

# Social Enterprise as a Tool for Local Economic Development



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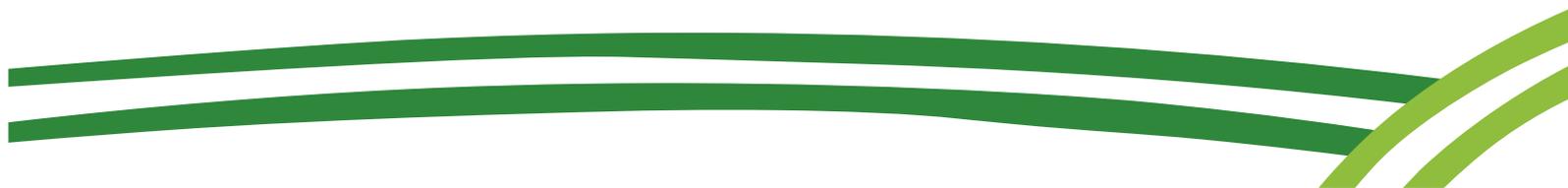
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# Chapter 1. Local economic development

## Introduction

Today, the desire to continuously seek ways to improve and develop is not only restricted to the countries of Europe but is extended to the entire world. The two most significant areas on which the governments of the individual countries focus are as follows: the economic growth of a country, and the improvement of the quality of life of its inhabitants. They try to create suitable conditions and environments that will contribute to the attainment of these goals. One of the most effective ways to foster the economic growth of a country and improve the living conditions of its population is to concentrate on the development of individual localities and regions. Local and regional development can then contribute to the development of the country as a whole.

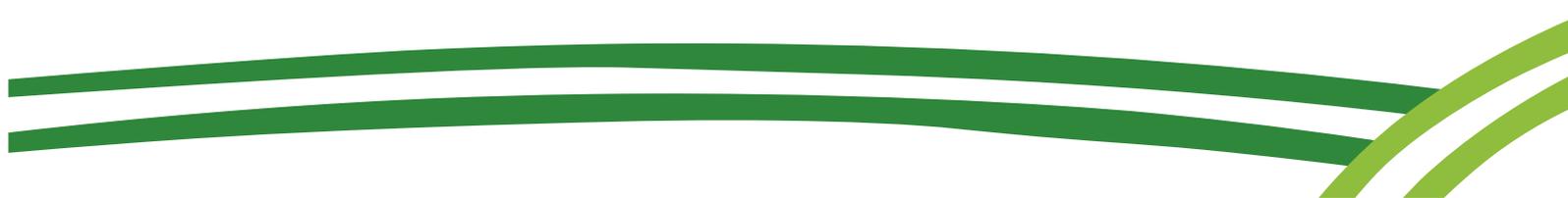
Moreover, many countries and regions have to tackle a myriad of other social and economic problems. Local economic development (LED) is aimed namely at supporting and developing local areas and addressing numerous problems in these areas. The significance of LED lies in its focus on smaller localities and the adaptation of development strategies to the specific conditions and needs of such areas. For a better understanding of the significance and the overall functioning of local economic development, it is necessary to grasp certain related fundamental concepts. This chapter intends to define the concept of local economic development (LED), its principles, and the basic ideas and scenarios of its application. Several concepts closely related to LED are defined here, such as globalisation, cohesion, competitiveness, the local economy, social economy, and social capital.

## Learning objectives

After completing this chapter, the learners will understand:

- What LED is and why it is necessary to deal with it
- The basic principles, scenarios and tools used in LED
- The concepts of globalisation, cohesion and competitiveness
- Decentralisation and the local economy, and their role in LED
- The meaning of the social economy and social capital.

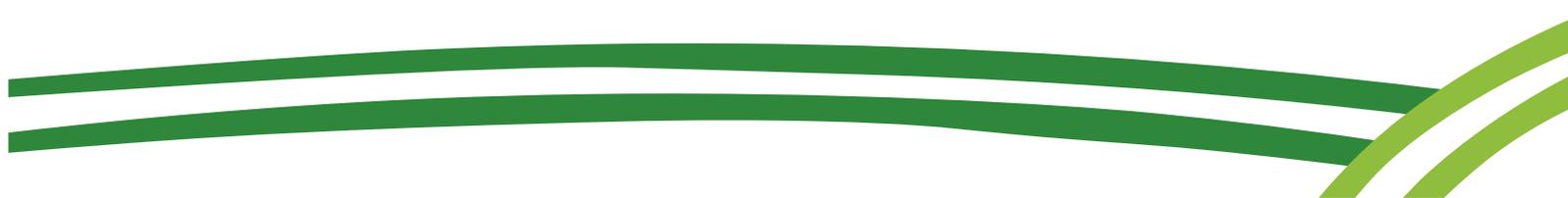
## 1. The significance of local economic development



LED gained more attention in the 1970s mainly when local governments/authorities and other stakeholders started to better realise that capital moves between individual regions. It can be said that LED became a key stake as a direct reaction to this fact (World Bank, 2003).

The issue of LED has only gradually become the political agenda in Europe. First, it was put into practice in the form of national policies with direct intervention into the economy either through state-regulated enterprises or large grants, tax concessions and subsidised loans for investors in the production sector. Later, less complicated policies with smaller state intervention into the country's economy were developed and applied. Such policies focused on the so-called "soft" investments in the infrastructure (for example, the development of human resources or the improvement of the legislative environment). The necessary investments and building of the so-called "hard" infrastructure (for example, the transport infrastructure and construction of public utilities/utility lines) also became part of said policies. Modern LED policies concentrate on supporting local economic development through public-private partnerships.

Concerning the recent development and the global advancement in the management and decision-making process in state and local administration, new approaches were introduced into governance. A different perspective on local governments may serve as an example of such advancement, and the role that local governments play in state control and administration and its local territorial units. Local authorities are looked upon as actors that can also contribute to the management and development of the country. Numerous local control and managerial competencies were conferred on them. The application of suitable strategic approaches in using the conferred competencies and in governing local regions can be significantly instrumental in boosting the effectiveness and improving the performance of local government bodies. Local authorities and their representatives can thus actively participate in creating and developing a favourable environment for all groups of inhabitants and actors living and working in such localities. These include both individual residents and the larger communities of residents, entrepreneurs, enterprises and others. Local administration units can then bring higher prosperity into regions, improve the standard of living of their inhabitants, and help local areas and the local population to cope with the changing or adverse economic situation. As a result, not only can localities, such as cities, towns or villages, become drivers and initiators of economic development in their area, but also in the country as a whole (World Bank, 2003). Hence, local governments play a significant role in putting the LED concept into practice as they are the subjects that have the tools and resources



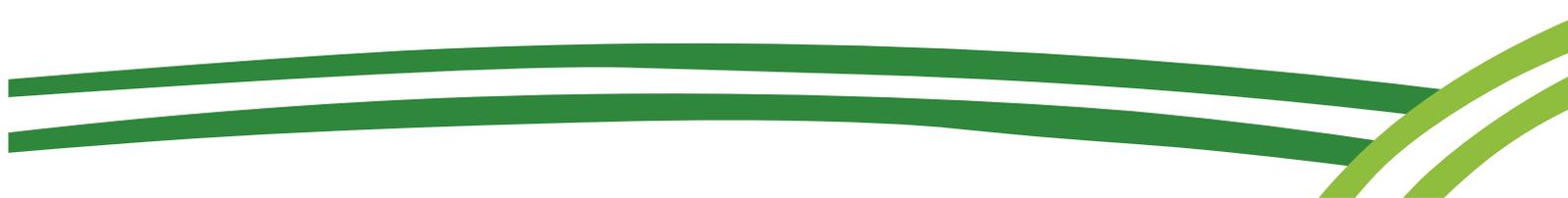
to support a business-friendly environment, which means to create an appropriate business environment, not to influence the individual enterprises or entrepreneurs (Ward et al., 1998). By taking all the facts mentioned above into consideration, the local economic development has acquired a new dimension.

**Local economic development** can be defined as a process in which partnerships between local government agencies, professional associations, non-governmental organisations and private entities are formed. The purpose of these partnerships is a mutual collaboration between the subjects associated and their involvement in providing the common good. Various resulting measures are taken to bring a better entrepreneurial environment which, subsequently, helps create better conditions for economic growth and job creation for the benefit of the whole society. LED is based on a principle that wealth in local communities is not generated by the state government but by private enterprises whose development depends on business-friendly conditions. Therefore, the key to prosperity is to create such conditions for them (European Commission, 2002).

It is also possible to see LED as a method used to improve the quality of life of the population in a region, support or promote the regional development, develop or maintain local wealth, overcome market problems, strengthen cohesion, and to implement local development projects (Jouen et al., 2010).

LED seeks to tackle problems that prevent business activities in regions and thus further prevent or slow down their development. It is local authorities and local actors that play a crucial role here; due to their ability to propose the best solutions concerning their locality's development as they best understand the local conditions, the local environment and know best what the area is lacking.

Local areas and businesses are typically faced with the following **problems** (European Commission, 2010):

- Limited access of enterprises to finance
  - Legislation preventing businesses from registering
  - Businesses lacking efficient business management skills
  - Lack of innovation in enterprises
  - Non-existence/lack of readily available sites supporting networks for businesses
- 

- Lack of appropriate communal and transport services in some regions
- Lack of information on job opportunities and skills available locally
- Local people lacking the right skills for employment in specific regions
- Low attractiveness of some regions for investors
- Social problems, preventing some of the local population from getting employment.

LED also generates an added value, lying mainly in long-term outcomes (Jouen et al., 2010) and concerning the following five significant areas:

1. Understanding new development models and addressing regional development issues
2. Improving the regional governance
3. Contributing to the EU cohesion policy
4. Territorial integration and the improvement of financial mechanisms
5. Inter-regional support and cooperation.

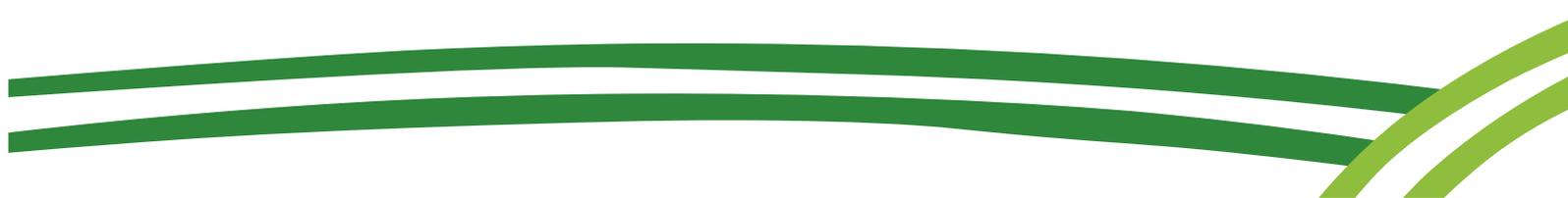
Other essential LED features include:

- LED determines development activities within a territorial unit rather than the industrial sector, while the regional scale is smaller than the national one.
- Economic activities focused on development are structured in the way so that they maximise the potential arising from the advantages of local areas employing local resources.
- LED is aimed at the needs, capacities and perspectives of the local inhabitants (Ward et al., 1998).

Another crucial reason why LED attracts wide attention is the fact that municipalities have to face and then solve challenges at all levels, whether these are international, national, regional, metropolitan, local, or regarding the disadvantaged groups of a population and informal economy (Swinburn et al., 2006).

There are **three main types of local economic development** (Helmsing, 2003):

1. The first type relates to the activities generally designated as the economic development of the local community. This type of development can be applied in the development of both rural and



urban environments, despite the occurrence of several distinctions. In essence, it is aimed to improve the quality of life per household by alleviating poverty and vulnerability in all regions.

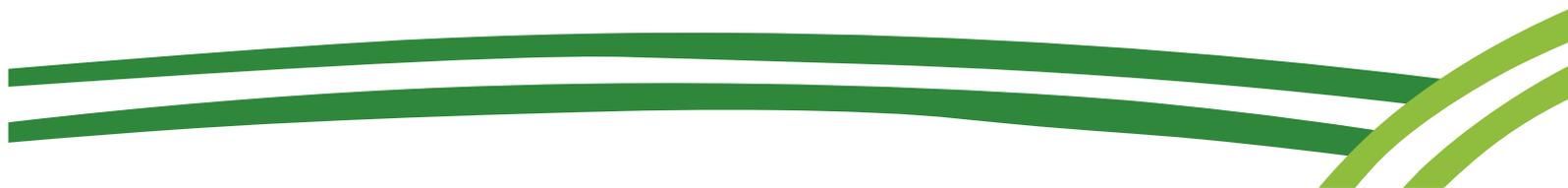
2. The second type pertains to the development and support of entrepreneurship and the entrepreneurial environment while targeting small and medium-sized regional enterprises. This type of development is based on specialisation, overcoming obstacles and eliminating restrictions local businesses encounter while doing business in the regions.

3. The third type concerns the global planning and management of economic and physical development of regions.

## 2. The basic principles behind local economic development

LED and its strategies have found their application in many countries and sectors. Strategic objectives vary and focus on different target groups of inhabitants. Furthermore, each country has its specific environment and culture; approaches to local economic development may also vary country by country as a result. Despite the differences, some universal underlying principles can be defined as follows:

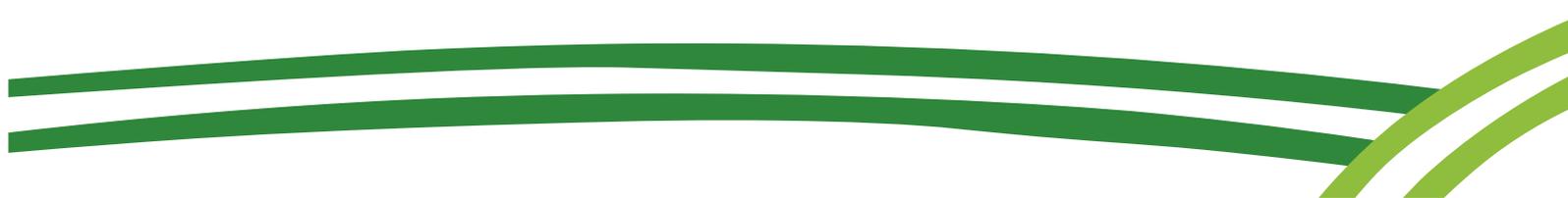
1. **The principle of the common good**, based on strong community identity and the commitment of all subjects living in the same area. Local economic initiatives understand their locality or community as a coherent and interdependent economic system whose objectives are not individualistic but for the common good of all actors.
2. **The principle of an integrated or holistic approach**, drawing from the integrated or holistic understanding of economy that includes not only the production of goods and services but also the sphere of environmental, social and cultural activities.
3. **The principle of serving needs**, taking into account the fact that some disadvantaged or underdeveloped regions typically lack some goods and services as these are not sufficiently provided by the state or private businesses. In this case, it is necessary that the initiative is undertaken by the third-sector institutions and the activities are focused on local development, notably on:
  - a. Serving basic needs such as food and housing



- b. Small-scale technical systems for transport, energy, water supply and waste disposal
  - c. Local cultural activities and cultural heritage
  - d. Leisure activities and recreation services
  - e. Environmental protection, prevention and repair
  - f. Municipal infrastructural services.
4. **The principle of re-establishing local economic cycles**, underlying in the idea that all LED activities should not be isolated and carried out as single, but put together to shape an integrated local action plan to re-establish local economic cycles. It is essential in this context to watch the cash flows within the locality or community. It is also important for the re-establishment of a functioning local economic cycle that the money should circulate within the local community as much as possible.
  5. **The principle of building and improving social capital**, meaning that the involvement of the local population in developmental activities is another critical element in the implementation of the LED strategy. The most important resources in LED are the existent capacities of the local people, such as their knowledge, skills and competencies. In underdeveloped regions, these capacities are not adequately employed and are often neglected. Local economic development is therefore also about mobilising these untapped local human resources and their transformation into real productive capital.
  6. **The principle of community-centred development**, applied mainly in the localities where social capital is insufficient and underdeveloped and the social infrastructure needs to be rebuilt. In this case, the LED process has to start with seemingly non-economic activities that are centred on building communities and community development (Birkhölzer, 2009).

### 3. Globalisation, cohesion and competitiveness

The following factors and processes significantly affect local economic development and form and stimulate all related processes, activities and strategies:

- Globalisation
  - Cohesion
- 

- Competitiveness

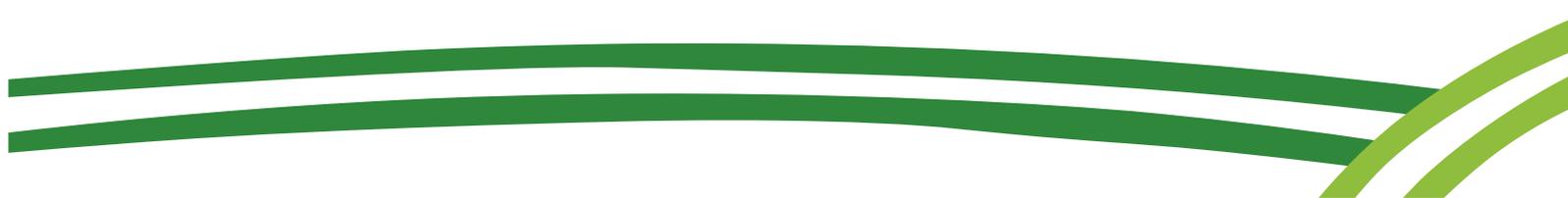
### 3.1 Globalisation

Globalisation can be viewed from different perspectives. Globalisation in the positive sense is the very process of integration into the world economy. In the normative sense, globalisation describes a development strategy based on fast integration within the global economic framework. Globalisation is also the extension of economic activities outside national boundaries either through or by using international business, international investments, and international finances. It is characterised as a process related to the growing openness of the economy, increasing economic interdependence, and deepening economic integration in the global economy (Nayyar, 2006).

Competition between towns and regions has intensified in recent years since information and communication technologies, fast transport connections and lower transportation costs have made competition possible at the global market and the real time. Fierce global competition forces towns and regions to identify their position in global processes and stimulates development mainly in the fields where they could excel and gain a competitive edge against others. Municipalities and regions need to have an adequate knowledge infrastructure, well-educated population, interconnection with the global knowledge-based economy, and a well-developed technological (notably electronic) infrastructure to be able to compete at a national or international level (Velibeyoglu et al., 2008).

Globalisation offers numerous opportunities to local governments for investment and development; for instance, access to new markets and the possibility of entering local markets for foreign competitors (Swinburn et al., 2006). Simultaneously, these opportunities bring along greater competition to local areas and local actors.

Globalisation has a positive effect on the redressing of global inequalities and the growth of less developed countries and regions (Baddeley, 2006). In developing economies, globalisation notably promotes:

- Business growth
  - Easier access to international capital markets
- 

- Infrastructure development
- Export
- Economic competition
- The utilisation of economies of scale
- Macroeconomic stability
- Direct foreign investments.

Not only does globalisation affect countries and regions, but also has an impact on individuals, mainly in the following three areas (Goldberg et al., 2007):

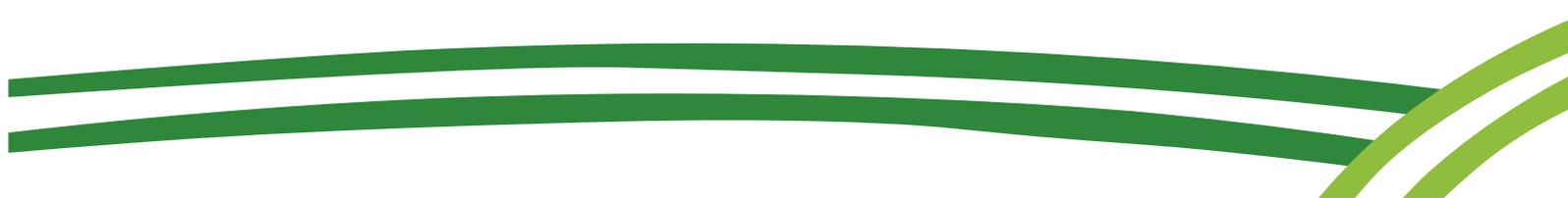
- Changes in the earned income
- Changes in prices and the subsequent change in the personal consumption of the population
- Changes in the decision-making process of households regarding their work-life balance preferences.

Globalisation consists of economic integration, social integration and political integration, and it includes changes in creating both opportunities and threats (Sapir, 2006).

The characteristics mentioned above and features of globalisation all have their share in the formation of LED strategies. The globalisation phenomenon produces processes and elements in the local economy that influence the development and behaviour of regions, and also have an impact on how they perceive the need of development and the effort to keep up with more advanced and developed regions.

### 3.2 Cohesion

Public support and the cohesion of the local community are the key factors contributing to the design and the subsequent successful practical application of a LED strategy. Social cohesion (or cohesion, in general) can be characterised as **a measure of, or extent to which, the local inhabitants cooperate in critical situations and emergencies, or in using presented opportunities**, and it presents a significant factor that forms and determines the economic performance of a country or a region (Easterly et al., 2006). With regards to social cohesion, it is important to realise that it is not a current state or an unchanging variable. Social cohesion is a process of building and



sharing the common community values and reducing inequalities in wealth and income. Moreover, it helps to generate a feeling of belonging to the community in people, their participation in community life, and of facing the same challenges together (Jenson, 1998). Social cohesion directs attention to the character and range of social and economic differences in society. These may be the differences in earnings, ethnicity, political beliefs, language differences or in any other demographic variable (Easterly et al., 2006).

During the 1974-1994 periods, when the world had to fight the global recession, individual countries responded in different ways. The countries with weak public institutions and a divided society reacted to the adverse economic situation worse than those with high-quality public institutions and a unified society (Rodrik, 1999). Societies with a higher degree of social cohesion have always grown faster than the countries where social cohesion was low (Easterly et al., 2006). In the period following the economic crisis in 2008, national and regional governments tried to prepare better for further potential unfortunate economic situations and began to seek mechanisms and instruments for more effective crisis management. In their effort, the national and regional governments in the EU states established two primary goals: building a better public administration system and putting social cohesion into use.

Social cohesion is being encouraged and put into use along with changes in management and implementation of neoliberal policies that accentuate competitiveness. In each EU state, the policies oriented towards social cohesion are determined and being shaped by the country-specific political and cultural traditions as well as by the recommendations of international organisations such as the World Bank, the International Monetary Fund, OECD, or the European Union. These institutions recommend applying new approaches focused on local growth and policy-making that will allow the addressing of social exclusion and weakened social cohesion problems (Eizaguirre et al., 2012). The concept of social cohesion should consider social exclusion mechanisms and integrate them into citizen-and-public-discussion-oriented policies. In relation to these policies, social cohesion is understood as the acceptance of the existence of various societal and regional groups of inhabitants in a municipality or another local area, the consideration of their interests, and the ability of such groups to organise themselves within the municipality or the local area and to form various institutions through which these groups can push their interests through and participate in the process of making decisions about the further development of the municipality or the region (Cassiers et al., 2012).



The essential elements that deserve close attention in the application of LED principles are:

- A suitably set/designed development policy
- The quality and level of management of public and private institutions operating in a particular region.

It is the insufficient quality and level of management of the institutions operating in a region and the inability to introduce and apply better local policies that are frequently cited as the main reasons for slow growth, poverty occurrence and creation of civil conflicts in local areas. Local government, its representatives and policy-makers are often faced with restrictions in their efforts to manage local economic development. One of the main reasons why even great politicians in the countries all over the world, but primarily in the low-income countries, introduce disastrous policies is the fact that they face draconian social restrictions when putting their reforms into use. Such restrictions depend on the degree of social cohesion in a country. It seems that social cohesion determines the quality and level of management of public institutions, which therefore has a serious impact on whether and how growth policies are developed and implemented. Social cohesion in a country or region is inevitable for the establishment of trust among the community's members and the subsequent patience needed for the implementation of the reforms. Citizens must trust their government and accept the short-term negatives necessarily arising from such reforms and believe they will eventually be compensated by the more significant long-term benefits (Easterly et al., 2006).

### 3.3 Competitiveness

Competitiveness is another critical factor affecting local economic development as the extent to which countries and regions compete with each other may decide and affect their further development. The European Union is well aware of that, and it supports regions in every effort they make to increase their competitive force using a variety of regulations, creating opportunities, funding programmes, or by redirecting powers to local governments. The transparency of governmental structures, promotion of efficient policies, and the support of cooperation among entrepreneurs and the local authorities are also to enhance the competitiveness of the environment (Eizaguirre et al., 2012).

