial skills, and the lack of knowledge and understanding of the social economy and of other related concepts in society (Bradač Hojnik, 2020), even due to the remarked confused legal and policy environment (Etchart et al., 2014). As a consequence, SEs rely on public financing, mostly granted on occasional basis (calls and tenders for project), increasing the precariousness and the sense of instability. In addition, public funding is not tailored for smaller organizations: EU funding, conceived explicitly for SEs, are restrictive in scope, and focused primarily on work integration. Nonetheless, it must be pointed out that financing through the market is not a full



opportunity in many countries, because of the low purchasing power of consumers in the majority of regions.

Regarding the establishment of an eco-system for the SEs development, the institutionalization of a broad, inclusive and unanimous definition is essential as well. Against the background of such a definition and the determination of social entrepreneur's envisioned role in the welfare state and society, the eco-system support in the different fields can be systematically developed, creating a community of practice for social entrepreneurship or, better said, what the complexity theory calls "scaffolding structures", i.e. formal and informal institutions active in supporting agents in magmatic and uncertain settings due to innovation and change. Scaffolds strengthen network connections, increase the likelihood they could happen and help the systems evolving towards the new skills requested (Lane and Maxfield, 2004).

Social innovations are often described as defining characteristic of social entrepreneurs and important contribution for societal improvements. The concept and its role for social innovations remains, however, utterly vague. Therefore, the innovative capacity of SEs, but also ETSs in general, should be surveyed systematically to go beyond the vague speculations of the role of these actors have as change makers and assumed main carriers of social innovations.

The absence of any kind of structural support to social entrepreneurs and social innovators is another main deficiency of the system. A recourse can be establishing stable cooperation among strong market companies and SEs, even in a subcontracting relationship. This call into question the need for higher new business experience in social entrepreneurs on one hand, and the potential role of altruistic entrepreneurs, on the other.

The role of altruistic entrepreneurs can take different gradients, and it is particularly desirable for nurturing social start-ups. The analysis highlighted five categories of potential support, ranging from the straight funding to the succeeding phases of scaling (i.e. supporting the growth of SEs with some kind of business relationship), mentoring, networking, and opening to them the access to wider national and international markets.



7. Resources

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Acronyms and abbreviations:

CSO - Civil Society Organization

ETS - Third Sector Entities

EU - European Union

NGO - Non-Government Organization

NPO - Non-Profit Organization

SE - Social Enterprise

SME - Small and Medium Enterprise