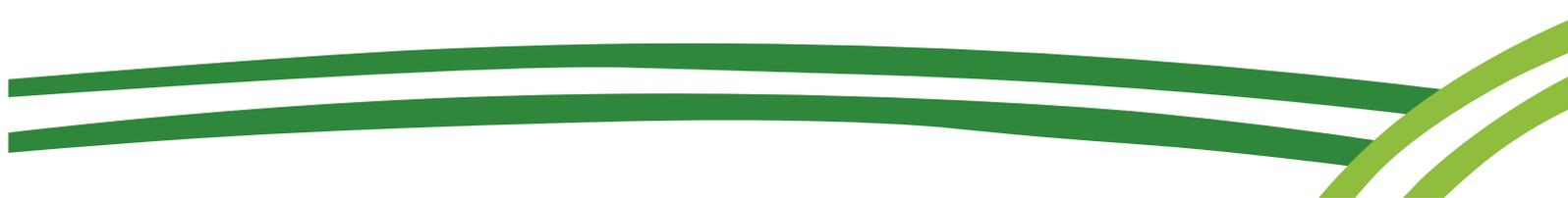
Competitiveness issues have gained in significance in the European Union with the Lisbon Strategy and its growth orientation. The original aim of the Lisbon Strategy was to boost the competitiveness of the European Union against the USA. This boosting competitiveness did not concentrate only on the macroeconomic level, but the critical significance of this strategy was in its focus on regional, municipal and local levels. Public institution representatives started to become increasingly interested in the competitive edge of their region or municipality while trying to identify the critical areas of their development and the factors determinant for the regional or municipal competitiveness, and subsequently designing policies supporting such areas and factors.

Regional or municipal competitiveness is defined as a degree of success to which regions and cities can compete. Regions and cities can compete in a number of areas; for example, in sharing national and international markets for their exports or attracting capital and workforce (Martin et al., 2012).

According to several authors, the concept of competitiveness is equivalent to the concept of the attractiveness or ability to compete with other regions or areas on the global mobile capital and labour market (Jarvis, 2007). Besides that, competitiveness in local economic development is closely associated with sustainable development. With accelerated urbanisation and its impacts on the environment, the significance of the sustainable development of cities is rapidly growing. Sustainable development in the LED context means the ability to create wealth and resources at present, and to maintain the same ability and possibility for the future, by strengthening the ability of cities and regions to create wealth by increasing their productivity and boosting their competitive force in the market environment (Velibeyoglu et al., 2008).

#### 4. Decentralisation and a local economy

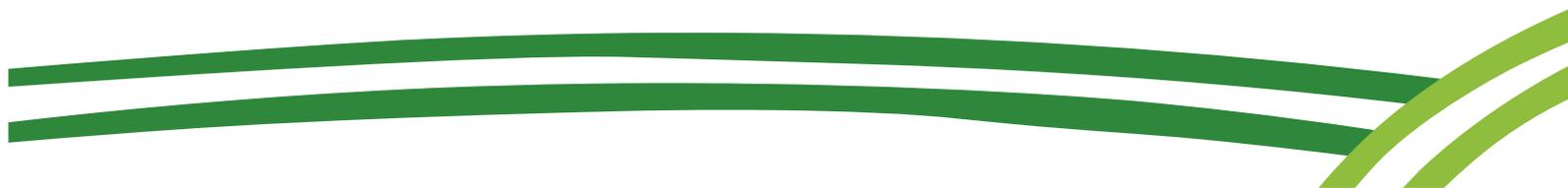
LED is targeted mainly at local areas and regions, and the key local actors (chiefly local governments and their representatives) in these areas are best informed of local needs and interests and are in direct contact with local citizens. Therefore, local governmental bodies currently appear to be as a critical mechanism that plays a crucial role in economic development. However, they can take all necessary actions and carry out LED-related activities only when having the necessary tools and powers. An important factor here is the level of restriction in the regulation of local government. With lacking autonomy, all activities of the local government may fall short (Bentley et al., 2013).



Decentralisation is thus a vital factor that offers local actors the mechanisms and tools necessary for their involvement in the local economic development and is part of the most significant reforms that have taken place globally in recent years. The significance of decentralisation stems from both its potential outcomes and from the consequences it has on the quality of management of local governments as it is based mainly on government reconstruction. It is a series of changes, from changing the hierarchical and bureaucratic mechanism of top-down management, to changing the local government system. The objective of this management reform is to achieve greater participation and cooperation of local governments in regional management. To this end, many competencies are delegated and resources redistributed to the relevant local government agencies (Faguet, 2014). The goal of decentralisation is to reduce or eliminate the bureaucratic burden imposed on local communities; to support them in handling their own matters in line with their needs and finding their own solutions to the problems they are faced with; to gain more control over the public funds at a local level, to diversify the provision of public services, and to increase the transparency of local government to the public and their public accountability (HM Government, 2010). As the process of decentralisation continues, the issue of local economic development has taken on a new, greater significance because decentralisation is increasingly regarded as a tool for economic development promotion. The primary benefit of decentralisation is the increase in economic effectiveness by providing outcomes at a local level which are fitted to the needs of the local population and further lead to the faster promotion of the social welfare of all citizens. This method is more effective than the one with the outcomes specified at a central level. Also, decentralisation brings along high economic performance (Stansel, 2005).

The transfer of competencies to lower government levels provides considerable benefits that may facilitate local management and foster local development. These are mainly:

- Changing the management structure in order to improve the accountability and capability of local governments and to encourage citizen participation in managing public affairs
- Reducing the risk of power abuse by delegating some responsibilities and resources from the central to the lower level
- Improving political stability by offering disadvantaged minorities the possibility of participating in decision-making in a local area, thereby giving them a possibility of directly addressing the problems related to their unfortunate situations



- Boosting political competition by creating smaller regions where politicians can apply their power and make decisions (Faguet, 2014; Faguet, 2012).

Finally, decentralisation can affect local economic development by creating an environment that favours more qualified and competent people in higher positions in local government, assuming that such people have more knowledge than their predecessors and become actively engaged in local economic development. This can be derived from the fact that decentralisation boosts economic competition by producing new possibilities for independently elected political representatives of proving their local management skills — the chance of successful local officials getting higher governmental positions increases the chance of getting better public services (Faguet, 2014).

## 5. Local economic development scenarios

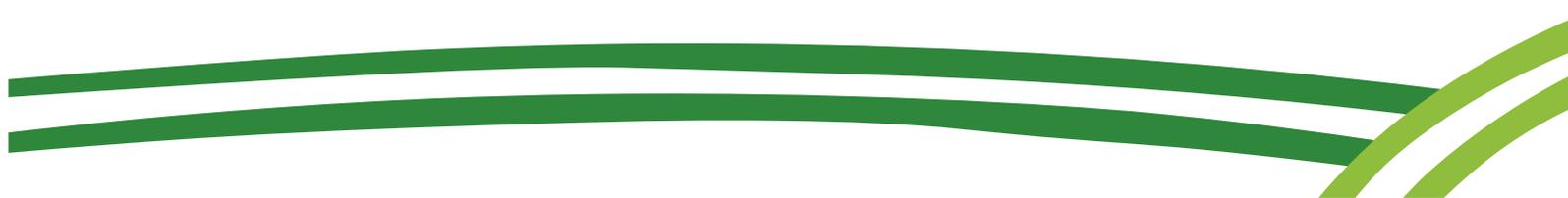
There are several approaches to the practical application of the LED policy targeted at the direct engagement of local actors in creating economic stability in a region, with the main idea being the improvement of the future economic power of the region and the quality of life of its residents (World Bank, 2003).

It is always necessary to consider local specificities and characteristics of a region in the local economic promotion. Each region, town or village, has its unique conditions that distinguish it from others and that uniqueness may determine its local economic development and the development strategy selected and applied during the implementation of the LED programme. Another critical factor is the cooperation of several municipalities as they can actively help each other (World Bank, 2003).

In general, two principal approaches to LED can be mentioned:

1. An analytical approach, which is predominantly oriented towards the individual activities and policies applied in LED
2. A descriptive approach, which is focused on all economic activities that take place at the local or regional level and have an impact on the localities.

Local economic development can be:



- Exogenous
- and/or
- Endogenous

Currently, a new concept of neo-endogenous LED is also coming to the fore.

## 5.1 Exogenous local economic development

Exogenous local economic development is based on two main principles:

1. Economies of scale
2. Concentration

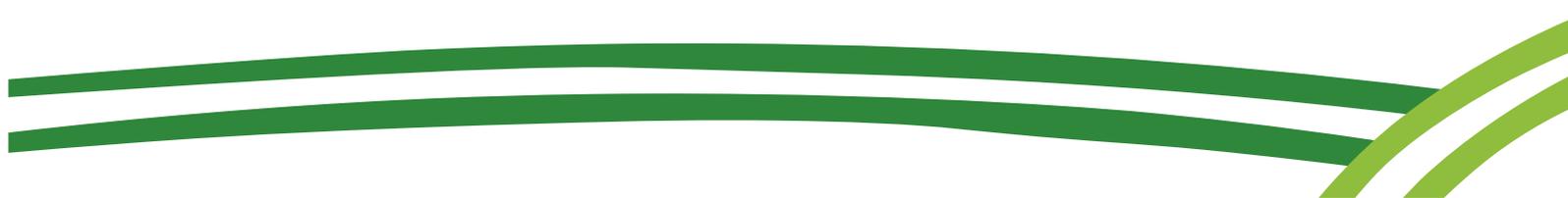
The main driving force in this type of LED is the surroundings of local areas, i.e. it comes from the external environment and is initiated by external actors. This type of development started to be applied in the post-World War II period.

There are two basic phases of exogenous development (Gkartzios et al., 2014):

1. A phase that mainly concerns the consolidation of local structures and the improvement of the local infrastructure.
2. A phase that is oriented towards the stimulation of employment in a local area, notably by supporting enterprises and investments in the transportation and communication infrastructure.

By successful application of the exogenous LED model, the rate of employment can be increased, and the technical, transportation and communication infrastructure can be improved in regions. This form of development also prevents the depopulation of local areas.

However, there are considerable risks inherent in the exogenous local economic development such as:

1. Dependency on external investment and support
  2. Export of revenues coming from the development of local areas to the areas where the investments used for this development originated
- 

3. Risk of lacking democracy (democratic deficit) in the region because the local actors do not become involved in the development programme and do not participate in the development of local areas (Woods, 2009)
4. Heavy reliance on further subsidies and political decisions of remote development initiators
5. Support coming to selected sectors and businesses while the other ones are neglected (Ward et al., 1998)

## 5.2 Endogenous local economic development

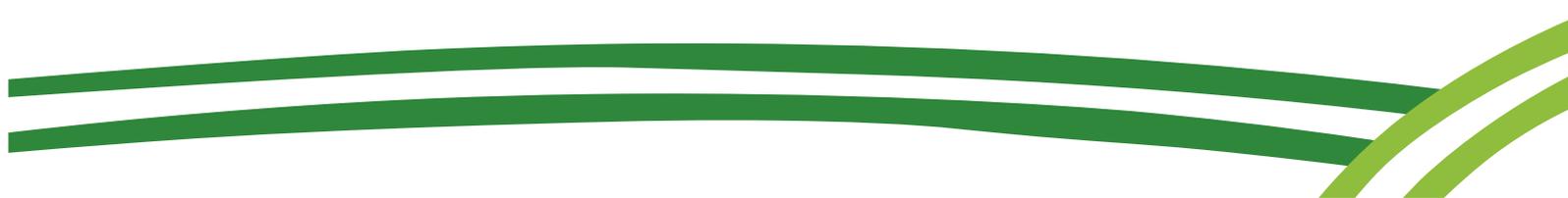
Endogenous local economic development models were first applied in Europe in 1990 and were initiated by the European Union. **The fundamental principle** of endogenous development rests in the concentration on **the development of region-specific resources**, mainly:

- Natural resources
- Human resources
- Cultural resources

Promotion and development of these region-specific resources present a key factor for sustainable development. The driving forces in this type are local initiatives, local entrepreneurship, and local enterprises. Endogenous development is targeted at building capacities, developing skills, setting up institutions, and creating the local infrastructure and trying to prevent social exclusion (Gkartzios et al., 2014). **The drawback of endogenous development** is that sometimes initiatives of strong local actors are preferred to weaker ones, so the weaker local actors lose the opportunity to participate in the local economic development (Gkartzios et al., 2014).

## 5.3 Neo-endogenous local economic development

Neo-endogenous local economic development is a concept that combines the two previous models of exogenous and endogenous types of development and presents a hybrid model of economic development. This approach is focused on dynamic interactions and cooperation between local areas and the dominant local actors and broader political, institutional, entrepreneurial and natural environments. In the application of this neo-endogenous LED programme, the cooperation of various actors at various levels are possible, such as at a local (local government), national (government), or transnational (the European Union) level, or even at a level of non-governmental



organisations. The neo-endogenous economic development model is based on the cooperation of any combination of the subjects mentioned above (Gkartzios et al., 2014).

The goal of neo-endogenous LED is not to push the national or local institutions or actors out of the process of designing and implementing the LED programme, but the effort to create a partnership and long-term cooperation among all these actors (Adamski et al., 2007). It is a combined/blended approach that includes the resources needed for the implementation of the LED programme and the control of the entire process. Cooperation takes place between the local and external actors (Terluin, 2003). The neo-endogenous approach takes power relations between the actors and different management levels into account. Subsequently, it adapts LED strategies so that the institutions ranked higher within the given hierarchy, and the actors at higher governmental levels, provide support to the lower levels and actors and delegate the necessary powers to them to be able to develop and implement their LED strategy (Shucksmith, 2010).

The fundamental principles of the individual approaches to local economic development and their comparisons are provided in Table 1 below.

Table 1: *Fundamental principles and comparison of an exogenous, endogenous, and neo-endogenous approach to local economic development*

	<b>Exogenous development</b>	<b>Endogenous development</b>	<b>Neo-endogenous development</b>
<b>Fundamental principle</b>	Economies of scale, concentration	The utilisation of local resources for sustainable development	Stimulation of the development of local resources, giving local areas a competitive edge
<b>Driving force</b>	Exogenous actors	Local initiatives and business activities	Interconnection and cooperation between local and exogenous actors and factors; the state being a mediator
<b>Role of rural areas</b>	Food production, mainly for urban areas	Various economic services	Various products and economic services
<b>Main development problems in rural areas</b>	Low productivity and the disadvantaged position of these areas on the peripheries	Limited capacities and possibilities of these areas or groups of inhabitants, excluding them from the participation in economic activities	A limited selection of services Inequalities within the local communities living in these areas Remoteness and isolation

Focus on the development of rural areas	Agricultural development	Building capacities (skills, institutions and the infrastructure)	A holistic approach - attention paid to the development of capacities and local resources Innovation promotion Prevention of social exclusion
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Source: Elaborated according to (Ward et al., 2005) and (Bosworth et al., 2016)

Other scenarios are known as well, such as:

- Development from above
- Development from outside
- “Wait-and-see” development
- Development from within

The first and the last type of development may be identical to the exogenous and endogenous LED models, respectively.

**In the development from above**, the state is the main actor, and the development is governed from top to bottom, i.e. from the central government to regional government and local authorities. In this scenario, all local actors depend on decisions coming from above as the state adopts the role of the main responsible actor which decides on all kinds of development. This attitude is frequently found in societies with centralised governments, and it is accompanied by a high degree of the dependency of local areas on the measures taken by the central government. Moreover, if dictated from the state level, the LED strategy frequently leads to failure (Birkhölzer, 2009).

In the **development from outside**, the local actors and local governments also believe that they cannot act on their own and contribute to local economic development, and wait for the necessary investments, resources and investors from outside. This scenario is mostly applied to less developed countries. The problem, however, rests in the fact that the investors try to negotiate substantial advantages to go and invest in a specific location. Also, the interests and objectives of the investors may disagree with those of the specific location. Financial investments of this kind are nowadays highly dynamic and flexible, and can easily move from one location to another if the investors find better conditions to realise their investments. In terms of sustainability, there are attempts to focus

the LED scenario on the development from outside, but attracting investors from outside is a hazardous business (Birkhölzer, 2009).

In the **wait-and-see** scenario, the local actors remain passive, waiting for what happens. This LED scenario can also be viewed as a natural process of selection where local economic development is governed by natural market activities and specific local development (Birkhölzer, 2009).

In the **development from within**, unlike the previous scenarios, the local actors play the most significant role. It is this strategy and this scenario that is the heart of local economic development since it starts when the local people realise that none of the government, investors or market economy can provide adequate living conditions for them and satisfy their needs to as great an extent as possible. For them, it means to willingly move to a more developed locality, or if unwilling, that they have to become pro-active and take part in the local development themselves. Local people and local actors then start to create and apply their own LED strategies, and such activities often result in the foundation of new types of social enterprises (Birkhölzer, 2009).

## 6. Tools for local economic development implementation

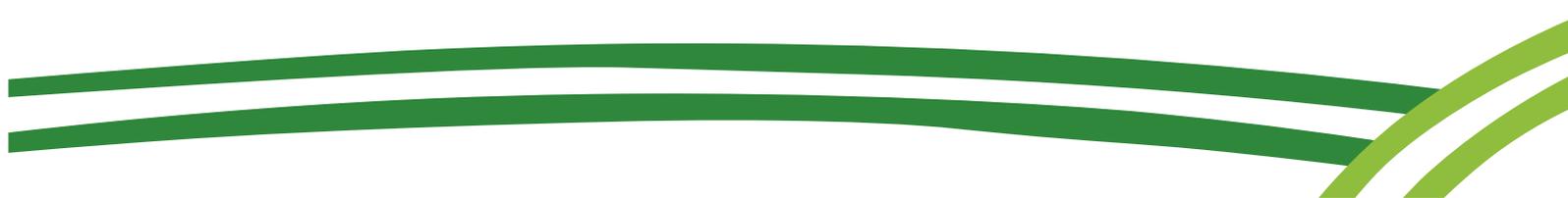
There are several tools used for local economic development, and they are focused on several different areas of the local economy, for example:

### 1. Tools to increase the local availability of finance:

Lacking funds is one of the fundamental obstacles in the development of an entrepreneurial environment at a local level. Municipalities only provide funds or any other financial benefits for enterprises in exceptional circumstances. Some suitable tools of this kind include:

- Providing enterprises with information on various possibilities of raising funds to support their business
- Establishing a credit facility based on a non-profit principle
- Creating conditions for banks to open branches in specific regions (e.g. support provided in finding relevant premises)
- Improving access to funds (European Commission, 2002).

### 2. Tools to support the development of businesses and small and medium enterprises:



- Improving the legislative/micro-economic environment (e.g. by reducing the time it takes to process applications submitted by the municipality, reducing the costs to businesses in the form of a variety of incentives such as tax rebates or credits, or by reducing the complexity of the legislation imposed on businesses)
- Providing business support services (e.g. business advice provided to start-ups) to help enterprises grow successfully
- Supporting enterprises facilitating the introduction of innovations and diversification (e.g. in the form of awards or specific grants given to innovative and diversifying companies)
- Promoting regions and attracting new start-up businesses, inward business investment, and helping sell more local products and services (European Commission, 2002).

### **3. Tools to create the local infrastructure for economic growth:**

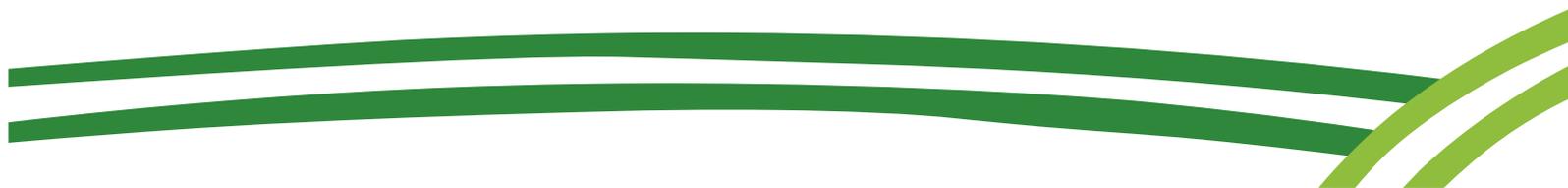
- Supporting the clearing and preparation of sites for economic growth (e.g. by providing a property database, supporting the development of new business parks and premises to satisfy business needs)
- Providing and managing accommodation for business (e.g. business incubators)
- Prioritising the development of local environmental services (e.g. improving water systems and water treatment facilities and waste collection and management services)
- Supporting the development of the infrastructure for businesses such as better roads and public transport, and gas, electricity and telecommunication services (European Commission, 2002).

### **4. Tools to develop human resources and training activities:**

- Job-matching services for the unemployed during the job-seeking process
- Supporting vocational training activities (European Commission, 2002).

## **7. The concept of a programme for local economic development**

The concept of a programme for local development presented below, which is also called an "ideal" LED model, is derived from a series of nine steps of action divided into three phases. The model can help a community or organisation to identify its previous achievements, current needs, and the following measures to be taken.



Three primary phases of the conception are:

1. A phase of **building ground** in the community (steps 1 to 4 in the following diagram)
2. A phase of **further community development** (steps 5 to 7)
3. A phase of **establishing a working community economy** (steps 8 to 9).

The LED concept is shown in Figure 1 below.

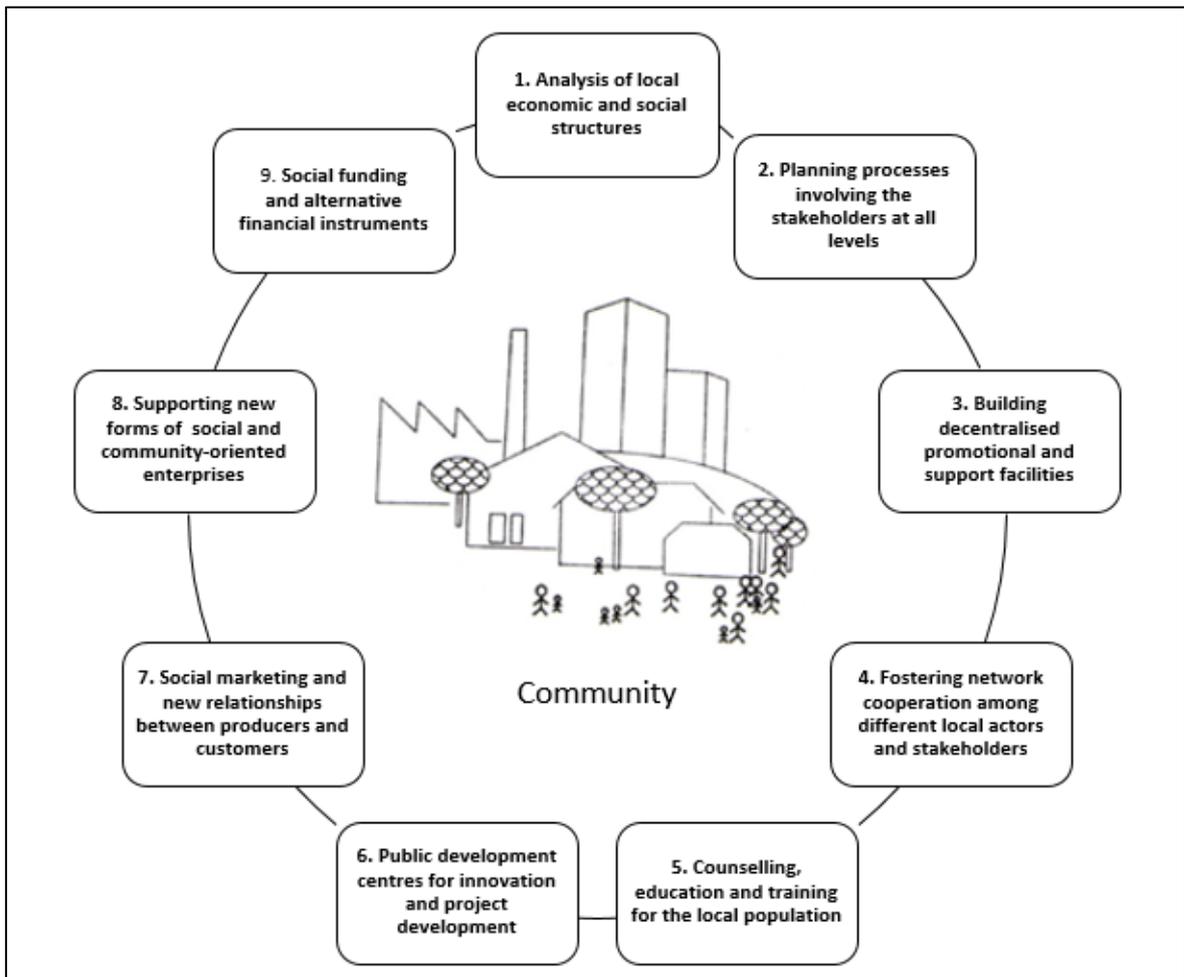


Figure 1: *The concept of a local economic development programme*  
Source: Compiled based on (Birkhölzer, 2009)

The individual steps of the LED programme are as follows:

### 1. Analysis of local economic and social structures

The first step is becoming familiar with the local economy. Insufficient knowledge and little information about a specific locality present an obstacle to the development and implementation

of a local development strategy. It is quite common that local actors including local authorities are not well informed about the real situation in their local economy. Traditional statistics do not include the whole spectrum of necessary information and are usually not detailed enough to describe the situation on a local level, for example, in specific neighbourhoods, towns or villages. Therefore, the problems of specific municipalities are sometimes overlooked (Birkhölzer, 2005).

## **2. Planning processes involving the stakeholders at all levels**

An important part is the participation of the local community in the planning process. The goal is to provide space for and to encourage ordinary people to be actively engaged in the process as they know the local situation best of all (Birkhölzer, 2005).

## **3. Building decentralised promotional and support facilities**

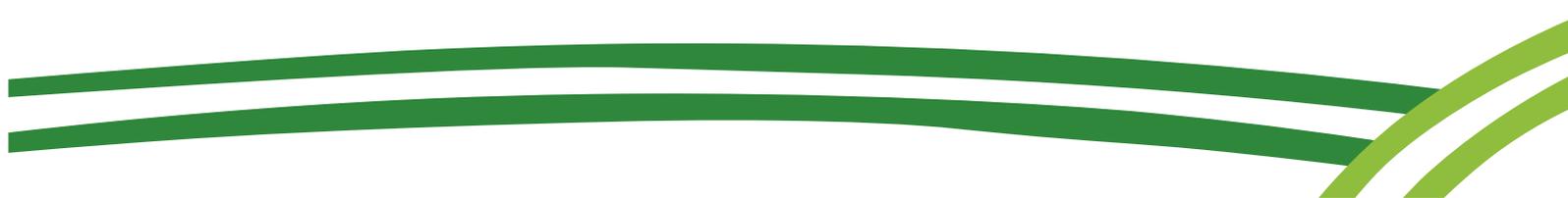
Mobilising people and involving them in community development requires finding some premises where they can meet and discuss local development. Disused buildings, factories or public spaces that offer workspace and meeting opportunities on low costs are the best for this purpose. Community support and resource centres of this type, however, should be independent of both local and central government, but be open to the general public (European network, 2001).

## **4. Fostering network cooperation among different local actors and stakeholders**

Building up new and reinforcing existing social networks has become a vital tool for creating social capital. It is essential to create mechanisms that can combine people of different cultural, political or institutional backgrounds. These networks lead to the kinds of cooperation that blur traditional bureaucratic, political or cultural boundaries. The impact of such social networks is not only to exchange information and coordinate activities but also to combine resources and exchange services on a non-profit basis. A special type of such networking which becomes increasingly important is formalised local partnerships (Kjaer 2003).

## **5. Counselling, education and training for the local population**

Having an educated and trained population is a precondition for economic development. It is true mainly for people living in disadvantaged areas or communities that are usually untrained or unskilled, and unready to participate in decision-making. Besides that, they often suffer from a lack of self-esteem, which leads to resignation and passivity. Special education and training programmes for self-help need to be developed for such groups of inhabitants to help them overcome these obstacles (Birkhölzer, 2005).



## **6. Public development centres for innovation and project development**

New ideas for local development projects initiated by local actors are frequently not of the type and form that could be immediately put into practice. These new ideas need further development and professional help, notably regarding the following two aspects:

1. Technological development: professional assistance is needed mainly if the ideas and projects touch on more complex issues, for example, energy distribution, transport, water supply and disposal, but possibly also in health care and care for people with special needs.
2. Economic and/or managerial development and implementation of LED projects: all necessary development processes are time-consuming, and the new local initiatives usually lack funds to cover the costs. Therefore, services of this kind should all be free of charge (Birkhölzer, 2005).

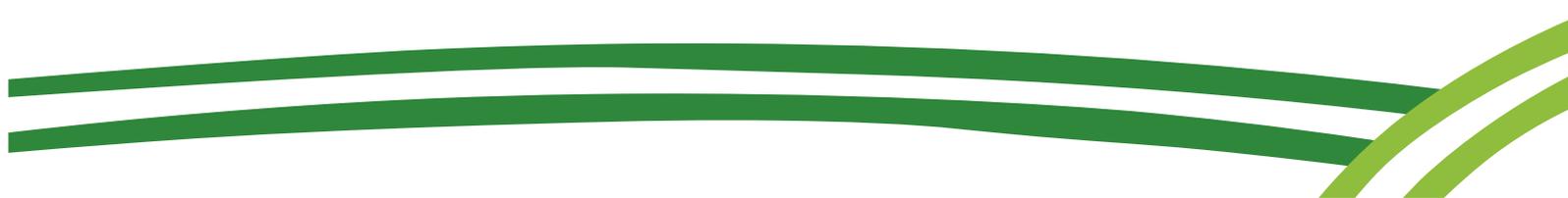
## **7. Social marketing and new relationships between producers and customers**

Satisfying the needs of those living in disadvantaged communities and underdeveloped areas has several handicaps, for instance, low purchasing power as well as different types of needs in comparison with more developed areas. These are the main reasons why the profit-oriented private sector does not invest in such "socially-deprived markets". New solutions to this problem have been found: local development initiatives all around Europe have invented the so-called "social marketing" techniques. The basic idea behind "social marketing" lies in the effort of the active engagement of customers, clients or users in the development, and eventually also in the production of goods and services.

An example of that type of mechanisms is cooperatives established by companies producing goods and providing services in a region; another is customers consuming such goods and services. These cooperatives have been used in the field of ecologically sound agriculture and food supply, and also increasingly penetrate the field of proximity or neighbourhood services (Birkhölzer, 2005).

## **8. Supporting new forms of social and community-oriented enterprises**

In the process of restructuring a local economy, all types of economic activities and enterprises have to be recognised. The majority of private profit-oriented businesses are not genuinely interested and motivated in doing business in underdeveloped and disadvantaged areas mainly due to the lack of profitability. Therefore, it is crucial to support such subjects that do not focus only on



making a profit but also on helping the local area and the local community. These subjects are called social enterprises (Birkhölzer, 2005).

### 9. Social funding and alternative financial instruments

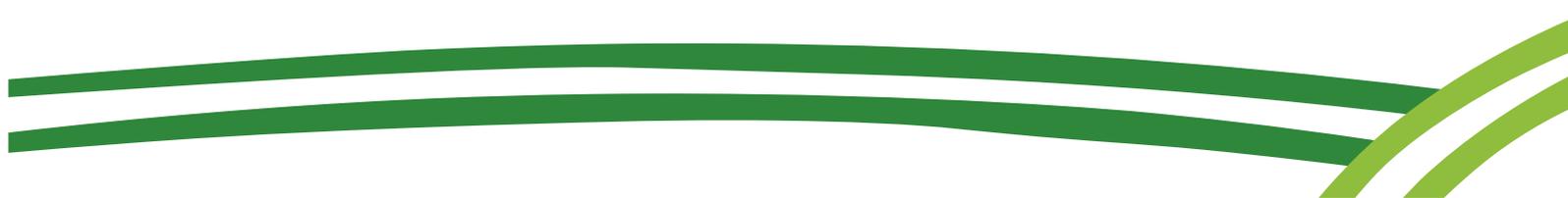
Funding is another essential element in local economic development. Sufficient funds must be raised for the implementation of LED plans and strategies, and also for the support of the local area and its community. Disadvantaged social groups and communities do not have easy access to financial credit or other financial services of traditional banks. Therefore, it is necessary to seek or set up special instruments targeted for the needs of such groups and communities. Some community or social banks, for example, offer better conditions to the disadvantaged, mostly in the form of interest-free credit. Local credit unions or the so-called cooperative banks may be another source of funds (Birkhölzer, 2005).

## 8. Knowledge-based development

Knowledge-based development strategies play an essential part in LED promotion in towns and villages (Velibeyoglu et al., 2008). Local development includes the application of the current knowledge in the field of local development for the management of value creation, capital systems, local government, development and planning. The main benefit of the knowledge-based local development is a safe and stable economic environment and sustainable economic development. Knowledge-based local development pertains to numerous areas of economic and social policy, and it has three main objectives (Velibeyoglu et al., 2008):

1. A focus on:
  - a. technological knowledge necessary for the innovation of products and services;
  - b. market knowledge with the aim of understanding changes in consumer behaviour;
  - c. financial knowledge necessary to measure the input and output of production and development processes;
  - d. human/people knowledge in the form of skills and creativity (Lever, 2002).
2. The improvement of people's skills and knowledge as a tool for human and social development (González et al., 2004).
3. Building strong links between local development actors.

Knowledge-based local development strategies include the development of financial, social and human capital systems, capital distribution, the development and utilisation of the latest cutting-



edge technologies, the provision of hard and soft infrastructures, and the provision of high-quality life of people (Velibeyoglu et al., 2008).

The local economic development should be realised through a suitably selected strategy. The overall LED strategy should be in harmony with a broader strategic development plan that would take account of other components of local area development, such as social or environmental factors. The optimum period for the implementation of the strategic planning process in a local area is from three to eight years, while annual implementation plans should be emphasised (Swinburn et al., 2006).

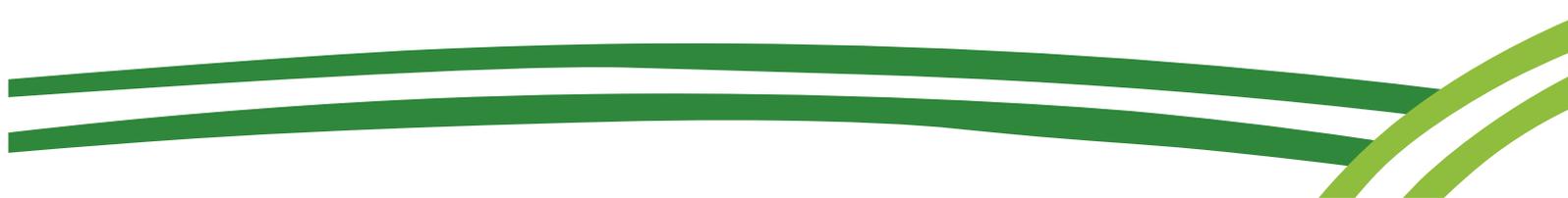
The strategic planning process consists of **five primary phases**:

1. The organisation of the overall programme
2. Local economy evaluation and analysis
3. Strategy development
4. Strategy implementation
5. Strategy review/revision

#### **The organisation of the overall programme**

The whole process of LED planning starts with the identification of all **stakeholders**. These comprise all citizens, public administration institutions, private companies, non-government organisations, public societies, professional associations, educational institutions and other subjects that could be interested in participating in LED or could influence this development. Support from the whole community is vital at this phase. Experience, skills and resources that each of the subjects can bring into the process of LED programme strategy development provide a base that is essential for the overall success of the strategic planning process (Villanueva, 2014). Importantly, all participating partners should have some knowledge of the local economy or could have a certain influence on it (Swinburn et al., 2006).

At this phase, it is also important to set up an LED working team that will be responsible for the management of the strategic planning process. The team is typically formed at the local government level; sometimes, however, it can be formed in the partner organisation. The role of the team is to organise the process of the implementation of the developed strategy and to analyse it. Another fundamental factor that has an impact on the successful implementation of the designed strategy is the building of stable organisational structures and working relationships, while



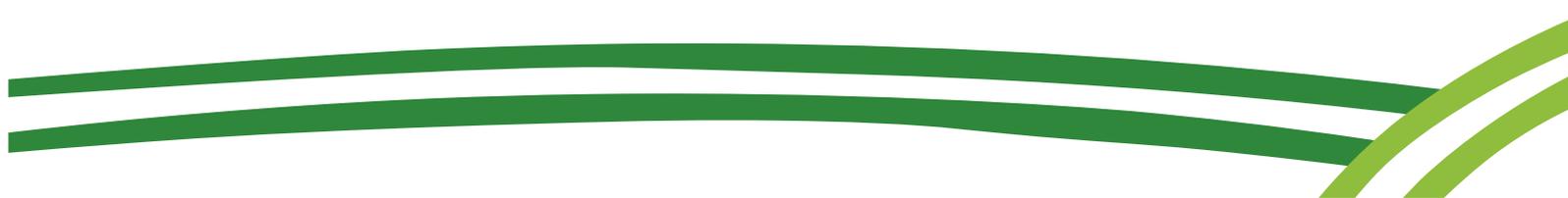
an emphasis should be placed on the long-term operability of these relationships and structures (Villanueva, 2014).

### **Local economic evaluation and analysis**

It is crucial for all partners participating in LED to be familiar with and understand the local economy as well as all economic processes that are currently in progress before deciding on a suitable, realistic, and optimal LED strategy. This phase is comprised of the collection and analysis of all data and quantitative and qualitative information on the economic situation in a particular region. As a rule, in the local economic analysis, attention is concentrated on the “formal” economy. This is mainly because the formal economy can be measured more easily, for example, using tax revenues. However, the formal economy is only part of the broader “total” economy. There is also the so-called “informal/non-formal” economy as part of the “total” economy that includes activities not formally measured, for example, those of retailers or micro-enterprises. Therefore, this informal economy should not be neglected in the local economy analysis either.

The goal of the local economy analysis is to identify the strengths and weaknesses of the local economy. These may include human capital, local public administration bodies, but also opportunities and challenges a specific local area and its economy may be faced with (Villanueva, 2014). The evaluation of the local economy is based on the analysis of economic activities and relations, the structure of the business sector, employment and similar indicators. The analysis of all factors mentioned above should not be limited by the administrative borders of a specific region. It is always necessary to consider surrounding areas that may affect the local economy of the region. For example, it may be the population from the surrounding areas that commute to work to the analysed region (Swinburn et al., 2006).

The identification of the most critical factors for the local economy and the summary of the relevant data is followed by the analysis of the relevance and reliability of such data, or possibly by the identification of the inaccurate or missing data that need to be supplemented. Based on all the data acquired, it is possible to elaborate a local economy profile. Several tools are used for the local economic analysis, such as:

- SWOT analysis
  - Benchmarking
  - Regional economic indicators
- 

- Comparative analysis, where it is suitable to compare the local economy of a specific area with the surrounding areas (Swinburn et al., 2006).

### **Strategy development**

This part of the strategic planning process is managed by the team formed for the LED process management and organisation. By communicating with all stakeholders, the team collectively develops a LED strategic plan. In the development of the strategy, it is essential that different interested parties from different areas include their environmental and social priorities into the plan. Typically, a three-to-ten-year time framework is suggested for the strategy so that all necessary goals can be attained. The specification of the duration for the strategy plan improves the chances of its implementation and creates suitable conditions for the measurement of the results achieved. The LED strategy is a comprehensive plan divided into intentions and activities with a variable length of implementation periods (short-term, mid-term or long-term implementation periods). It can be said that the strategy defines what is to be attained. During the process of the LED strategy development, a vision, goals, specific programmes and projects, and goal-oriented action plans are defined (Villanueva, 2014).

### **Strategy implementation**

During this part of the strategic planning process, the individual programmes and projects are implemented. When putting the strategy into effect, the active participation of all LED stakeholders is crucial. An implementation plan is a unique document that contains individual programmes and projects that are to be implemented. It defines the budgetary requirements for the implementation of the strategy selected, human resources requirements and the institutional consequences of the strategy implementation. For more effective utilisation of the available funds, the implementation plan is set for a shorter period, which is usually one to three years. Implementation plans contain more detailed information about the individual project components, for instance, the allocation of tasks, delegation of responsibilities, more detailed timetable/time plan, financial plans for the individual activities as well as the outcomes expected at the end of the implementation of the individual projects (Swinburn et al., 2006).

### **Strategy revision/review**

This phase includes monitoring and evaluation activities, reviewing and improving the strategy by the team designated for the management of the strategic planning process along with the key

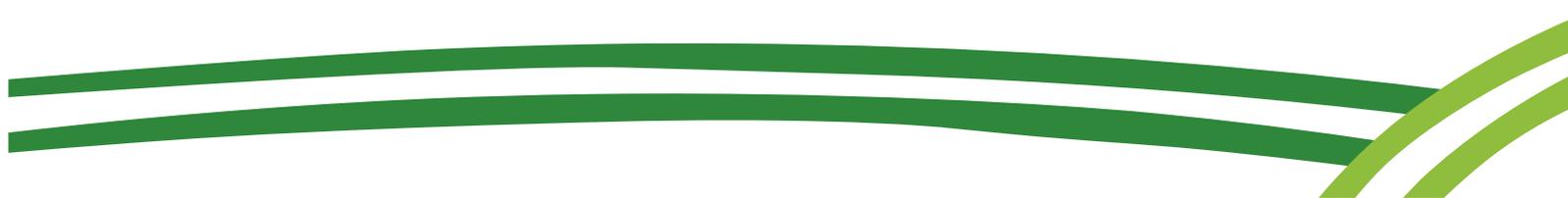
stakeholders. The main reason for the strategy review is the need to quantify the outcomes, justify the expenses, to determine possible strategy improvements and to develop proper practices for strategy implementation. Continuous monitoring and revising the strategic plan is carried out so that improvements or changes can be made in the developed strategy if necessary, regarding the updated information about the local area or region to which the strategy has been applied. Apparently, LED strategic planning is not a static process but a process constantly undergoing some change (Villanueva, 2014).

## 9. Building a local social economy

In view of local economic development, the social economy is of great significance as it brings along many benefits for regions and the entire society, and contributes substantially to the social and economic development of regions. The significance of the social economy as an essential contributor to the development of the total/overall economy is continuously growing (Borzaga et al., 2003). The social economy presents one component of the economy and concerns a high number of people in Europe. It generates over 11 million jobs in Europe, accounting for approximately 6% of the overall employment in the European Union. Around 2 million enterprises in the European Union operate in the social economy sectors, representing 10% of all European businesses (Eurostat, 2018). The development of the social economy could help sustain the number of jobs and the employability of the populace, promote social inclusion, and improve local social services and territorial cohesion (Barna, 2012).

Building the social economy is a response of the community to the detrimental effects of the social and economic re-structuration (Vieta, 2010). The social economy creates various development opportunities for local areas and may also act as a catalyst, accelerating social and economic changes in local communities (Amin et al., 2002). Major benefits of the social economy are as follows:

- Ability to create jobs
- Provision of essential goods and services
- Ability to build capacities and to promote the development of social capital as a tool for tackling unresolved social issues in local areas, such as the democratic participation of the population in the decision-making process or social exclusion (Evans et al., 2007)



- Support provided for underdeveloped regions by building public infrastructure and helping individuals living in these regions (Friedman, 2001).

Social economy can be described as part of the economy as a whole, and it is governed by the principle of solidarity and mutuality, and its central role is to achieve social and general interest goals. These goals include activities that benefit society at large like the enhancement of employment, social cohesion and the development of social services. A social economy is also a tool for the modernisation and development of a welfare state, sustainable growth, and decent income and wealth redistribution (The Ministry of Labour, Social Affairs and Family of the Slovak Republic, 2018). It is the economic sector that performs the business activity, and its primary goal is the fulfilment of social needs.

The social economy is a range of products and services that are not realised to generate profits but achieve a social mission. It mainly offers help to socially vulnerable groups of people. Subjects in the social economy are part of neither the public nor private commercial sector, and they include cooperatives, non-profit associations, foundations, mutual-aid societies, and social enterprises (The European Commission, 2013).

Social economy enterprises can take various legal forms although these usually differ from the forms used in the public or private sector in their attitude to production, distribution, consumption and provision of their products and services necessary for the development of specific regions — the social economy together with sustainability present two basic approaches providing a base for economic growth and development of social interests (Connelly et al., 2011).

Various types of local social economies may develop in local areas to help them address their problems. **Weak initiatives** in the social economy sector have appeared, aiming to fill the economic gap created due to various government restrictions. **Strong initiatives** attempt to prevent such restrictions or eliminate them (Connelly et al., 2011). Weak social policies are criticised for having neglected social transformation and ignoring some developmental problems in local areas, e.g. environment (Amin et al., 2002). On the other hand, strong initiatives in the social economy sector focus on activities concerning local communities and are based on the principles of justice, redistribution, solidarity, mutuality and fulfilment of social needs instead of profit maximisation. A critical distinction between the two economies is whether a particular social economy is capable of making capital on its own and to what extent it is dependable on subsidies and redistribution policies (Pearce et al., 2003).



Table 2 shows the characteristics of a weak and strong social economy.

Table 2: *Strong and weak social economy characteristics*

	<b>Weak social economy</b>	<b>Strong social economy</b>
<b>World-view characteristics</b>	Marginalised orientation Roll-out neoliberalism	Main-stream orientation Roll-back neoliberalism
<b>Role of the economy</b>	Corporate social responsibility (CSR) Charity, redistribution Gap-filling	Core business practice Asset-generating, equality Social and economic transformation
<b>Source of problem and solution</b>	Behavioural Building regional capacities	Structural Competition

Source: Elaborated according to (Connelly et al., 2011).

Initiatives in the social economy sector that maximise the potential of the community engagement in local economic development and networking do both: generate social capital and strengthen the local economy (Lee et al., 2004).

The **social capital** that a specific region has plays a significant role in local economic development. The greater significance it has acquired in the last fifteen years has put the social capital in the centre of conceptual and political discussions in social sciences, notably in the fields of political participation, social exclusion and economic development. In the field of local and regional development, social capital is a key issue in the ongoing discussions about a socio-cultural component of the LED process (Helmsing, 2003).

**Social capital** is a set of real and potential resources that facilitate the creation of long-term networks among individuals and within or among communities. There are certain relations, contacts and linkages between the individuals or groups within such networks. Social capital is formed by interest groups that share common norms, values, and understandings. These networks foster cooperation between the participating/networked actors and form a base for social bonds and relations promoting human cooperation, trust and reciprocity. They underpin social interaction among inhabitants and sharing common values (Healy et al., 2001).

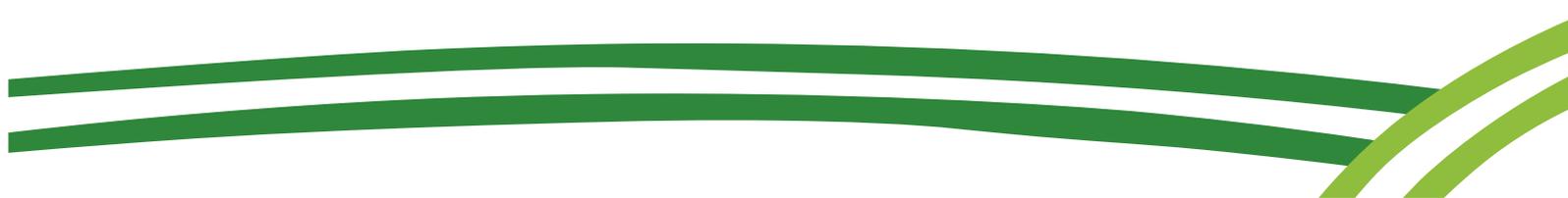
Social capital can have an individual or collective character. Individual social capital yields benefits for individuals and collective social capital for all group members (families, communities, or the entire society) (Lin et al., 2001).

All actors – the local government representatives, local population and entrepreneurs, and the local environment – play a crucial role in the generation of social capital and the creation of social economy. A local context can influence the formation of a local social economy through:

- Requirements and statements of minority cultures
- Intense voluntary activity
- Local government bodies conducting their activity compliant with the norms of the social economy sector in which they operate
- A political environment where differences are accepted and political consensus achieved by discussions held between the individual LED actors
- Strong linkages among various actors engaged in LED
- Local social economy environment supporting the social economy in a specific region (Evans et al., 2007).

## 10. Differences between a social enterprise and social business

Both terms, a social enterprise and social business, present an organisation that seeks to be financially successful while creating a social and environmental impact. Social enterprises concentrate on the fulfilment of combined commercial and social goals, and they reinvest their profit in the community or company. Some social goals of social enterprises include fighting poverty and social exclusion or providing for the socially vulnerable groups of population and their social re-inclusion. These enterprises are not motivated by the need for profit maximisation (Heckl et al., 2007). Despite having a non-profit nature, social enterprises can compete in an open market and contribute to more effective economic competition. They promote solidarity and cohesion in the community, and they are also extremely flexible and innovative (Parlalis, 2011). Social enterprises can be regarded as significant actors contributing to the development of social capital since they build commitment and trust among the population and institutions in a particular area. Moreover, they create services which depend on close links in the local cultural context. Logically, social enterprises are built on strong general interests, unlike their geographical concentration, and provide strong networks that are instrumental in building social capital (Borzaga et al., 2003).



Investments in the social entrepreneurial sector could lead to an increase in social impact (Jones, 2015).

Figure 2 depicts the differences between a social enterprise, a social business, a charity and a for-profit enterprise.

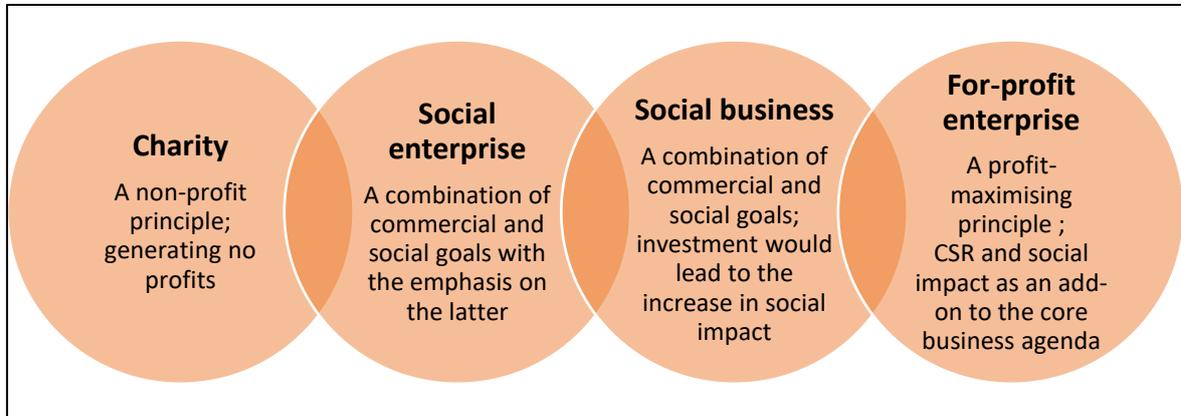


Figure 2: *The differences between a social enterprise, a social business, a charity, and a for-profit enterprise*

Source: Adapted according to (Jones, 2015)

When comparing profit-oriented enterprises, entrepreneurs, social enterprises and entrepreneurs, several differences can be seen. However, some common features can be found in both forms of businesses and enterprises too.

Table 3 shows both the unique and common characteristics of profit-oriented entrepreneurship, entrepreneurs, social entrepreneurship and entrepreneurs.

Table 3: *The unique and common characteristics of profit-oriented entrepreneurship, entrepreneurs, social entrepreneurship and entrepreneurs*

Unique characteristics of the profit-oriented enterprises and entrepreneurs	Characteristics common to both types of enterprises and entrepreneurs	Unique characteristics of the social enterprises and entrepreneurs
High achiever	Innovator	Mission leader
Risk bearer	Dedicated	Emotionally motivated
Organiser	Initiative leader	Change seeker
Strategic thinker	Opportunity aware	Social value creator
Value creator	Persistent	Socially alert
Holistic	Committed	Visionary

Source: Adapted according to (Abu Saifan, 2012)

**Self-assessment questions:**

1. What is local economic development (LED)?
2. What is LED focused on?
3. What types of LED do you know?
4. What are the basic principles of LED?
5. What are globalisation, cohesion and competitiveness?
6. Why is decentralisation essential for LED?
7. Which tools are used in LED?
8. Which steps does a LED programme consist of?
9. What is the essence of knowledge-based development?
10. Which steps does a strategic planning process contain?
11. What are a social economy and social capital?
12. What types of social economy do you know?
13. What are the differences between a social enterprise, social business, charity and a commercial enterprise?

## 11. Summary

Local economic development is a significant concept that contributes to the development of local areas, helps increase the standard of living of their inhabitants, and tackles economic and social issues in these areas. LED is a process in which partnerships are formed among the public and private subjects operating in a particular region for the cooperation in the name of the regional development. Three main types of development can be distinguished, namely the economic development of a local community, the development of the business environment, and the overall regional development planning and management. LED is based on six fundamental principles that are used to guide its initiatives. Important factors and processes that significantly affect, form and stimulate all LED-related processes, activities and strategies include globalisation, cohesion and competitiveness. LED should be primarily governed by local governments that can best adapt and tailor LED strategies and initiatives to the needs for a specific region as they best understand and have all relevant information about this region, its problems and requirements. Decentralisation plays a significant role in local economic development when power and tools necessary for the implementation of the LED strategy are delegated to a local government level. Three different types



of local economic development are distinguished as exogenous, endogenous and neo-endogenous. In their application, various tools are used to provide funds, business promotion, infrastructural improvements, and human resources development in a local area. For more effective LED implementation, a programme consisting of nine steps is used that helps analyse the achievements and determines the further direction of the local development. The LED strategy should be defined in the way corresponding with a broader development plan of the area and should be implemented within the framework of the strategic planning process. Local economies are equally important for the development of local areas as they can act as a catalyst and accelerate social and economic changes in local communities, create job opportunities, develop social capital, and contribute to the regional development to a great extent.

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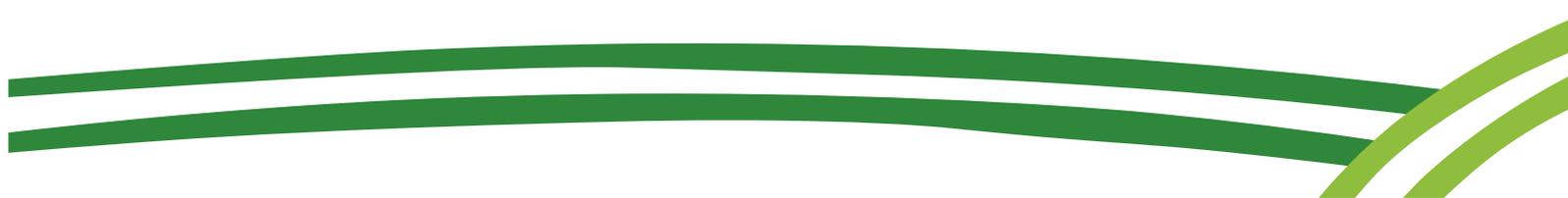
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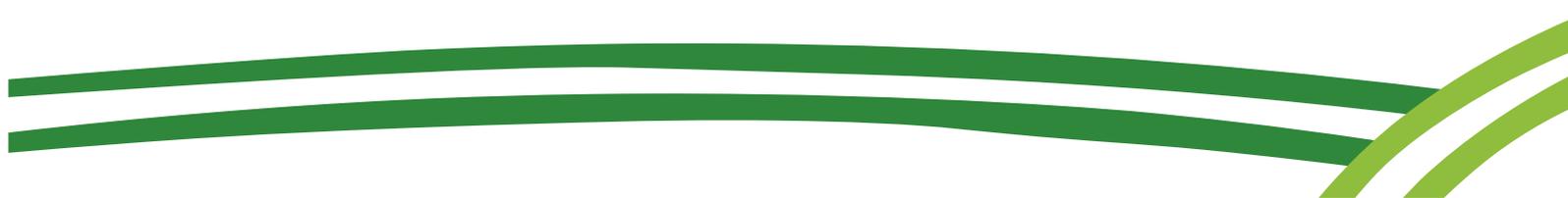
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## Chapter 2. Identification of social entrepreneurial opportunities

### Introduction

Unemployment, specifically youth unemployment, increasing inequalities between regions, violence and crime, social exclusion and poverty, particularly amongst disadvantaged groups, and also environmental issues – these are only a few of the most serious problems of today's world. Tackling these problems, governments and local authorities in individual countries use various tools, most commonly financial support for less developed regions, and subsidies for enterprises to boost employment and the like. Apart from national and local governments, non-governmental and non-profit organisations have recently got involved, making an effort to tackle this unpleasant situation. Many times, however, the effectiveness of the proposed solutions is limited. One of the critical tools for addressing regional problems is social entrepreneurship, which can better deal with specific problems than national governments or other organisations. Therefore, it is essential to identify such opportunities and areas that suit social enterprises and their activities. This chapter pertains to such topics as defining social entrepreneurship, social entrepreneurs and social opportunities. Furthermore, the approach to the establishment of social enterprises that drive social change is described in this chapter.

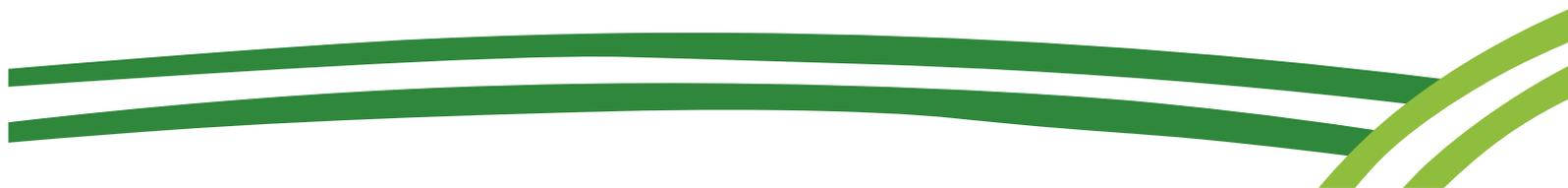
### Learning objectives

After completing this chapter, the learners will understand:

- What social entrepreneurship is and how it is characterised
- Who social entrepreneurs are and what they are like
- How to recognise opportunities for social entrepreneurial activities
- The concept of establishing a social enterprise that drives social change
- The challenges social enterprises are faced with.

### 1. Identification of social entrepreneurs

The phenomenon of social entrepreneurship has received increased attention and popularity in some countries in the last years since many countries in the world are facing up to several social challenges, and because national governments are often not able to provide any workable



solutions. Social entrepreneurship has gradually become a significant form of entrepreneurship that has spread all over the world (Austin et al., 2006). It differs from the “ordinary” entrepreneurship in the business sector mainly in its prioritised focus on solving social problems and generating social value while putting a profit motive as a secondary one (Mair et al., 2006).

Social entrepreneurs are frequently a key to the improvement of socially challenging situations and are capable of providing innovative social solutions that are more effective than government measures (Sassmannshausen a Volkmann, 2018).

## 2. Social entrepreneurship

Social entrepreneurship is a process of creating value by combining resources in new ways. These resource combinations are intended primarily for the creation of social value while stimulating social change or meeting social needs (Lepoutre et al., 2013). Social entrepreneurship can have numbers of forms and intentions, and it can exist in the form of small local enterprises but also in the form of large transnational companies. Social benefits can be orientated towards or limited to small local communities but also communities scattered worldwide (Brooks, 2008).

The social mission is associated with the fact that social enterprises need to have an explicitly set and defined social goal they seek to achieve (Certo et al. 2008). Here, the "social" notion means that social entrepreneurs and social enterprises develop products and services directly satisfying basic human needs that other social institutions and businesses would not be able or willing to provide (Seelos a Mair, 2005). The main distinction between ordinary entrepreneurship/ordinary entrepreneurs and social entrepreneurship/social entrepreneurs is that social entrepreneurs regard creating social value as their top priority while the former group focuses on making a profit (Mair et al., 2006). Ordinary entrepreneurs seek to create a high added value for their customers, but the role of social entrepreneurs is to create social value for their clients in their social enterprises (Dees, 1998).

Social entrepreneurship should include activities and processes focused on the definition, identification and pursuit of opportunities with the aim of enhancing social good by establishing new ventures or innovatively managing the existing ones. The exploitation of these opportunities consequently results in the accumulation of social wealth from which the entire society and entrepreneurs themselves benefit (Robinson, 2006).



Social entrepreneurship targets all of the social issues that are insufficiently dealt with by the government, civil society or the market (Bosma et al., 2010), but it also brings other benefits for society or communities by creating innovative approaches to entrepreneurship that yield creative solutions to complex and persistent social problems.

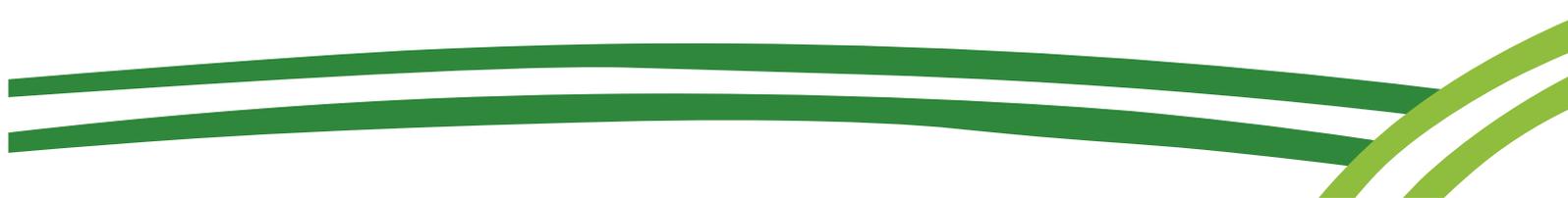
Social entrepreneurship is **primarily** centred around the following **priorities**:

- The provision of goods and services that the market or public sector does not want or cannot provide
- Skills development
- Job creation
- Promotion of the re-integration process of socially excluded people into society.

Besides the primary priorities mentioned above, social entrepreneurship tackles a broad spectrum of **social issues**, such as (Nicholls, 2008):

- The alleviation of poverty
- The improvement of health care services
- The fight against civilisation diseases
- High-quality education and professional training
- Environmental protection
- Sustainable development
- Social welfare projects for the unemployed, the homeless and drug addicts
- Human rights protection.

Factors that prevent accelerated development of social entrepreneurship include:

- The fact that very few people want to get engaged in this type of entrepreneurship in comparison with the traditional commercial one.
  - In some countries, there are no success stories of working social entrepreneurial models, which may prevent the development of social entrepreneurship and discourage emerging entrepreneurs.
  - As a result of a lack of public awareness, there is not enough public support and recognition of the significance of social entrepreneurship.
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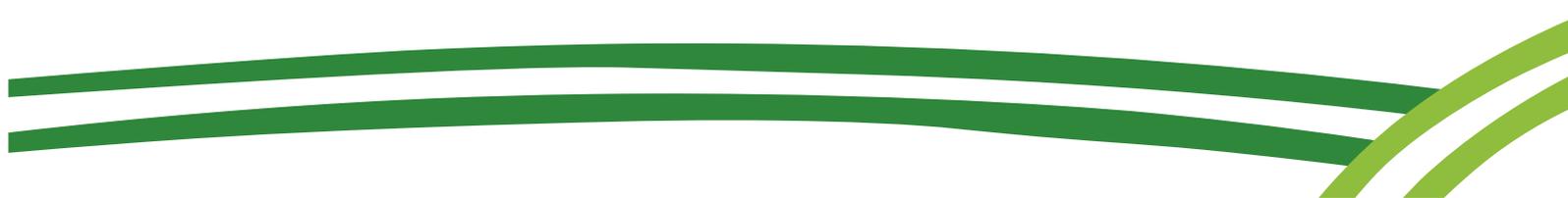
- The lack of awareness leads to an incorrect understanding of social entrepreneurship, its role and mission, creating a climate of distrust in this type of entrepreneurship and entrepreneurs.
- Financial support to social enterprises, particularly to the emerging ones, is insufficient.
- Legislation in the social entrepreneurship sector is unworkable.

## 2.1 Social entrepreneurs

Social entrepreneurs represent a specific type of entrepreneurs that are characteristic of specific personal traits --- they could be described as energetic, hard-working and tenacious individuals who excel in having a faculty to inspire others to join them in their effort to fulfil a social mission. One of the highest skills of social entrepreneurs is their ability to mobilise the efforts of both commercial and non-commercial partners, donors, volunteers and employees in the pursuit of social wealth. Building collaborative partnerships to implement social initiatives is often crucial for success (Pearce and Doh, 2005). Other commonly used characteristics associated with social entrepreneurs are, for example, innovativeness, achievement orientation, independence, low risk-aversion, and a quest to create social value (Brooks, 2009). These entrepreneurs take on responsibility for resolving social problems while trying to stay independent of market forces (Barendsen and Gardner, 2004). Unlike commercial entrepreneurs, social entrepreneurs have committed themselves to serving basic human needs and improving the quality of life in society. Several more traits can be recognised that distinguish social entrepreneurs from those commercial ones. Social entrepreneurs are deeply concerned with the fulfilment of their mission, creation and provision of social value; they act within entrepreneurially orientated organisations, which are characterised by being innovative and, also, profit-making. The primary goal is to generate social value while still maintaining financial self-sufficiency and reducing dependency on private donations and government subsidies. That is possible by performing a combination of social and for-profit activities (Harlog et al., 2011).

**A social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviours in order to deliver social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, and sustainable** (Austin et al., 2006).

Social entrepreneurs play the role of **change agents in the social sector** who:

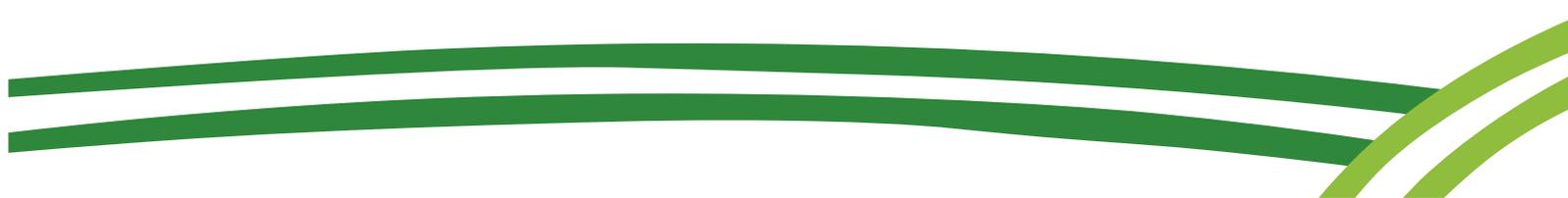


- Adopt a mission to create and sustain social value
- Recognise and relentlessly pursue new opportunities for social value creation
- Engage in the process of continuous innovation, adaptation and learning
- Exhibit a heightened sense of accountability for socially deprived groups of citizens and communities (Short et al., 2009).

By their activities, social entrepreneurs make remarkable contributions to the development of their societies and the local communities, adopting business models to offer creative solutions to complex and persistent social problems (Zahra et al., 2009). They have become visible change agents in developed economies, where they have applied innovative and cost-effective methods to address social problems like poverty, gender inequality or many others (Cox and Healey, 1998). Their ability to recognise opportunities enables them to create social value through innovations. For example, they seek to create sustainable ways to provide help to the disadvantaged population, come up with new programmes focused on the improvement of living conditions in less developed regions, or propose solutions to ensure and improve health care services (Pachea Chowdhury, 2012). Social entrepreneurs should commit themselves to the fulfilment of their social vision and find innovative, pragmatic solutions to social problems despite ideological resource constraints (Elkington and Hartigan, 2008). Social entrepreneurs are individuals with a clear mission and their main goal is to create social value, employ the resources necessary to complete that social mission, and find innovative solutions to resolve social problems of their community unmet by the local system, all by using a set of entrepreneurial behaviours (Bacq and Janssen, 2011).

Social entrepreneurs usually start with small initiatives and frequently concentrate on problems that only have a local impact; however, they may gain a global impact too. These are such activities as access to water, promoting the establishment of small enterprises, or the re-integration of individuals into society (Rawhouser et al., 2008). They tackle specific social issues in various regions while applying and implementing their own methods of tackling these issues. Some might be the grand visionaries who can identify significant or even worldwide social causes and mobilise forces and resources to tackle these concerns; others concentrate more on local issues.

Despite certain similarities in characteristics and personality traits, there is a broad range of individuals engaged in social entrepreneurship. They differ by regions where they operate, by the



types of social problems they address, or by their motivations to pursue social entrepreneurship (Barendsen and Gardner, 2004).

**Three types of social entrepreneurs** can be identified:

1. Social Bricoleur
2. Social Constructionist
3. Social Engineer

**Social Bricoleurs** usually focus on discovering and addressing small-scale local social needs. Although the solutions they craft are sometimes small in scale and limited in scope, they help assuage severe local social problems, and because of their localised and often limited resources and tacit knowledge, they are uniquely positioned to discover local social needs (Zahra et al., 2009).

**Social Constructionists** typically exploit opportunities and market failures by filling gaps that arise on the market in order to introduce reforms and innovations to the social system. They are entrepreneurs who build, launch and operate social enterprises which tackle those social needs that are inadequately addressed by existing institutions, businesses, NGOs and government agencies (Thompson et al., 2000). Such enterprises target social problems and strive to meet local needs. In some cases, the enterprise and its focus may be centred on a relatively small area with a small impact, but in many other cases, the response could be regional, national or even global in scope (Brinkerhoff a Brinkerhoff, 2004).

**Social Engineers** can recognise systemic problems within existing social structures and address them by introducing revolutionary change. As a result, these entrepreneurs often change or destroy existing dated, ineffective social systems, structures and processes, and replace them with newer and more suitable ones, thereby bringing about the revolutionary change. It is precisely the approach mentioned above that distinguishes Social Engineers significantly from the other two types of social entrepreneurs. By replacing the existent dominant institutions and processes with more socially efficient ones, Social Engineers can have a profound influence on society. They frequently focus on national, transnational or global social issues, given the systemic nature of the problems they target. The large scale and scope of their ambitions require Social Engineers to harness popular support for their activities. As a result, their capacity to act rests on their ability to amass sufficient political capital and assemble other necessary resources to achieve their social entrepreneurial goals (Zahra et al., 2009).

The table below describes the individual types of social entrepreneurs. It can be said that the previously mentioned three types of social entrepreneurs differ in how they discover social opportunities, what impact they have on the social system, and how they assemble the resources necessary for the exploitation of these opportunities (Zahra et al., 2009).

Table 1: *Typology of social entrepreneurship*

Type of social entrepreneur	Description
Social Bricoleurs	<p>They act only locally and seek to address local problems.</p> <p>Having a good knowledge of the locality where they operate, they can identify the severest local problems.</p> <p>Local scope means they can use only limited resources to address local needs.</p>
Social Constructionists	<p>They focus on the identification of the gaps and failures of the market to satisfy social needs and seek to fill such holes and remedy such failures.</p> <p>They concentrate on a broader market and locality.</p>
Social Engineers	<p>They intend to attain social goals large in scope and scale.</p> <p>They exploit various sources of data and information on the social problems in localities they target and also use more resources than the previous two types.</p>

Source: Compiled according to (Zahra et al., 2009)

## 2.2 Social entrepreneurial opportunities

**Identifying and then taking advantage of a suitable opportunity** are essential steps for the successful implementation of any entrepreneurial activities, and the same applies to those that put the social mission at their centre. Social entrepreneurs must be able to discover opportunities and make good use of them. Social entrepreneurship is an activity in which individuals or groups of people aspire to create social value while being able to **recognise and exploit entrepreneurial opportunities** (Paredo et al., 2006). **Opportunity** can be defined as a feasible, profit-seeking potential venture that provides an innovative novel product or service to the market, improves on an existing product/service, or imitates a profitable product/service in a less-than-saturated market (Singh, 2001). **The identification and discovery of an opportunity** is a fundamental assumption for successful entrepreneurship in the social sector and the creation of social value.

Any business venture presupposes the identification and discovery of potential opportunities, and the subsequent evaluation that may lead to the exploitation of those opportunities that are most suitable for the pursuit of an entrepreneurial mission. Despite certain similarities, social entrepreneurial opportunities are different from other business opportunities as they are embedded in a social sector market (Robinson, 2006), are concerned with social issues, and are targeted at creating social value (Thompson, 2002).

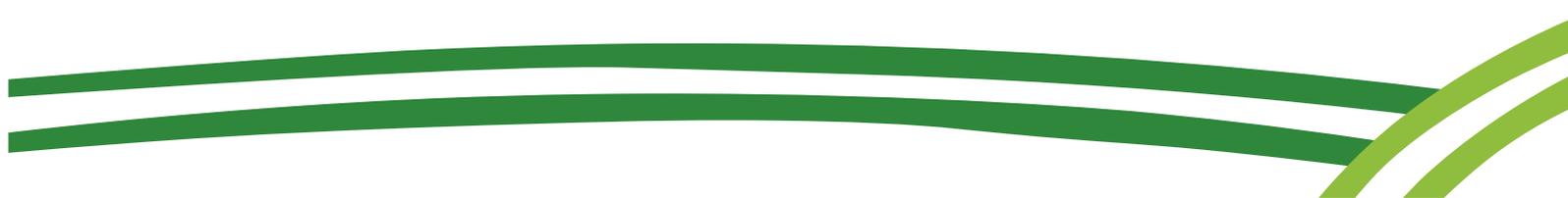
For the recognition of entrepreneurial or business opportunities, it is crucial that entrepreneurs have some previous experience and knowledge of doing business as well as the entrepreneurial background of a social entrepreneur (Robinson, 2006). What is most critical of all is their ability to identify the entry barriers to markets. For any entrepreneur, experience has two dimensions:

- business experience, which relates to experience in managing, owning, or being employed in business and,
- social experience, which is essentially general life experience.

Relevant experience of both kinds can be precious for entrepreneurs. Either category can enhance an entrepreneur's ability to identify and overcome social, economic, and institutional entry barriers to a market.

Entry barriers represent one set of the criteria entrepreneurs can use to evaluate business opportunities. Social entrepreneurial opportunities are best analysed in the context of social and institutional factors or social and institutional entry barriers to markets (Robinson, 2006).

These **entry barriers** can be divided into several categories (Robinson, 2006):

1. **Economic entry barriers**, such as cost advantages, product differentiation, capital requirements, technology investment and research and development investment.
  2. **Social entry barriers**, preventing entrepreneurs from using the social network of relationships that exist within a market to their advantage. Social networks that may present barriers to firm entry may be the owners of competitive or other businesses, business organisations, civic organisations, political infrastructure and attractive labour markets.
  3. **Institutional entry barriers**, preventing entrepreneurs from knowing or accommodating the rules, norms and values that contribute to the culture on the market. These occur at multiple levels and determine the relationship between a firm and the consumer, and the firm and
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the community. They are related to the institutional structure of a market. Formal (or public) institutional barriers are the kind of barriers that may prevent entrepreneurs from entering the market, for example, governmental systems, laws, financial markets, or lending institutions.

4. **Cultural entry barriers**, such as language, etiquette, attitudes, beliefs, and expectations of people may prove to be fatal for the firm aiming to enter an unfamiliar market.

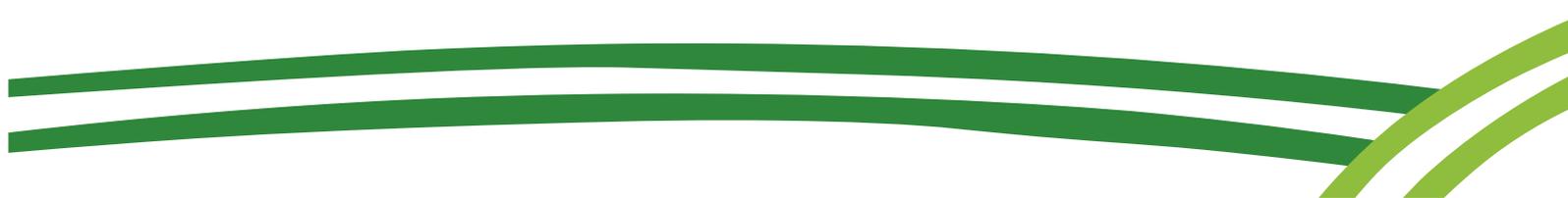
When identifying opportunities and evaluating entry barriers, entrepreneurs should be interested in:

- The benefits arising from a particular opportunity
- Access/lack of access to the necessary resources for gaining such benefits
- The risks involved in the pursuit of the opportunity
- The existence/non-existence of any barriers preventing the exploitation of the opportunity.

Based on the analysis of these factors, entrepreneurs can evaluate a specific opportunity (Robinson, 2006).

Social and institutional barriers to markets obscure entrepreneurial opportunities to those who operate in unfamiliar markets. Where most people would see barriers, some see an opportunity (Casson, 1982). In the context of social entrepreneurship, the social and institutional barriers are of the highest importance because they are usually the factors that drive the social problems the entrepreneur is attempting to solve. It can be argued to this point that entry barriers influence all parts of entrepreneurship.

Figure 1 depicts the influence of these entry barriers on entrepreneurial opportunities. Such barriers may deter entrepreneurs when making the market entry decision, after entering the market, and also when elaborating and implementing a suitable business strategy (Robinson, 2006).



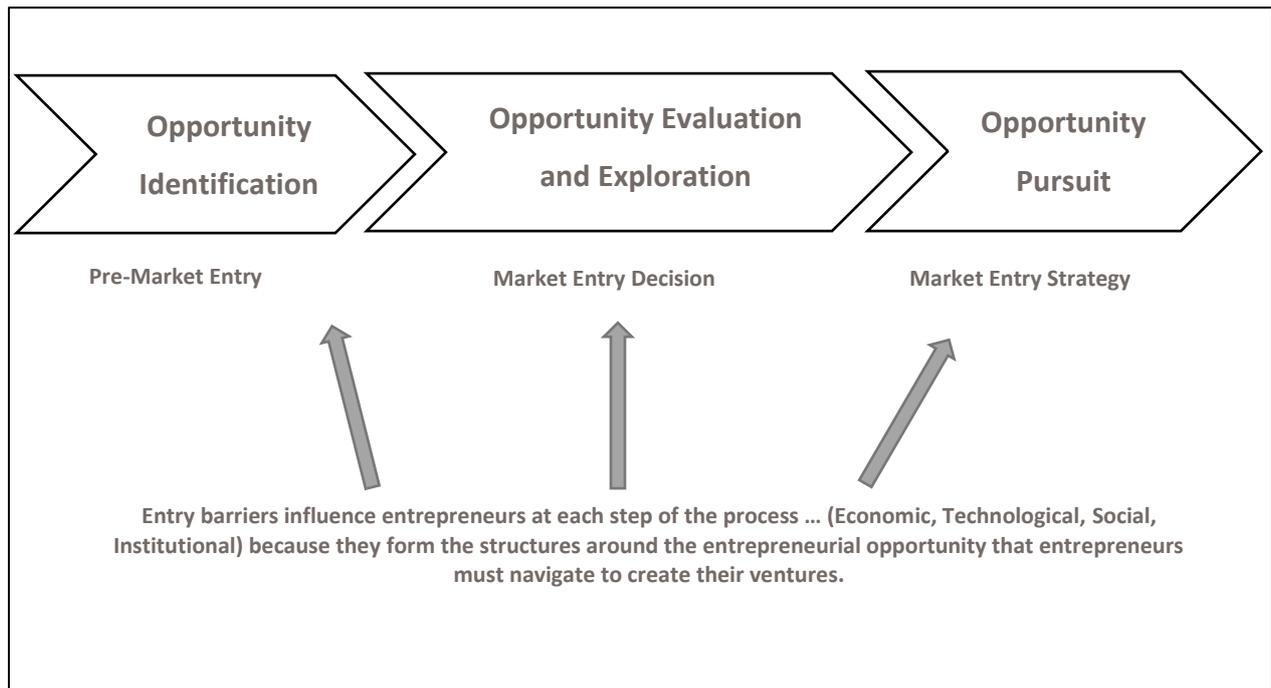


Figure 1: *Influence of these entry barriers on entrepreneurial opportunities*  
Source: Robinson, 2006

Figure 2 shows the navigation of social and institutional entry barriers during the individual phases of social enterprise management. Two basic phases can be identified:

- The first phase concerns the processes of opportunity identification and evaluation, and it can be marked as the **cognitive navigation** of social entrepreneurship.
- The second phase relates to the pursuit of the opportunity, and it can be described as the **strategic navigation** of social entrepreneurship.

Both phases are of the same importance in the implementation of social entrepreneurial activity. Recognising and overcoming the entry barriers is key to the identification and evaluation of social entrepreneurial opportunities and identifying and overcoming the barriers in the second phase is vital for the pursuit of the opportunity and the selection of a suitable implementation strategy.

In the first phase, entry barriers may prevent entrepreneurs from recognising an opportunity because they lack the necessary experience and knowledge in the field, and in the following phase, they may prevent the implementation of a specific strategy.

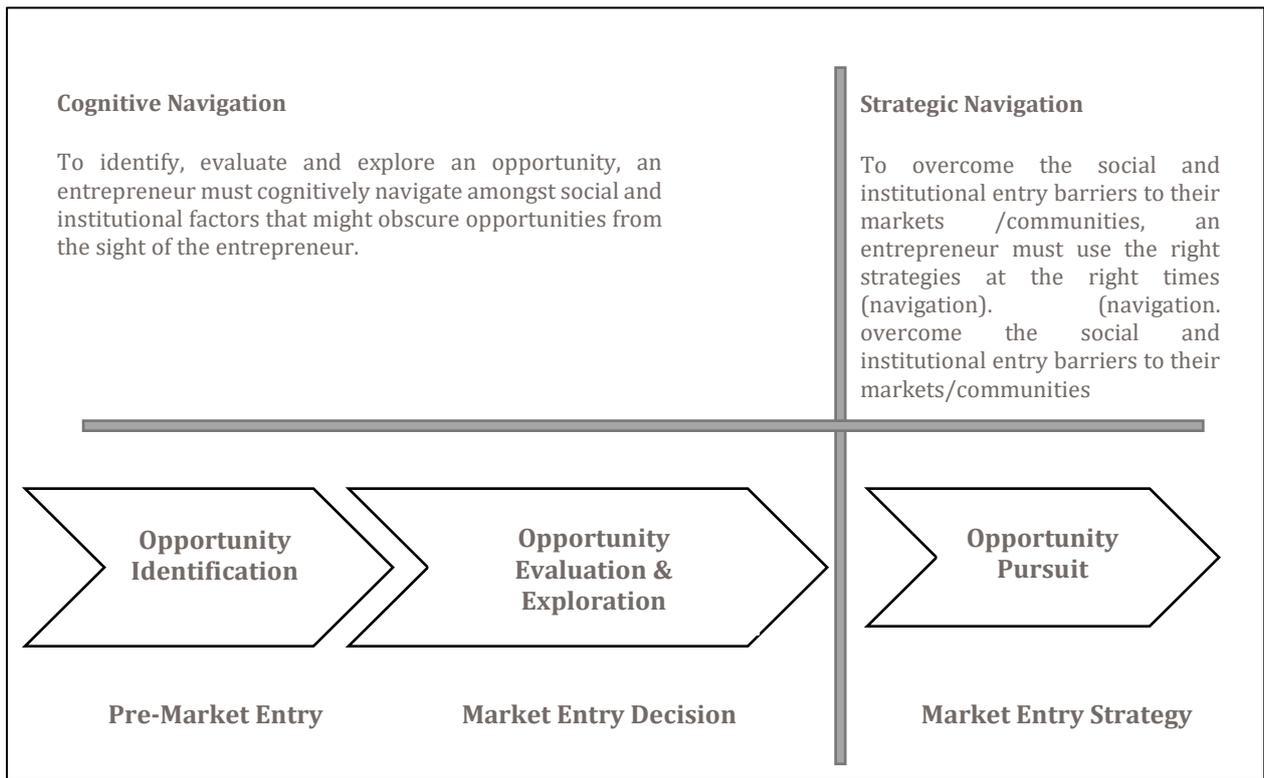


Figure 2: Social and institutional entry barriers  
Source: Robinson, 2006

Two approaches to the opportunity recognition in social entrepreneurship are distinguished:

According to the first, the **rational approach**, the entrepreneur addressing a particular social issue would begin with defining the desired outcome of their business activity and then assembling the resources necessary to achieve that particular outcome (Corner a Ho, 2010).

The other one, the **economic approach**, is the opposite of the previous one since the implementation of social entrepreneurial activities does not start with the opportunity identification (precise specification of a product, service or risk), but with the allocation of all **available resources** which can be used for addressing a specific issue. The resources that entrepreneurs can utilise include the skills and knowledge of the entrepreneurs themselves as well as material resources or people having specific knowledge or skills that they can use when solving problems. The identification of an opportunity or problem comes only after the allocation of the available resources that could be used in pursuing this opportunity or resolving this problem (Sarasvathy et al., 2010).

### 2.3 The process of starting up a social enterprise bringing social change

An entrepreneur is a person who perceives opportunities and sets up an organisation to pursue such opportunities. **The entrepreneurial process, therefore, contains all functions and activities that are part of opportunity perception and the establishment of an organisation for the pursuit of opportunities.** Several factors affecting the establishment and development of a new venture can be distinguished such as personal, sociological, organisational, environmental, and others. The entrepreneur can gain a business idea either through intentional or random opportunity identification. Whether or not they decide to explore and develop the idea depends on numerous factors like alternative career prospects, family, friends, the condition of the economy, or the availability of resources.

Figure 3 shows the entrepreneurial process, and the factors above that affect the process in its individual phases (Bygrave and Zacharakis, 2011).

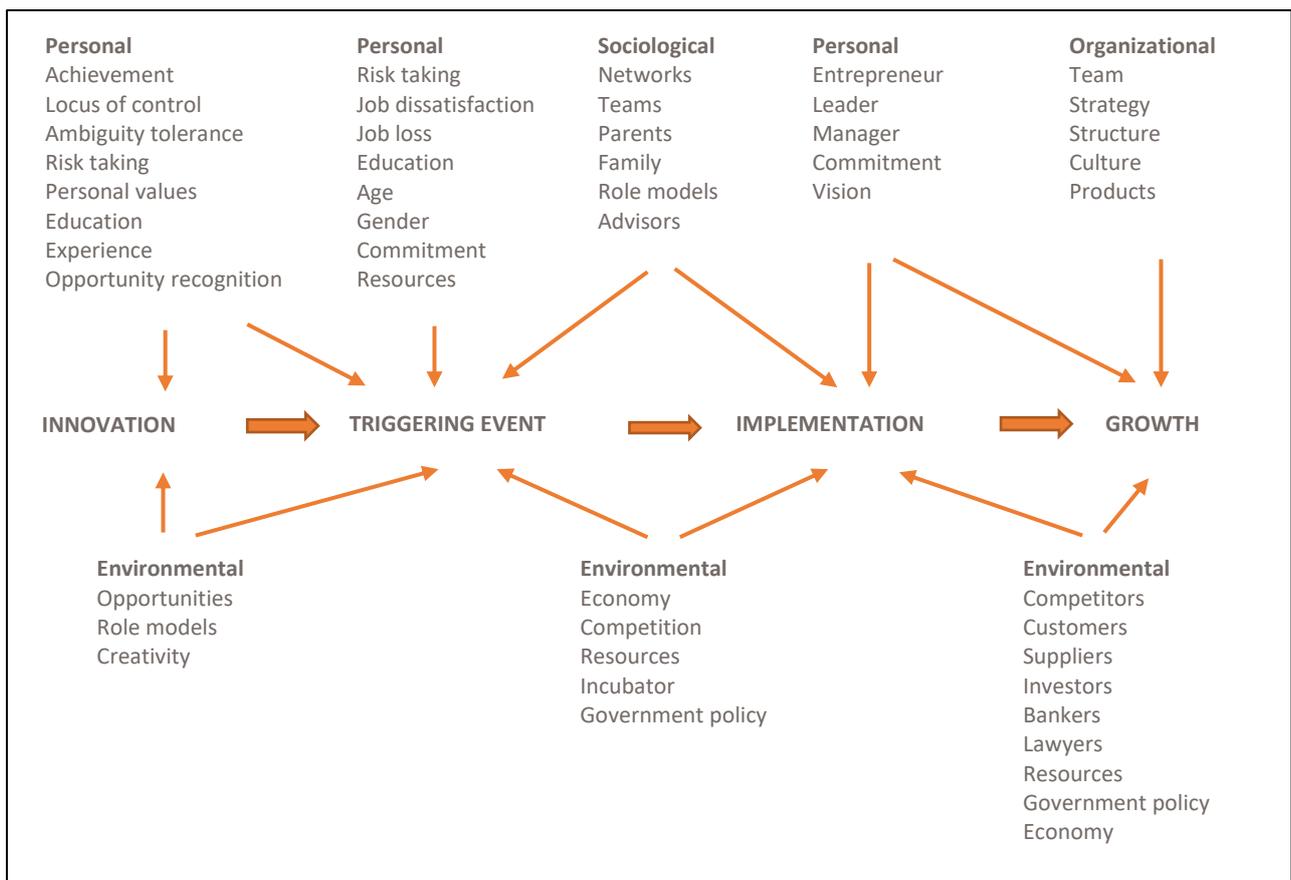


Figure 3: The entrepreneurial process and the affecting factors  
 Source: Elaborated according to (Bygrave a Zacharakis, 2011)

Because social entrepreneurship intends to pursue social goals, each social enterprise begins with the identification of goals. For a social enterprise to achieve the specified goals, it must go through a multi-step process. Again, this process, ranging from an initial idea, through the business creation, to the achievement of its goals and fulfilment of its mission, is identical to the business creation process regarding a commercial enterprise; however, the difference is that a social enterprise concentrates on creating social value and fostering social change.

The new business creation process consists of the following steps:

1. Identifying a social entrepreneurial opportunity and formulating a business strategy
2. Creating a suitable business structure
3. Raising funds necessary for business operation
4. Evaluating the achieved outcomes
5. Increasing the positive social entrepreneurial impacts.

### 2.3.1 Identifying a social entrepreneurial opportunity and formulating a business strategy

The identification of opportunities is the **beginning of the process** that leads to the addressing of social issues and the satisfaction of social needs. Subsequently, it is necessary to develop and implement a suitable strategy to pursue the opportunities. In this phase, like in a commercial enterprise, a social enterprise must comprehend the financial aspects of business management or the so-called **business model**.

The business model of every enterprise is comprised of two components, namely:

- **Revenues** – a component that defines all sources of income that a business yields, summarises all kinds of company incomes, and classifies them into specific categories; the more specified the categories, the more information available on the operation of specific business areas. Concerning a social enterprise, it can be allocated government grants and subsidies.
- **Expenditures** – a component that identifies how the company resources are used/spent.

A business model is presented in the form of a company's profit and loss account. Understanding the company's business model enables entrepreneurs to make decisions that lead to a better and more effective company operation while fulfilling its mission. Another equally important element in the management of a social enterprise is people who manage it and work there.

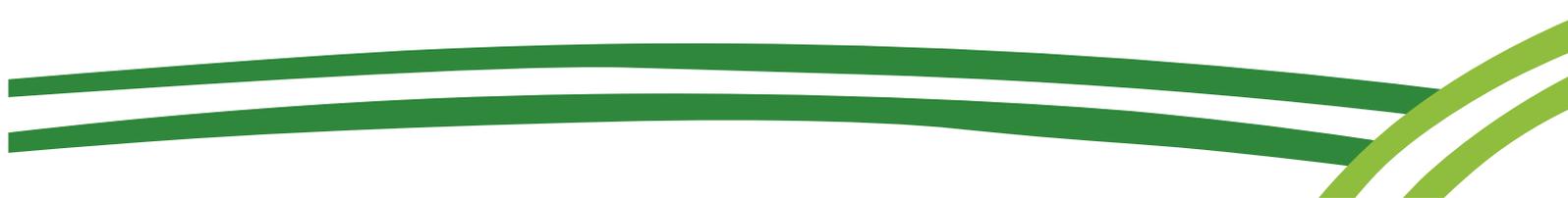
At the beginning of a social enterprise, it is necessary to formulate a suitable strategy for the effective performance of social entrepreneurial activities (Gartner et al., 2004). Emerging/starting entrepreneurs often think that their business needs a clear, identifiable and unique competitive advantage, whereas an **essential competitive advantage** rests in the knowledge of the people working in the company. It is essential from the very start of a business operation to introduce such a business culture that allows the usage of the company staff's knowledge and skills. The founder of the company must determine by which values the company will be governed. These **values** are the opinions shared by all employees in the company. The introduced culture then has a crucial impact on the business strategy (Bygrave and Zacharakis, 2011). Entrepreneurs should create an adequate working environment, motivating the staff and facilitating their identification with their company and its mission.

### 2.3.2 Creating a suitable business structure

The phase of entrepreneurial opportunity identification is followed by the phase of creating a suitable and flexible business structure of an organisation. It should be remembered, and it is recommended, particularly during the initial phase of building the social enterprise structure, that the people capable of doing multiple tasks and working at various positions be hired. It is a mistake to fill a vacancy with someone who is used to working at a single position only and performing particular tasks in a single professional field.

At the second phase, it is crucial for entrepreneurs to become thoroughly familiar with the enterprise and its strategy, to know the target group, the competitive advantage, the basic model of earning revenues and covering expenditures, amongst other useful elements. Subsequently, a method needs to be invented for the implementation of all these elements or procedures in the daily business operation, and an optimal organisational business structure created to guarantee the effective business operation (Gartner et al., 2004).

A starting enterprise must make several important decisions on:



1. A type of **organisational model**.

In the early stages of starting up, an enterprise can choose to apply the organisational model that already exists in another enterprise or to create a new and innovative model of satisfying social needs and tackling social problems.

2. A **legal form** of an entrepreneurial organisation.

A starting enterprise can opt for a for-profit or non-profit business model and decide whether or not to be categorised as a social enterprise.

Having considered the advantages and disadvantages of both alternatives, an entrepreneur needs to make the best choice. Either form of entrepreneurship offers different ways of management and funding. For example, for a non-profit social enterprise, it is possible to raise government funds in the form of a grant or tax benefits. On the other hand, these benefits come hand in hand with other country-specific legislative requirements and restrictions, regarding accountancy or other day-to-day operations (Bygrave and Zacharakis, 2011).

### 2.3.3 Fundraising necessary for business operation

**Funding** a social enterprise is a fundamental and critical aspect of the phenomenon of social entrepreneurship. Social enterprises raise funds for their operation by doing their own business, but they can also apply for various other forms of funding such as government funds. The number of providers and the amounts provided to social entrepreneurs continues to grow. Such resources vary in nature and differ in the fundraising methods or the social value they can bring. Entrepreneurs must be able to identify and select the most appropriate resources for an enterprise to meet its goals and create social value. The logic model shown in Figure 4 explicitly clarifies the relationship between the underlying assumptions like the resources needed to support business activities and produce outputs, and the activities and outputs needed to realise the intended outcomes. The model demonstrates the process of social entrepreneurship in the view of creating a positive social impact, starting with the phase of raising the resources and inputs that are necessary for the performance of social entrepreneurial activities, through the outputs of these activities, finishing with the necessary outcomes that may have a social impact (Cooksy et al., 2001).

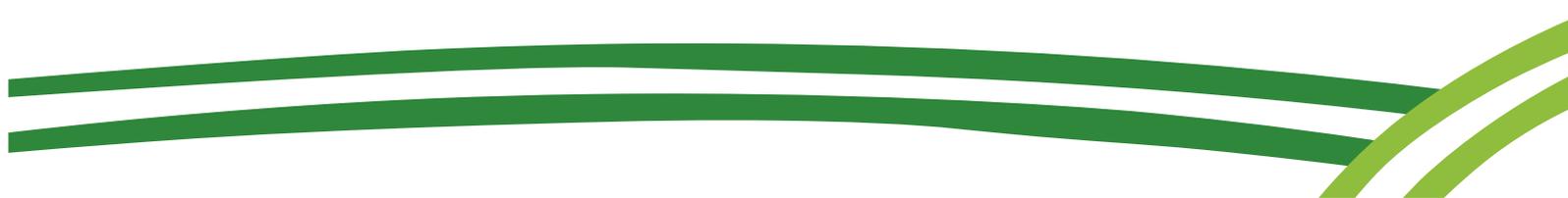




Figure 4: *The logic model*

Source: Elaborated according to (Bygrave and Zacharakis, 2011)

Parts 1 and 2 of the model mark the **steps that are to be made**, and Parts 3 to 5 represent the **outcomes** of the entire process.

**Part 1: Resources/Inputs** include:

- Human Resources
- Financial Resources
- Non-financial entrepreneurial support.

**Part 2: Activities** describe **“how and when”** the above resources are to be employed.

**Part 3: Outputs** includes specific products and services that an enterprise intends to create to offer.

**Part 4: Outcomes** show the intangible assets as a result of social entrepreneurship.

**Part 5: An impact** indicates the influence of the entrepreneurial activities, i.e. any intended, desired or unintended effect or change in the business outcomes at the end of entrepreneurship (Cooksy et al., 2001).

### 2.3.4 Evaluating the achieved outcomes

In every business, it is inevitable to **quantify the outcomes** of all entrepreneurial activities. Every business must be economically viable to survive and be able to operate without persistent financial losses. Therefore, even a social enterprise must measure and evaluate its outcomes.

The outcomes of business activity are most frequently measured using financial indicators. However, social entrepreneurship is not primarily for-profit, but not-for-profit, aiming to achieve social goals and address social issues. This aspect means that financial indicators will not be relevant to capture the significant outcomes of a social enterprise (European Commission, 2015) and for the evaluation of its outcomes, the attention should be directed to the extent to which the enterprise

has attained its social goals. It is necessary to determine whether the outcomes produced or the impact made bring the originally intended social values. It can be quantified, for example:

- How many people have been helped
- How many students have been provided with a decent education
- How many disadvantaged people have been helped to find jobs, and so forth.

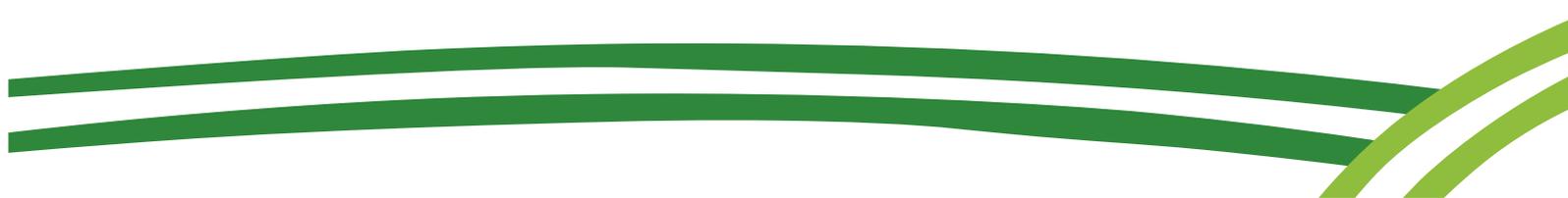
Only afterwards, it can be evaluated whether, if at all, or to which extent, the required outcomes have been produced.

The majority of evaluations are carried out in two/three phases (Bygrave and Zacharakis, 2011):

1. **Phase: Formal evaluation**, which should take place during the performance of the activities. This type of evaluation provides the possibility of monitoring how well a particular activity is working, and if necessary, it allows taking some measures to improve the performance.
2. **Phase: Overall evaluation**, which should measure whether, or to which extent, the activity has brought the desired outcomes and achieved the required impact.
3. **Phase: Long-term evaluation**, which is carried out several years after the completion of the activity when the long-term effect of the activities is observed and evaluated.

### 2.3.5 Increasing the positive impacts of social enterprise

Achieving social entrepreneurial ambitions and goals frequently starts as a relatively small "experiment" that serves as proof of the viability of particular entrepreneurial activities aimed at resolving some social issues and bringing social change. As soon as these social entrepreneurial ambitions turn out to viable, a question arises how to scale up the operations and increase their impact to help more people. This is the last, and many times the most problematic phase of social entrepreneurship: the phase of the implementation of social entrepreneurship. In other words, a high number of social entrepreneurs are not interested in scaling up and increasing the impacts of their enterprises. These entrepreneurs and their businesses are firmly bound to the local communities where they can create social value and tackle social problems within the local context and are not motivated or willing to expand and increase the scale of their activities.



Furthermore, the fact that these social entrepreneurs have succeeded in doing business in their small-scale geographical areas, such as the region or city, does not automatically mean it will be easy for them to apply the same strategies, carry out the same activities and succeed somewhere else on a massive scale (Bygrave and Zacharakis, 2011). Therefore, it is necessary to seek ways to increase the positive effects of social entrepreneurial activities to the highest degree possible and to maximise the potential positive impact of social entrepreneurship (European Commission, 2015).

## 2.4 Potential challenges and failures of social enterprises

Social entrepreneurship begins with the idea of social opportunity recognition or the identification of opportunities to solve social problems, continues with the creation of a business model, mobilisation of the necessary resources for the realisation of the business model, and eventually finishes with the fulfilment of the intended goals (Doherty et al., 2014).

The roots of social entrepreneurship lie in the development of the private sector. The collaboration of the government, private/for-profit, and non-profit organisations had long yielded some possible solutions to social problems and inequalities; however, there were still some chronic problems that had never been resolved. It was the phenomenon of social entrepreneurship and social enterprises that were first to embrace innovative approaches to creating the desired change in tackling social issues, by changing the concept of an entrepreneurial mission and rethinking and redesigning the value a social enterprise should create and provide (Brown et al., 2015). Social enterprises seek to create general interest services and to achieve the required social and environmental goals. They yield multiple social benefits although, in some cases, they do not necessarily provide solutions to social problems and meet unmet needs. This may happen even if they offer innovative goods and services or resort to innovative organisation or production methods (Majerčáková, 2015).

Nowadays, social entrepreneurship has to face the **two most significant challenges**:

1. Lacking a **theoretical background** and clear conceptual understanding. Social entrepreneurship can be sometimes regarded as a by-product of greater concepts of social innovations and entrepreneurship in general; therefore, there is the absence of clear theoretical boundaries and the need to find the consensus regarding the definition of social entrepreneurship (Mair et al., 2006). Therefore, one of the critical issues about social entrepreneurship is to clarify and define its key concepts and constructs because, for

example, according to some researchers in the field, every entrepreneurship has a social dimension in the sense of creating and bringing value to society.

2. Bringing the social entrepreneurial **impact at large**. Social entrepreneurship can have a significant impact on the economic system in a country as it contributes to the development of new industries, introduces new business models, seeks to redistribute resources in a way that tackles social problems marginalised and neglected by the government and society (Santos, 2012). Through their entrepreneurial activities, social enterprises can also broaden their economic, social and environmental impacts (Haugh, 2007).

A challenge for social entrepreneurship is also **the aid provided for less developed countries**. Social entrepreneurship is particularly important in developing countries and regions where gaps exist in social development, and the economy is lagging (Chell, 2007).

Generally, failure is the direct opposite of success. In a commercial enterprise, failure is often associated with the inability to build a profitable and viable business. In a social enterprise, failure is mostly associated with its social mission and purpose. **The social enterprise failure** can be defined as a situation in which a social enterprise cannot fulfil the desired social goals. A social enterprise can fail in two possible ways (Kramer, 2005):

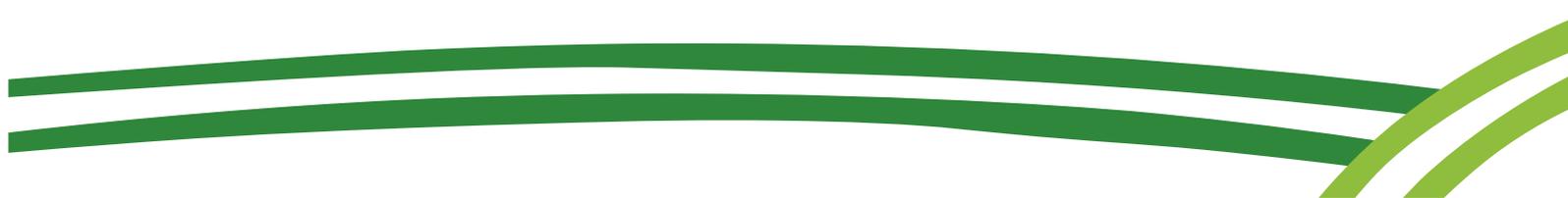
1. **Financially**, i.e. it is not able to generate or otherwise raise enough revenue to stay afloat to conduct its social entrepreneurial activities.
2. **Socially**, i.e. it is not able to formulate a working strategy and activities to achieve its social goals and fulfil its social mission.

A social enterprise can fail due to several factors, such as (Rykaszewski et al., 2013):

**External factors**, for example:

- Insufficient legal support for social entrepreneurship in the country
- Lack of unified measurement methods for social impact
- Lack of external funding
- The absence of support for early-stage start-up social enterprises
- Insufficient support to social entrepreneurship from the general public.

**Internal factors**, for example:



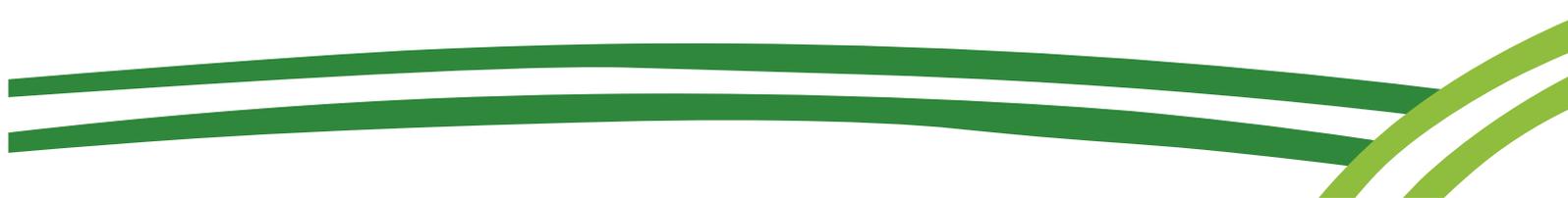
- Inability to raise funds or get through the funding gap
- No solid business model or/and unsuitable social business strategy
- Inability to innovate
- Mistakes made in recruiting well-qualified and driven staff members
- Inappropriate/unfit personal qualities of social entrepreneurs.

For a better understanding, several examples of social enterprise failure are presented below:

*Lack of legal support:* This factor can prevent the development of social entrepreneurship, particularly in less developed countries; however, it may happen even in well-developed ones. Unfortunately, Canada can serve as an example, where there is virtually no legal forum for social enterprises and no organisation to deal with legal support to social enterprises. As a result, there is mistrust and much uncertainty, mainly due to the absence of legal structures and limited possibilities of obtaining tax credits or other forms of financial benefits for social enterprises. The United Kingdom and the USA are the opposite, where there are legal structures in place to assist social enterprises and create a suitable environment for their development (Rykaszewski et al., 2013).

*Lack of external funding:* In some countries, social sectors remain undercapitalised. The risk-aversion of some banks is an example, with banks being cautious when granting loans to social enterprises. Unless there is an alternative in funding, social enterprises may stagnate in such countries in the end. In Canada, again, external funding is a serious issue. On the contrary, some alternatives for raising money are available, such as crowdfunding in Great Britain (Rykaszewski et al., 2013). Crowdfunding belongs to newly-established alternative fundraising methods, being a platform for generating capital for new projects and ventures by collecting small amounts of money from numerous people. It directly puts together the individuals who have money at their disposal and want to lend or invest it along with those who need the money to finance a specific project.

As can be concluded from the aforementioned, some of the most difficult challenges include **the continual adaptation to the changing situation in the market and society, the development of suitable and sustainable funding models for the pursuit of social entrepreneurial activities, and the continuous improvement of the operational effectiveness of a social enterprise** (Borzaga et al., 2001).



A small café called “The 4th Street Eatery”, which used to exist in Grand Forks, USA, can be a perfect illustration of a social enterprise failure. A non-profit, part of Prairie Harvest Mental Health facilities, served people with special needs. The café was located directly inside the building and staffed by approximately ten clients of the health care centre. This social enterprise had to close due to several problems they could not resolve. The most serious one was growing operational costs and lack of finance even though the county, whose building the eatery was in, provided the facilities free of charge. The grave financial situation developed because of very few customers and high transportation costs due to the difficulty with supplies purchasing. Vendors did not deliver to the café because of low volume, so the staff members were required to shop for and transport supplies themselves. Another reason for closing was, according to the executive manager, that the eatery operation was more like a sheltered workshop for clients, rather than an opportunity for them to work in independent positions in the community. The café also continually struggled to find capable supervisory staff who would not only have had social work background and ability to work with disadvantaged clients but a previous restaurant or similar experience (McCambridge, 2013).

One of the most challenging social entrepreneurial issues is in securing help provided to underdeveloped countries. The implementation of any social entrepreneurial projects in these countries is tough because of the precarious social and economic situations these countries face, and many social enterprises fail in their efforts to help. The issue of Liberty & Justice, an enterprise founded to help the Liberian people, can serve as an example. It was an apparel manufacturing business and employed over 300 workers. Despite having collected the sponsorship money for 40 million dollars and opening its own manufacturing plant near Liberia’s capital of Monrovia, the business went bankrupt, and Liberty had to shut the factory down. The two main reasons were the outbreak of war in the country and the West African Ebola crisis when the disease reached epidemic proportions in 2014, afflicting the area of Monrovia where most of the employees came from. The Liberian government declared a state of emergency, and the majority of the population had to stay in quarantine. Another serious problem was the recruitment of qualified and affordable executives to supervise the manufacturing process, and hence the operation of the business. Although the enterprise was not faced with the lack of funding, it failed due to the external factors it could not affect at all (Nee, 2015).

The last example of the entrepreneurial failure presented in this chapter is related to the problem of government support, unclear legislation and a tremendous administrative burden imposed on

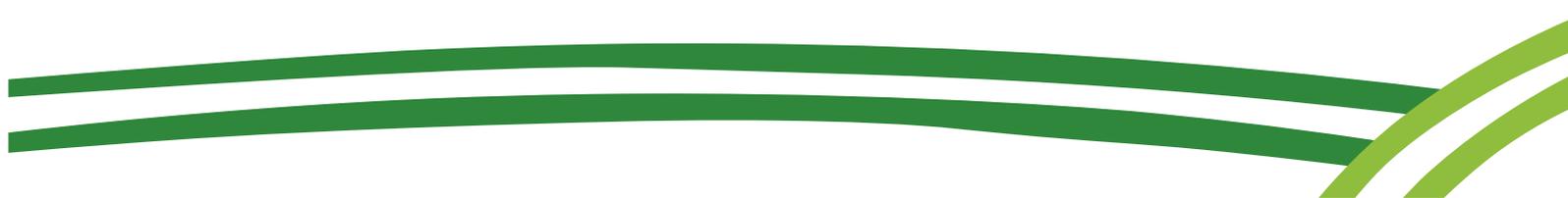
social enterprises. A social enterprise in the village of Somotor, Slovakia, working with targeted communities, was forced to scale down the project and dismiss some employees in 2009. The reason was the funding gap which had developed when the government delayed their payments of the necessary funds to cover the employees' wages and salaries. The enterprise had not been provided with any funds for the labour costs for three months in a row as, allegedly, they had not submitted the complete documentation to the relevant authorities, the fact of which the enterprise had never been informed. Eventually, the complex legal instruments, a lot of administrative duties and a lack of awareness among the entrepreneurs led to the wind-up of the social enterprise (Onuferová, 2009).

**Self-assessment questions:**

1. What is social entrepreneurship?
2. Which main areas/priorities does it concentrate on?
3. Which main social issues does it seek to address?
4. What are the advantages and disadvantages of social entrepreneurship?
5. What are the differences between social and commercial entrepreneurship?
6. What are the basic types of social entrepreneurs and how can they be distinguished from each other?
7. How can social entrepreneurial opportunities be characterised?
8. What kind of barriers can prevent social entrepreneurs from market entry?
9. What factors can affect the entrepreneurial process?
10. Which steps need to be taken in the entrepreneurial process, from setting up a social enterprise to achieving the intended goal?
11. Present the individual phases of the logic model depicting the relationship between the assumptions, resources and outcomes?
12. Which components does a business model contain?
13. What are the most significant challenges social entrepreneurship has to face nowadays?

### 3. Summary

Social entrepreneurship has become a significant tool for addressing multiple social problems in recent years. It is a process of creating social value, centred on bringing innovative solutions to social problems while putting making profit as a secondary issue. Social entrepreneurs take on



accountability for resolving social problems. They are a specific type of entrepreneur who seek to meet social goals using the classical business model and behaviours that are independent, self-sufficient, and sustainable. Three types of social entrepreneurs can be identified: Social Bricoleurs, Social Constructivists, and Social Engineers. They differ in geographical operation and scope of the possible impacts of their activities. The process of pursuing socially-oriented entrepreneurial activities consists of the identification of an appropriate opportunity, development of a suitable business strategy and organisational structure for the enterprise, raising funds, evaluation of the achieved outcomes, and the effort to increase their positive impact.

## Recommended literature

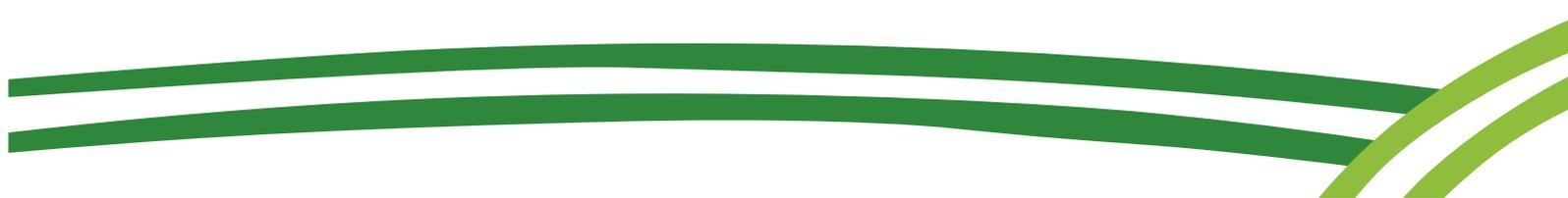
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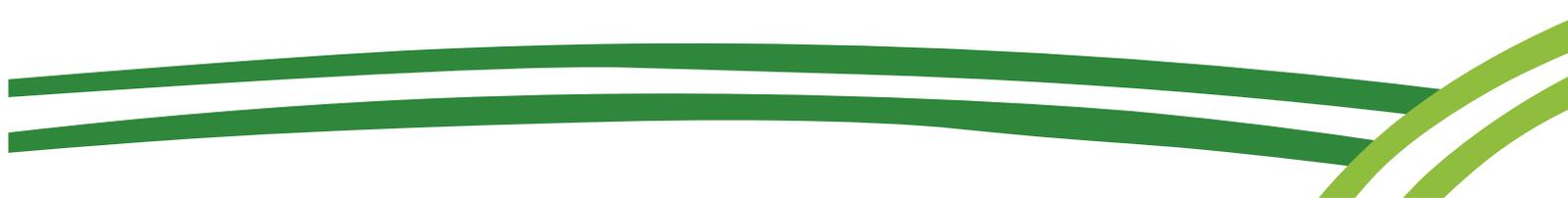
## Resources

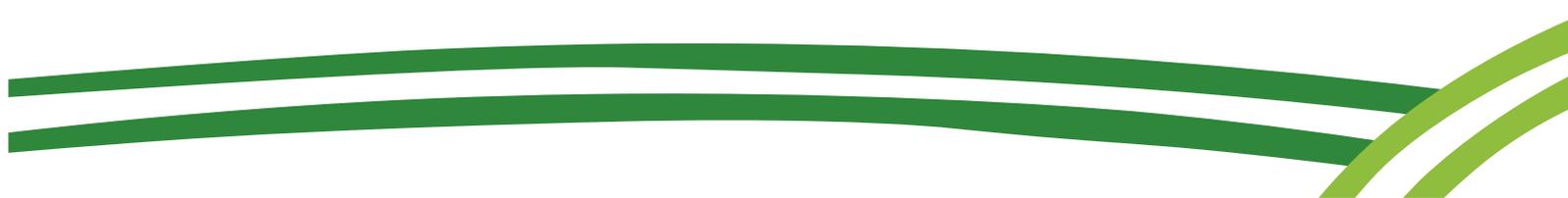
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## Chapter 3. Creating social impact through social enterprise

### Introduction

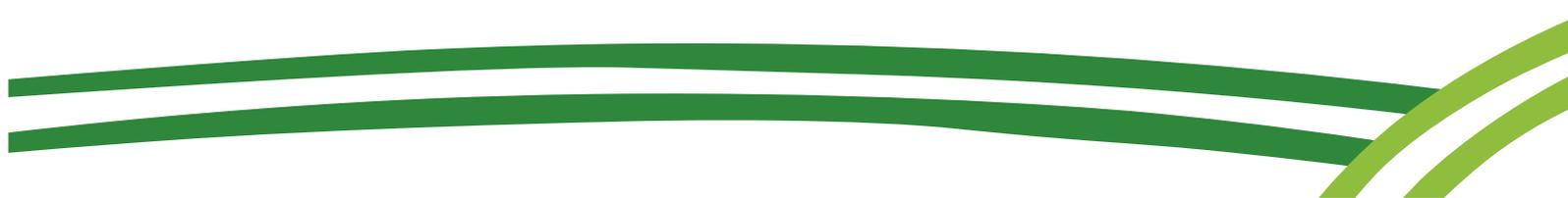
For the development of the overall social and economic situation in a country and its regions, the active engagement of all actors who can support it is of crucial significance. These include mainly enterprises, government institutions and, naturally, the citizens of the country. It is essential that the activities the actors perform and the decisions they make create positive social impact and social value, whereby fostering the regional development and resolving its social problems. One of the most significant tools is social entrepreneurship, as social enterprises put tackling social issues at the centre of their activity and seek to achieve quite a broad social impact and to create social value. It is necessary that social enterprises pursue the entrepreneurial activities that maximise their social impact. To this end, they need to understand how their activities influence society and how this influence can be measured and evaluated. This chapter defines social impact and its measurement and describes social innovation, social value, and social value principles. The management of a social enterprise is also pertained to so that the enterprise is able to achieve the desired performance. Finally, the system of business performance measurement and the concept of return on social investment are introduced at the end of the chapter.

### Learning objectives

- After completing this chapter, the learners will understand:
- What social innovation is
- The process of social innovation
- What social value and social value principles are
- What social impact is and how to measure it
- The management of a social enterprise
- The concept of return on social investment

### 1. Social innovation

The great wave of industrialisation and urbanisation in the 19th and at the beginning of the 20th centuries was not only accompanied by the upswing of social entrepreneurial activities, but also by the introduction of **social innovations**. Various models of childcare, housing, community



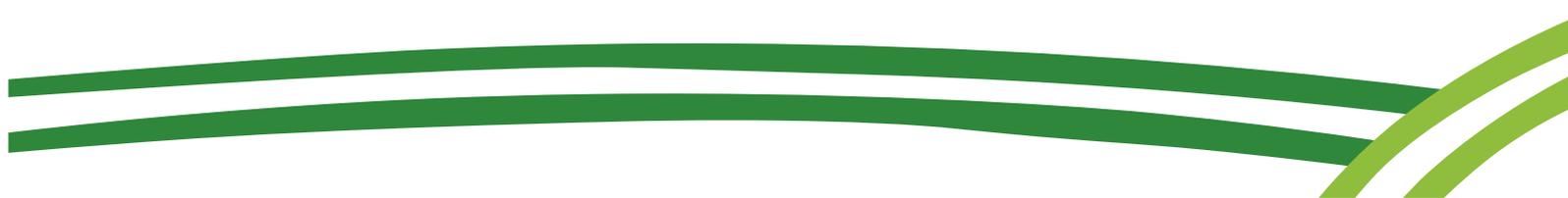
development and social care started to be applied in many developed countries. At other times, governments built schools and education systems, university networks and healthcare systems, and civic and charitable organisations came to existence in this period. In the last years, governments have taken the lead in social innovation. Despite all these trends, the process of social innovation and its application has been lagging behind the innovation found in the business sector.

While business innovations are generally driven by profit maximisation, social innovations are concerned with innovative activities and services that focus on tackling social problems and that are predominantly developed and diffused through organisations whose primary purposes are social (Mulgan, 2006). Social innovations are usually new combinations or hybrids of existing elements, rather than inherently new in themselves. Creating social changes and putting them into practice is a process that often involves cutting across boundaries. It means cooperation and the development of social bonds/alliances between individuals and organisations across various industries and sectors. Social innovations refer to new ideas and attitudes that work in meeting social goals. They can also be defined as innovative activities and services that are motivated by the purpose of meeting unmet social needs (Mulgan, 2007).

Some of the most significant fields where social innovation is particularly desirable are as follows (Mulgan, 2006):

- Rising life expectancy, requiring new ways of organising pensions and care for pensioners.
- The growing diversity of countries and cities, demanding innovative ways of co-existence between different nationalities and cultures.
- The rising incidence of chronic/long-term diseases, demanding novel models of medical support.
- Problems related to unhealthy lifestyle habits, such as obesity, bad diets as well as addictions to alcohol, drugs and gambling, impossible to be resolved satisfactorily by using any of the existing traditional models and approaches.
- The transition of teenagers to adulthood.
- The re-inclusion of ex-prisoners into society after being released from imprisonment.
- Climate change and environmental issues.

The two fundamental approaches to the creation of social innovations can be distinguished:



1. Social innovations developed by/resulting from the work of **individuals** – the initiators of change being energetic and persistent individuals – leaders of social innovation include, for example, politicians, intellectuals, entrepreneurs as well as NGO activists.
2. Social innovations developed by/resulting from the work of **teams/movements, groups of people and organisations**. In recent years, the role of individuals in social innovation has faded into the background, and that of groups of individuals and various organisations has come to the foreground (Mulgan, 2006).

### 1.1 The process of social innovation development

Putting social innovations into practice is a process in which an innovative idea, designed to tackle to solve a social problem, has to pass through several stages until it is eventually implemented. In the initial stage, the idea is verified, and its feasibility tested. Subsequently, a suitable strategy is developed, and the resources for the implementation of the innovative idea are identified. Another phase is the adaptation of the innovation to a real situation, followed by the last stage of systematic change.

#### 1. Stage: Generating ideas by understanding needs and proposing potential solutions

The starting point for social innovation is an awareness of needs that are not being met, followed by some idea of how it could be met. While some needs are apparent, such as hunger, homelessness or disease, others are less obvious, such as racism or the need for protection from domestic violence. Next, the identified needs have to be tied to new possibilities. These possibilities may derive from modern technological advancements, new organisational forms, or from new knowledge (Mulgan, 2006). Several stakeholders take part in the development of social innovations (individuals, organisations and public institutions), who review the options and seek appropriate solutions (Hochherner, 2013). At this stage, social policymakers can step into the process of social innovation development and support the proposals that have the real potential to succeed (European Commission, 2013).

#### 2. Stage: Developing, prototyping, and piloting ideas

The second phase of any innovation process involves taking a promising idea and testing it out in practice. Social innovations may be helped by market research; however, progress is often achieved more quickly by turning the idea into a prototype and practical testing. Very few plans survive their

first encounter with reality. The first testing usually fails, but it is necessary. Innovations, therefore, require several goes and pilots before they start to work. They develop and improve while being tested.

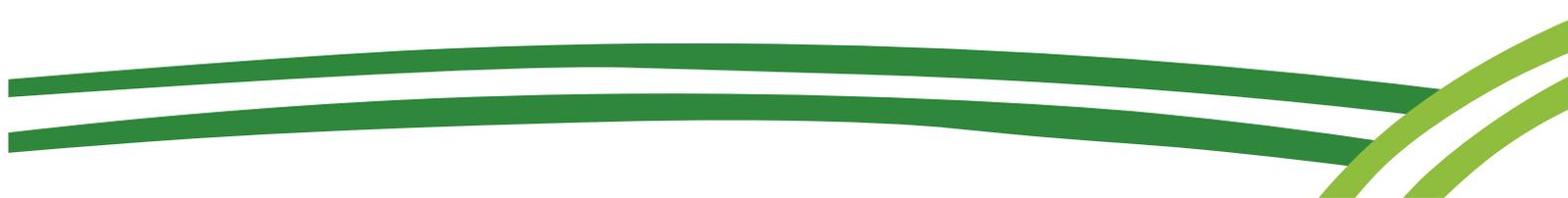
Social innovations are sometimes implemented too fast and all of a sudden. The main reason is that the individuals or organisations involved are highly motivated and too impatient to wait for governments or great foundations to act (Mulgan, 2006). Testing can be accelerated and supported by policymakers and government institutions (European Commission, 2013).

### **3. Stage: Assessing then scaling up and diffusing the good ideas**

The third stage follows when an idea is put into practice, and its pilot testing proves it can work. Taking a good idea to scale is a critical phase as it decides the success or failure of innovation. For a new idea to be implemented successfully, it is essential to select a suitable strategy, tools and support from outside that will promote the diffusion of the innovation (Hochherner, 2013). Innovative and creative social entrepreneurs often need to find large support organisations with the machinery to make things happen on a big scale. These may frequently be governments, playing the critical role in scaling up social innovations, as they have unique capacities by which to do this. They can pass new laws, provide public funds and aid through public agencies. The process of diffusing social innovations is contributed by other enterprises and members of the public that support them (Mulgan, 2006). This stage also includes the development of suitable management and funding models to secure the long-term financial sustainability of innovation in the future (Murray et al., 2010).

### **4. Stage: Learning and evolving**

Social innovations continue to change and develop through the fourth stage. Their initiators gain new knowledge and experience by managing social innovations and working in the field. Based on all the knowledge gained, innovations can be better adapted into the forms they are intended for, whereby evolving further and becoming more flexible and formalised (Mulgan, 2006). Changes in the application of social innovations may contain, for example, the adaptation of innovation development strategies, the alteration of innovation management methods, personnel management changes, or the supplementation of the innovation by missing elements. Furthermore, social innovations need to be adjusted over time, regarding the changing social, economic and political situation (European Commission, 2013).



## 5. Stage: Systemic change

The ultimate goal of social innovation is to achieve systemic change, which usually involves the interaction of many elements: social movements, business models, laws and regulations, data and infrastructures, and entirely new ways of thinking and doing. Systemic change generally involves new frameworks or architectures made up of many smaller innovations. Systemic innovation commonly involves changes in the public sector, private sector, grant economy and household sector, usually over long periods (Mulgan, 2006). Innovations that are systemic by nature, remarkably transform some fundamental systems such as the general infrastructure, housing, and healthcare, educational and social services. Some good examples of systemic change include the creation of welfare states after the Second World War, the introduction of comprehensive education programmes in Europe, and the spread of democracy (Murray et al., 2013).

### 1.2 Social value principles

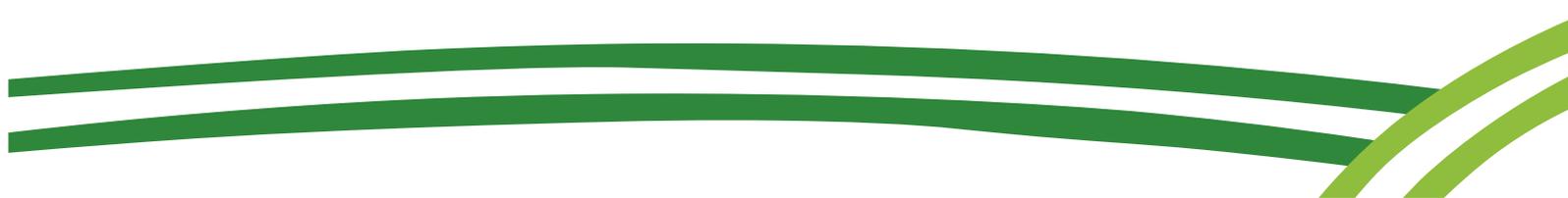
One of the most significant differences between ordinary entrepreneurship and social entrepreneurship is **social value** creation. Generally speaking, »social value« can be perceived as **the broader non-financial impacts of programmes, organisations and interventions focused on the well-being of individuals and communities, social capital and the environment** (Wood and Leighton, 2010).

In the last years, there have been increasing demands for the definition and measurement of **social value** (Mulgan, 2010). In this respect, it is necessary to define:

- Outputs (and)
- Outcomes.

**Outputs** are the results of activities performed by an organisation, usually stated within the action plans or the set of goals of that organisation, such as the providing of food or shelter to the homeless or the organising of conferences and discussions on social issues.

**Outcomes** are the long-term observed effects of the outputs and present the real, observable changes an organisation seeks to bring about. Such outcomes can be, for example, where homeless people, previously living in the streets with no jobs, have found jobs and adequate housing now.



The measurement of social value pertains to the measurement of broader outcomes, which can be directly attributed to the activities of social enterprises (Mulgan, 2010).

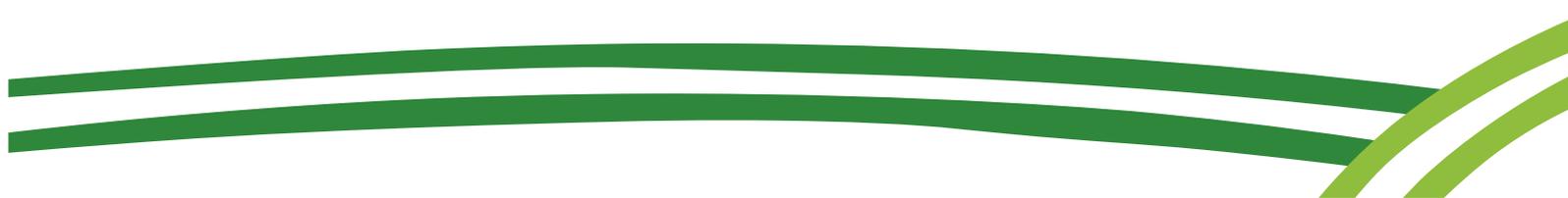
The importance of social value measurement stems from the considerable benefits the measurement can provide for an organisation, namely:

1. Strengthening its position when the impacts of any acquired external form of funding are being assessed and justifying the role of the organisation in the more effective provision of services.
2. Putting it in a better position when communicating the value of its work and making a stronger case for additional funding and investments for its business activities.
3. Providing it with the ability to have an impact by focusing its efforts on what really makes a difference, which helps an organisation to plan more strategically and allocate resources more effectively so that its activities yield the highest social value.
4. Stimulating its continuous improvement by regularly re-assessing the social value it creates.
5. Giving it a tool for asking and finding answers to the right questions (Wood and Leighton, 2010).

Today, there are several frameworks and methods for social value measurement. The selection of an analysis that will be used for quantifying social value depends on multiple factors, for example, the country where the social value is measured, the region for which it is measured, and the like. The most frequently used methods of social value measurement include: Cost-Benefit Analysis (CBA), Social Accountancy (SA), Social Return on Investment (SROI), and Basic Efficiency Resource Analysis (BER).

### **Cost-Benefit Analysis (CBA)**

Cost-Benefit Analysis is a relatively simple and widely applied method, which helps one decide whether or not to make a change. It is based on the evaluation of greater value. The purpose of CBA is twofold: the first, to determine whether a specific project is of value to the decision-maker and the resources have been reasonably invested, while the second is to provide the documents on the ground of which several projects can be compared. CBA monetises the benefits the project is expected to generate and compares them with the associated costs to see which one is greater. If the benefits are greater than the costs, it is economically viable for the project to continue. There



are two main types of CBA. One type is called an ex-ante analysis, and it is used to evaluate a project that has not yet started. Ex-ante serves as a tool for calculating project costs and benefits. The other type is the so-called ex-post analysis, which is carried out after a project has been completed. The outputs from such cost-benefit analysis enable an organisation to see the project benefits from the economic point of view, including the broader social value the project or projects can generate. It is often used to decide which of the many projects to be implemented can yield the highest social value (Tuam, 2008).

### **Social Accountancy (SA)**

Social Accountancy is commonly used in the business context or the context of corporate social accountability. This method is used by non-governmental organisations, charitable organisations and government agencies that are interested in social value quantification. The crucial difference between SA and CBA is that Social Accountancy is associated with an organisation as a whole rather than a particular project that an organisation is implementing. Social Accountancy tracks all processes and activities in an organisation that are related to social impact, and it enables an organisation to develop a strategy that will help improve its performance in that direction. Through the social accountancy process, an organisation can better understand its impact on a local community and its members, whereby building accountability to the community by collaborating with key stakeholders (Gray, 2001).

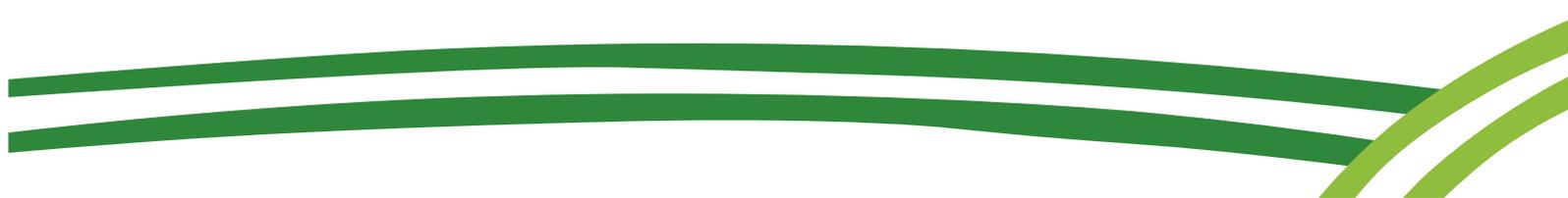
### **Basic Efficiency Resource Analysis (BER)**

BER is a cost-effective approach aiming to provide a simple framework for evaluating complex multi-unit programmes. The method is built on the basic concepts of social return on investment (SROI). The purpose of this method is to evaluate the impact of a specific unit compared to its resources, and to other peer units operating within the same programme (Cugelman et al., 2010)

There are **seven principles of social value**:

#### **1. Involve stakeholders**

*„Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders“.*



Stakeholders are those people or organisations that experience change and are affected due to activities targeted at social value creation. This principle means that all stakeholders need to be identified and then involved in the process of social value creation. What also matters is the expertise and experience of the staff in an organisation whose activities will create social value and the analysis made by another impartial organisation (Social Value UK). All information and objections brought up by the stakeholders, and the impartial organisation, help create a set of relevant data about the region and community and therefore accustom the organisational activities in a way that they bring the highest possible social value to the broadest target group (Hillman et al., 2001).

## **2. Understand what changes**

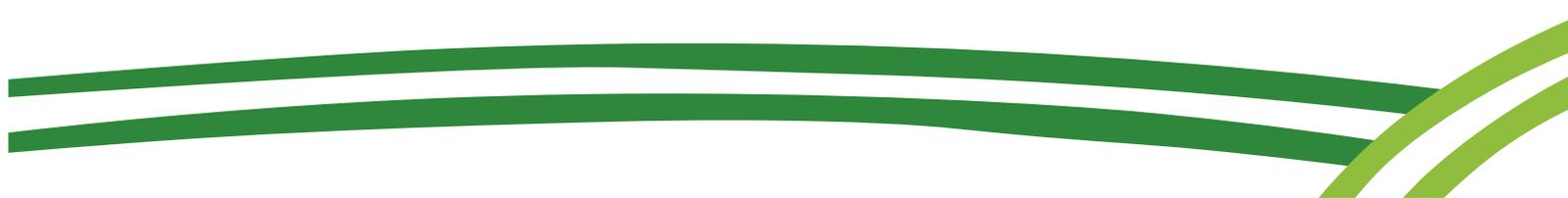
*„Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are both intended and unintended.“*

Social value is created for or by various stakeholders and results from different types of change that have been made in a particular region. Changes that bring social value can be planned and intended, but also unplanned and unintended, which happen without any intervention or contribution of the organisation, both positive and negative. Changes result from all activities performed with the help of stakeholders, and by understanding these changes, it is possible to measure the social value they deliver. This social value principle includes the identification of measurable outputs, the determination of the indicators for their measurement, and the collection of data for value measurement (Social Value UK).

## **3. Value the outcomes that matter**

*„Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders’ preferences“ (Social Value UK).*

This principle points to the significance of comparing the individual outcomes generated by an organisation’s activities. Each outcome needs to be assigned some kind of value, frequently financial, on the grounds of which it can be assessed which outcomes are of the greatest value and therefore which resources will be allocated to support them (Sinclair, 2013). When assessing the



value of the outcomes, financial indicators are used to measure the social impacts based on the environmental, social, and economic value they produce (Waikar et al., 2013).

#### 4. Only include what is material

*„Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about the impact“ (Social Value UK).*

Stakeholders may have different priorities and decide differently. In their involvement in the process of creating social value, it is being decided what information they will be provided. This principle requires that the proper consideration is taken whether stakeholders would make a different decision about the activity if they are not provided with some information (The SROI Network, 2012).

#### 5. Do not over-claim

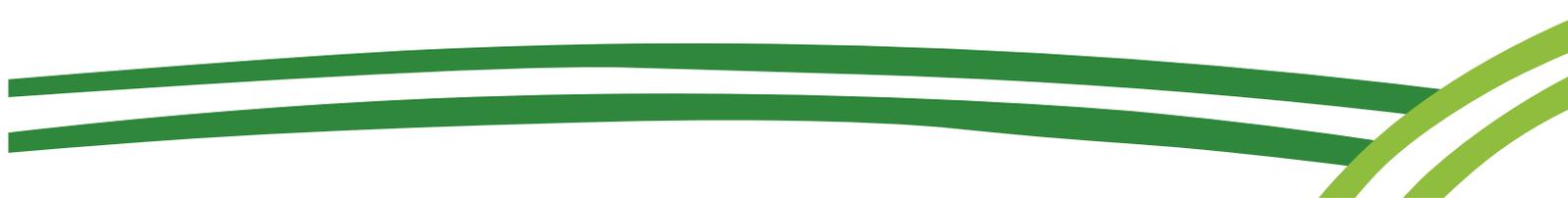
*„Only claim the value that activities are responsible for creating.“*

Not all activities can yield the expected and desired changes; therefore, it must be clear to which extent a particular activity has actually contributed to that change. All changes need to be analysed, and all factors that could have caused them assessed as certain external factors, institutions or individuals other than stakeholders may have played their role too (Social Value UK). This principle promotes transparency in the process of social value measurement, in which changes due to an organisation's activity should be taken into account, but the value the organisation is not directly responsible for creating should be excluded. Each organisation should analyse what would happen, or what change would be produced, providing that the organisation did not participate in the activity. Also, it is necessary to assess and specify precisely which activities led to which changes (The SROI Network, 2012).

#### 6. Be transparent

*„Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.“*

The process of social value creation needs to be transparent in all decisions. This principle requires that each decision and activity is justified and well-documented in relation to stakeholders,



outcomes, resources and social value measurement indicators. Similarly, all sources and methods of information collection and social value measurement methods should be explained (Social Value UK). Transparency in social value creation and measurement is a prerequisite of a successfully selected social value creation strategy, and it will give the entire process more credibility and reasonability (The SROI Network, 2012).

## 7. Verify the result

*„Ensure appropriate independent assurance. “*

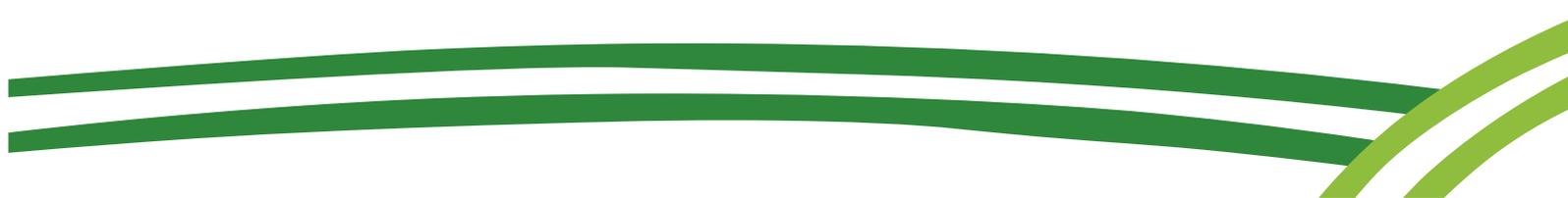
Any account of social value involves some subjectivity (Social Value UK). Therefore, an appropriate independent assurance is required to help stakeholders assess whether or not the decisions made by those responsible for the account were responsible (Sinclair, 2013).

### **A case study: Putting the social value principles into practice (Behind Closed Doors)**

*Behind Closed Doors* (BCD) is an organisation operating in Leeds, Great Britain, supporting victims of domestic violence, addressing social problems, and helping people who face significant practical issues such as housing or debt. The organisation works directly with people aged 16+ and their families.

BCD has been monitoring, recording and evaluating the impact of their services on clients and its social value creation since its establishment in 1997. They find the analysis and measurement of the social value created the best way to demonstrate their achievements.

*Behind Closed Doors* follows the principles of social value and always works to the following targets:

- Understanding the changes and outcomes that they create through their projects.
  - Valuing and understanding the relative importance of outcomes that matter to all stakeholders.
  - Only collecting and including information that gives a true picture of the impact created.
  - Claiming only the value that they are responsible for creating.
  - Always being transparent, accurate and honest about how they measure the social value created.
  - Verifying the results through reporting measurement results and conclusions to stakeholders and discussing them with them.
- 

The BCD staff work closely with an experienced SROI consultant. The social value principles are also applied through defining the parameters for social value calculation and identifying stakeholders and assessing their materiality. A survey is usually done by interviewing stakeholders, either by phone or an online questionnaire. The questions asked are mostly about the changes and outcomes they experience in their community, how these came about, and which role BCD has in making these happen. All the data and answers collected are consulted and validated with consultants, volunteers and the BCD team. When processing the data, the *Behind Closed Doors* organisation uses online tools such as Global Value Exchange and Social Value Bank, which are designed to provide information on measurement, management, and maximisation of social impact.

Based on this analysis and understanding the changes that BCD had achieved, it was possible to discover ways to work even better and improve the services they provide. For example, they are:

- Introducing new ways for people to access their services (including changed opening hours, offering phone and online support as well as face-to-face meetings to clients, extending their focus on children and people with special needs).
- Providing opportunities for volunteers who want to help the organisation.
- Providing consultancy services for clients to support their personal development.
- Organising regular meetings with clients (every six months) where they have a greater say in developing and improving the BCD services.
- Developing a new electronic database system to make the information and reporting on the outcomes accessible to the staff and stakeholders.
- Introducing a project targeting people with mental diseases (as a result of a survey among stakeholders that showed that the majority of the clients reported problems with their mental health).

The application of social value principles has helped the organisation to improve the services they provide and to increase the social value they create due to its activity. Their understanding of the changes and willingness to adapt to them, as well as considering the stakeholders' remarks, meant that the level of satisfaction of the clients has improved. All 67 clients supported in the programme for people with mental health problems improved their overall being and mental health, half of them also their physical health, as well as increasing their self-esteem and life balance. Behind Closed Doors, based on their own experience, recommends others to use the principles of social

value. According to the organisation, it is essential to value and compare the outcomes and activities of any organisation, be interested in the opinions of all stakeholders, and continuously pursue its goal - which is to bring social change and to create social value (Social Value UK, 2017; Behind Closed Doors, 2018).

## 2. Social impact assessment

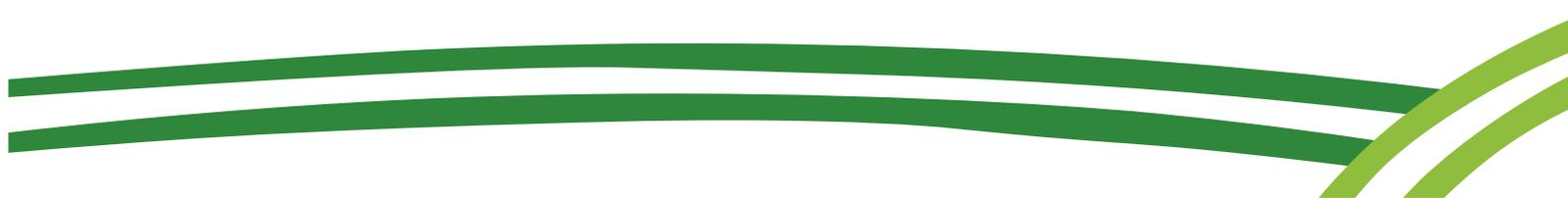
In the light of increasing global competition and the need for stronger links between the knowledge sector and industry and society, government officials and policy-makers at all levels are calling for robust methods of social impact assessment. Social impact is difficult to measure as reliable, and broadly acceptable indicators to assess and compare it are hardly available. There are a number of other well-known problems confronting the practice of social impact assessment, such as:

1. There is an absence or lack of data that could be used for this assessment, and a lack of consensus about what data to gather.
2. Social impact is geared toward a variety of stakeholders, each of them having their own interests, expectations, and preferences.
3. It is difficult to link a particular social impact to a specific effort or activity that caused it (Spaapen and Van Drooge, 2011).

Social impact assessment is conceived as being a framework for evaluating all impacts that affect people and all ways people and communities affect all elements of their environment (socio-cultural, economic, and biophysical) (Vanclay, 2003). It is a process of understanding and subsequently tackling social issues related to development (Franks, 2012).

In general, the focus of the assessment of social impact is on analysing, monitoring and managing the social consequences of development. It is a research study consisting of a set of knowledge, techniques and values. As a methodology or a tool, social impact assessment presents a process experts use to measure and manage social impacts. This approach includes the processes of monitoring and managing intended and unintended social consequences (whether positive or negative), planned interventions (policies, programmes, plans, and projects), and any other processes of social change induced by such interventions (Vanclay, 2003).

The goal of social impact assessment is to:



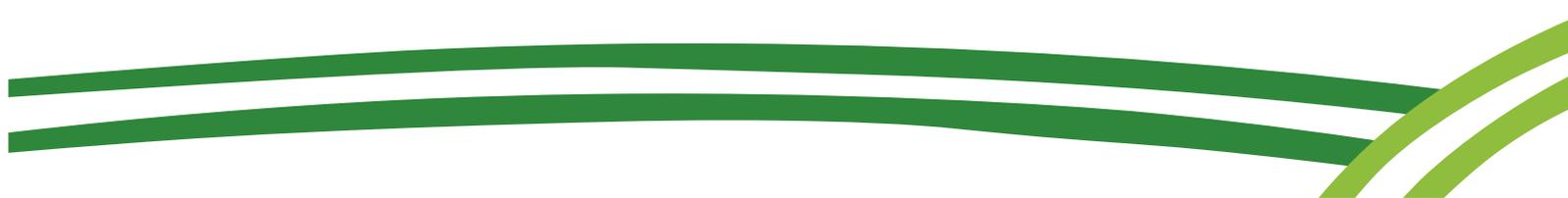
- a) Ensure more ecological, socio-cultural and an economically more sustainable and fairer environment.
- b) Seek to improve development outcomes, not only by addressing and alleviating those negative and unintended ones.
- c) Help communities and all stakeholders identify their development goals and maximise positive impacts, which may be even more significant than minimising the harm caused by negatives ones.
- d) Contribute to the management of policies, programmes and projects.
- e) Involve stakeholders in social impact assessment, while taking into account their knowledge and viewpoints.
- f) Point to the fact that social, economic and biophysical impacts are interlinked, and changing one may mean changing the other two.
- g) Analyse planned interventions into the environment. However, SIA may also be used to analyse social impacts that may arise from other types of event, such as natural catastrophes or demographical changes (Vanclay, 2003).

Social impact is anything that is manifested and perceived by individuals, social groups or economic subjects, and may be positive or negative (Vanclay, 2002). Social impact can be described as a change in one or more of the following aspects of people's lives (Vanclay, 2003):

- A way of life, which is how they live, work and communicate
- Culture (common conviction, habits, values and a language)
- Community (cohesion, stability or community character)
- Political systems, which a scale in which people can participate in making decisions that affect their life or quality of democracy they live in
- Environment (air and water quality, food availability and quality, dust and noise they are exposed to; hygiene, safety and access to resources and resource control)
- Health and general well-being
- Personal possessions and rights
- Concerns and desires.

## 2.1 Phases in the social impact assessment process

Six phases of social impact assessment (SIA) can be distinguished:



## **1. Scoping**

The assessment of social impact starts with the determination of its scope, i.e. the scoping phase means determining the social and geographical boundaries for the social impact assessment. This phase sets the indicators for the later phases of assessment and analysis, by determining the scope, timing, and focus of the SIA. Moreover, all who are likely to be impacted by social change are identified during this phase. The output of the scoping phase is the definition of the objective, scope and scale, priority issues, and the reference criteria for the following assessment phases (Franks, 2012). At the beginning of the process, the likely problems that may happen along with a plan on how to address them are identified (Queensland Government, 2018).

## **2. Baseline/Regional analysis**

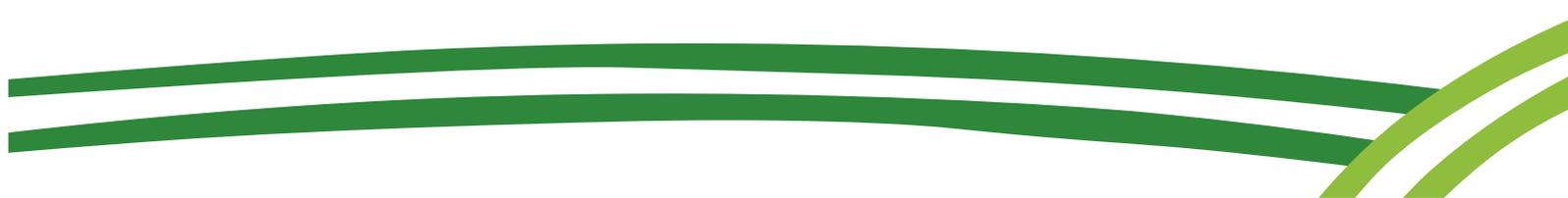
For the assessment to be successful and accurate, the relevant institution needs to understand the conditions in a region where social impact is measured. During the baseline study, the fundamental characteristics of a specific area or region are analysed, for example, the social or economic characteristics (a demographic profile and economic situation, culture, natural resources, stakeholder engagement, infrastructure, a profile of the local labour market, and so on). The results of the analysis then provide baselines and a benchmark for an appraisal of the state of a community before and after the change (Franks, 2012). To assess social impact as accurately as possible, social baseline data must be up to date and obtained from reputable sources (Queensland Government, 2018).

## **3. Impact assessment**

The purpose of the impact assessment phase is to identify and predict the potential social impacts associated with a project and determine their scale and level of significance. This phase enables stakeholders and project developers to decide which project alternatives best achieve the social objectives set for the project while avoiding negative impacts (Franks, 2012).

## **4. A social impact management plan**

All potentially significant social impacts identified in the previous phase must be evaluated based on their significance, bearing in mind that the potential impacts may be both positive and negative. Then, following the analysis of these positive and negative impacts, a management strategy should



be proposed to maximise/enhance the positive and minimise/mitigate the negative impacts (Queensland Government, 2018).

### **5. Monitoring and reporting**

Once again, to assess social impact successfully, it is necessary to monitor and control the whole assessment process. The monitoring and reporting phase involves the collection, analysis, and dissemination of the information on the outcomes achieved, thereby assisting in refining and enhancing the overall assessment. Monitoring can guarantee that all the information used is up to date and relevant. The outcomes of the monitoring phase help track the social impact measurement process, identify the changes needed, and inform the stakeholders of the progress of social impact management (Franks, 2012). If any changes occur in a region over time, it is necessary to return to the second phase, and update and modify the baseline/regional analysis (Queensland Government, 2018).

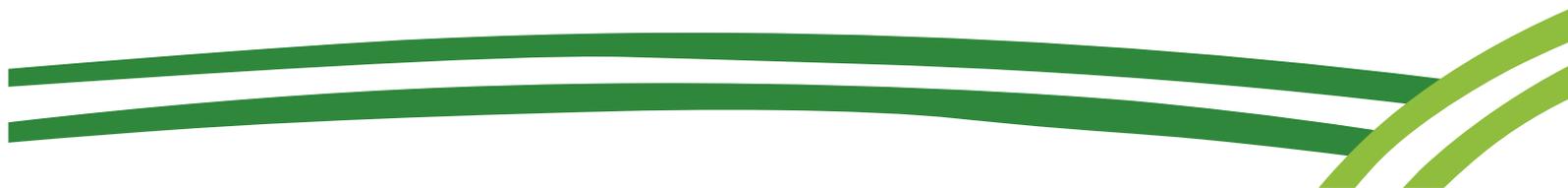
The purpose of monitoring is to:

- Track the progress and assess the appropriateness of the assessment
- Assess the actual project impacts against the potential ones
- Facilitate communication and collaboration between stakeholders.

### **6. Evaluation and review of (SI) assessment and management processes**

The final phase is to reconcile the social impacts predicted during the assessment phase with the actual impacts experienced during implementation. Subsequently, the differences can be analysed, and the social impact management approaches reviewed and improved (Franks, 2012).

Figure 1 below shows the overall process of social impact assessment.



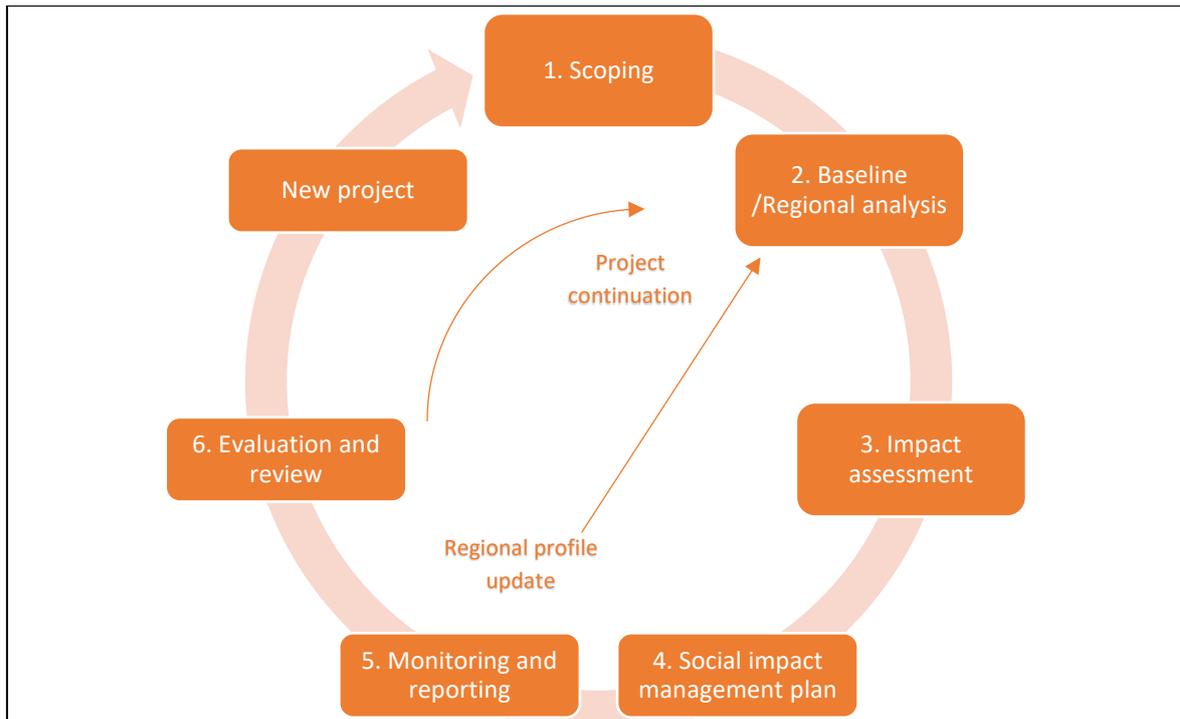


Figure 1: *The process of social impact assessment*  
Source: Franks (2012).

### 3. Social enterprise performance management

Social enterprises should be managed and guided in a way that they can achieve the best performance in fulfilling their social mission. The attainment of social objectives and the overall performance of social enterprises depends on a number of factors, such as:

#### 1. A social enterprise management method

Several research studies point to the direct influence of a **social enterprise management method** of market and business behaviour on its performance (Morris and Webb and Franklin, 2011). Market-oriented behaviour, for example, can help an organisation to establish a market-oriented culture, which will eventually have an impact on its performance. Even though the purpose of social enterprises is to meet social objectives, they cannot neglect/forget about their commercial activities. The commercial performance of a social enterprise can improve its social performance since the revenues generated from its commercial activity can be used to achieve social objectives (Seelos and Mair, 2007), i.e. a high level of business performance increases the chances of meeting social goals. Social enterprises that produce sufficient income from their commercial activities can utilise this income to provide a higher number of social services, and thus increase customer

satisfaction (Dacin et al., 2011). In addition, commercial activities performed by a social enterprise help reinforce the brand name of an enterprise in the social sector. Similarly, social enterprises performing excellently in the social area may succeed in their commercial activity as well (Napoli, 2006).

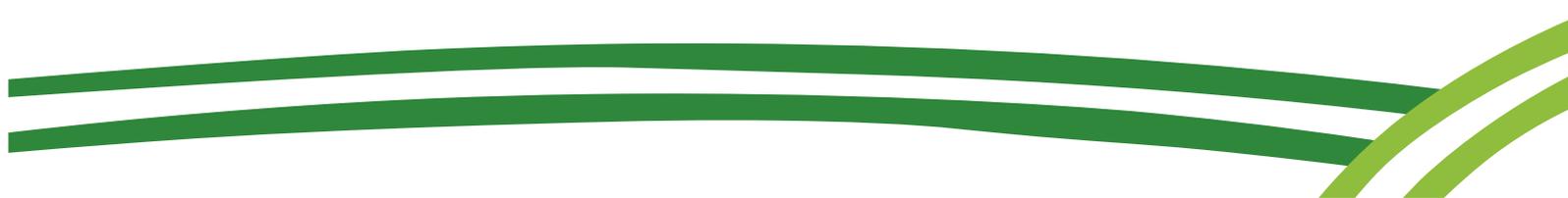
## 2. A social enterprise management strategy

Strategically-oriented behaviour has a positive impact on the performance of a social enterprise. This behaviour is related to how enterprises should behave toward their customer, their competitors, and other external factors so that they make informed strategic decisions (Li and Wiem and Liu, 2010).

There are two main management orientations regarding strategic behaviour that businesses act with and that may affect their use of market opportunities and their outcomes and performance:

- a) Firstly, a **market orientation**, which is an organisational approach promoting such a form of organisational behaviour that encourages an enterprise towards the active generation of market information, which then helps the enterprise better respond to its customers, competitors, and other stakeholders (Shoham et al., 2006). The striving for market orientation enables social enterprises to learn how to effectively direct their resources towards the attainment of their market objectives (Carmen and Jose, 2008), and also to develop a specific organisational culture to promptly adapt to market changes (Hurley and Hult, 1998).
- b) Secondly, an **entrepreneurial orientation**, which concentrates on the analysis of methods, procedures and approaches to making decisions so that managers make the best possible decisions when developing new products, introducing them to the market, and taking advantage of market opportunities. Entrepreneurially-oriented social enterprises are more likely to take unusual steps in seeking new ideas and market opportunities, which strengthens their ability to obtain new financial and non-financial resources for their entrepreneurial activities, thereby increasing their performance (Pearce and Fritz and Davis, 2010).

To achieve a higher business performance, it is crucial to **combine both approaches**, depending on the type of entrepreneurial opportunity pursued. Enterprises that place an equal emphasis on both market-oriented and enterprise-oriented behaviours attain a competitive advantage by being able



to effectively adapt to market challenges and increase the odds of being successful as a result (Morris et al., 2007). By managing a social enterprise in line with both principles and methods, entrepreneurs can meet the desired social and economic goals as both orientations motivate social enterprises to better understand their customers and satisfy their needs while boosting their satisfaction. The entrepreneurial behavioural orientation in social enterprise management promotes better utilisation of market information, evaluation and use of potential opportunities in both social and commercial sectors, and these are the elements that enable social enterprises to offer products and services addressing both social and commercial needs of their customers (Liu and Takeda and Ko, 2014).

#### 4. Social enterprise performance measurement (how to measure success)

A system to measure the performance of social enterprises is targeted at analysing the fields of management control that drive their success. This system facilitates the management and control of a social enterprise while identifying the following three reference fields:

1. Economic-financial performance: the determination of the general performance of a social enterprise (profits or value added) along with analytic results (production-cost of services or efficiency indicators).
2. Social effectiveness: the measurement of the quality and quantity of the work undertaken and the specification of the social enterprise's impact on the intended beneficiaries and the community.
3. Institutional legitimacy: the verification of conformity with the law/legal norms applicable to a social enterprise.

##### **Economic-financial performance**

The measuring of economic and financial outputs is a tool that social enterprises use to evaluate their sustainability. Social enterprises are, unlike other not-for-profit organisations or foundations, for-profit business entities that need to remain financially viable, and pursue their social goals while still complying to economic and financial efficiency standards. Therefore, it is necessary to measure the economic and financial performance indicators in a social enterprise and prepare and analyse all financial statements (Bagnoli and Megali, 2011).



### **Social effectiveness**

In recent years, particular attention has been paid to business models that measure the financial performance of enterprises. Social enterprises, however, should implement such performance measurement systems that do not focus only on financial indicators but assess their non-financial outputs and outcomes.

This model includes the assessment of non-financial indicators. Effectiveness in this context is regarded as a measure to which an enterprise has managed to meet its social goals and needs and implement its strategies while utilising its available resources in a socially accountable manner (Kanter and Summers, 1987). For social effectiveness, it is necessary to measure the outputs that have been achieved due to social enterprise activity. At the same time, consideration needs to be given to which extent this activity contributes to the well-being of the population and the attainment of all-society goals (Bagnoli and Megali, 2011). The sustainability of the entire process must be taken into account as well (Darby and Jenkins, 2006). The measurement of social effectiveness should include four indicators:

1. Inputs and the resources that contribute to the entrepreneurial activities undertaken.
2. Outputs that are obtained by means of the activities realised to achieve the social mission.
3. Outcomes and the benefits for the intended beneficiaries.
4. Impact and the consequences for the wider community.

### **Institutional legitimacy**

Institutional legitimacy involves verifying whether a social enterprise has respected its self-imposed rules, i.e. its statute, mission, program of action, and the legal norms applicable to its institutional formula. Institutional coherence must be verified, i.e. the process in which the enterprise implements its projects and performs its activities in accordance with the mission set is examined, and the compliance with the values and norms set at the establishment of the enterprise. Regarding legitimacy, it is verified whether a social enterprise acts in compliance with all general and special legal regulations applicable to social enterprises.

To simplify the controlling model for the measurement of social enterprise performance, social enterprises can create a map of indicators and tools as is displayed in Figure 2.



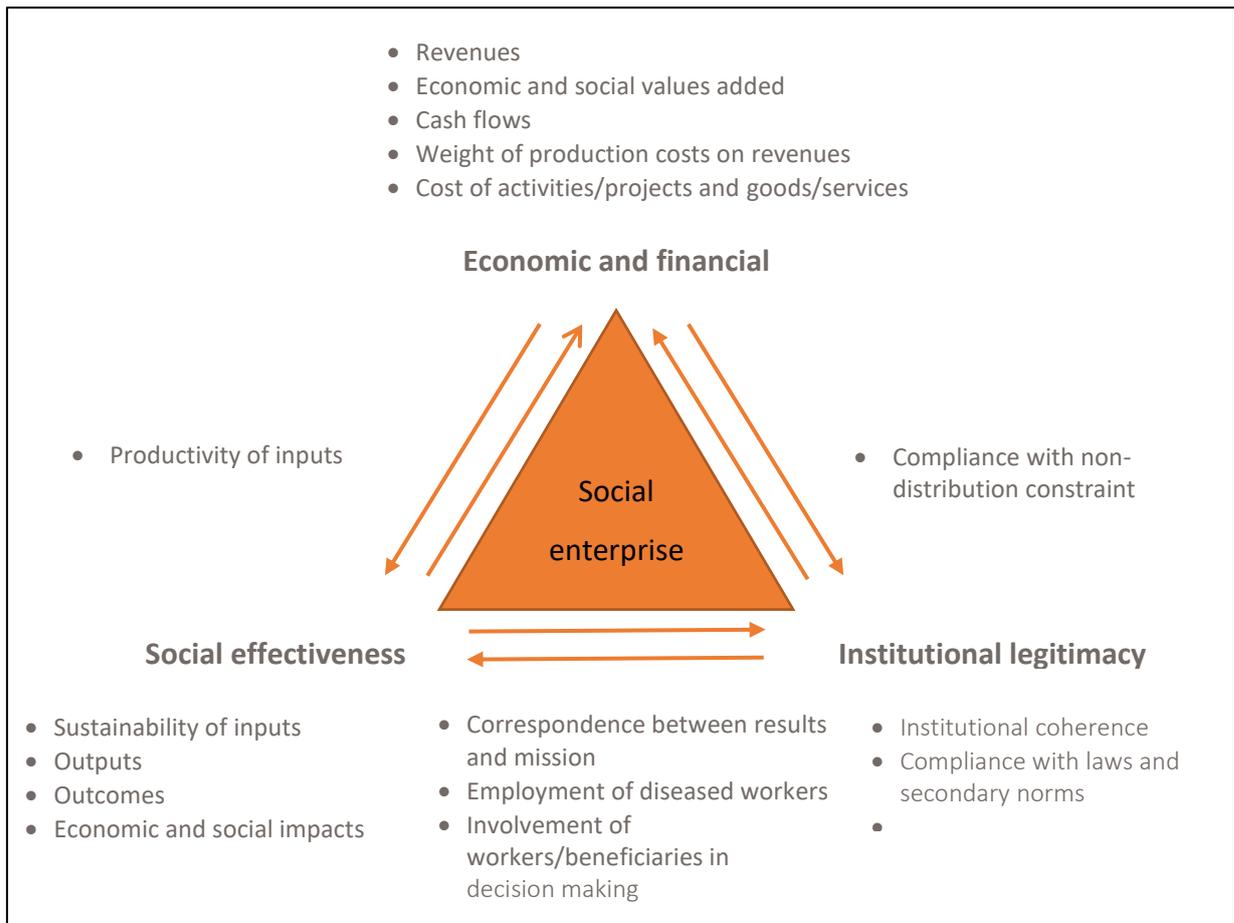


Figure 2 *The multi-dimensional controlling model*  
Source: Bagnoli and Megali (2011).

All three dimensions of social performance indication and management (economic-financial performance, social effectiveness, and institutional legitimacy) should become part of the so-called ex-post assessment of social enterprise performance. A social enterprise should take into account the following indicators for the individual reference fields (Bagnoli and Megali, 2011):

1. For the field of economic-financial performance:
  - a) A profit-and-loss account, demonstrating the enterprise viability.
  - b) Economic and social value added, demonstrating fair remuneration for stakeholders.
  - c) A cash-flow statement
  - d) Information on the weight of production costs on revenues, and its comparison with other subjects on the market
  - e) Information on all costs of activities/projects undertaken by the enterprise.
2. For the field of social effectiveness:

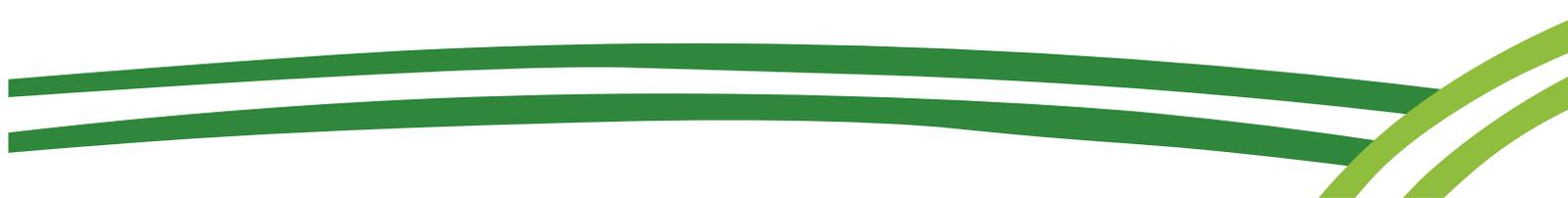
- a. The assessment of the sustainability of resources and manufacturing methods (environmental and social)
  - b. Outputs in the physical sense of the word, i.e. the number of services or events organised.
  - c. Outcomes expressed by performance indicators.
  - d. The assessment of economic and social impacts.
3. For the field of institutional legitimacy:
    - a) Institutional coherence.
    - b) Compliance with laws.
    - c) Compliance with secondary norms.

## 5. Social return on investment

As social enterprises come under increasing pressure to measure their performance and value created, it is inevitable to seek appropriate methods of such measurement. An example of a performance measurement system is the Social Return on Investment (SROI) method currently capturing this impact. The methodology of social return on investment is nowadays attracting considerable interest from both the public and private sectors. In European countries, governments have actively encouraged social enterprises within the Third Sector to measure their social value using SROI, making it the "norm" of the industry. This measurement method is intended as a tool for the understanding and managing of and reporting on social, environmental, and economic value created by a social enterprise. SROI presents a way to enable social enterprises to better understand the wider impacts of service delivery and quantify that value in monetary terms (Millar and Hall, 2013).

The SROI is based upon the principles of cost-benefit analysis (CBA) and social accountancy, and it has become the most sophisticated and complex approach to the measurement of social value (Tuam, 2008).

An SROI analysis can take many different forms; it can encompass the social value generated by an entire organisation, or focus on just one specific project or one specific aspect of the organisation's work. It can be carried out mainly as an in-house exercise or, alternatively, it can be led by an external researcher.



There are two types of SROI (UK Cabinet Office, 2009):

1. **Evaluative**, which is conducted retrospectively and is based on outcomes that have already taken place.
2. **Forecast**, which predicts how much social value will be created if the activities meet the intended outcomes.

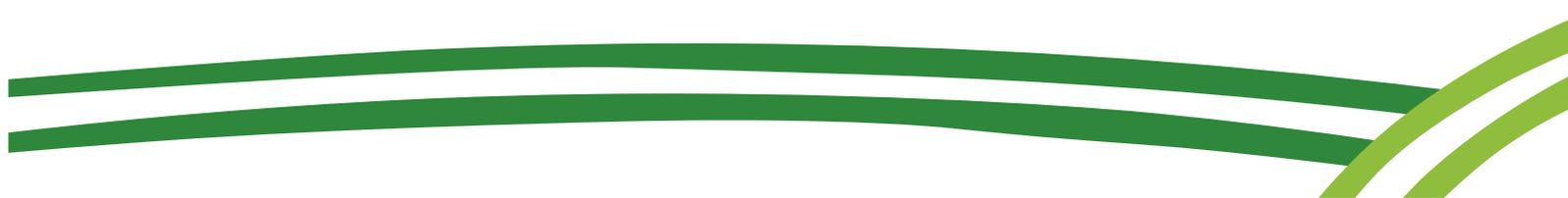
Therefore, SROI can retrospectively measure outcomes that have already occurred (evaluative-type), or it can prospectively forecast how much value will be generated providing that the intervention meets the intended outcomes (forecast-type).

Simply put, SROI is calculated as a ratio of net present value of benefits and the net present value of investments. There are seven principles of social value/SROI that underpin how SROI should be measured and valued, which were presented above.

The SROI method was initially developed by the Roberts Enterprise Development Fund (REDF) in the US in the mid-1990s, after which it was further tested in Great Britain within the government programme for social value measurement (Arvidson, 2013). Defining inputs and outputs in this method is essential. Subsequently, monetary units are assigned to these inputs and outputs, which leads to the process of SROI calculation. The ratio indicates how many monetary units (EUR) of social value are delivered by one monetary unit (one EURO) of an investment (Kara, 2012).

Despite using monetary units in the SROI analysis, it does not express the financial value per se, but it is to be a comprehensible method of capturing social value. The SROI measurement should be based on the qualitative analysis of stakeholders in which these are defined as people or organisations that will experience positive or negative change as a result of the activity analysed (Nicholls et al., 2009). SROI is a framework that helps organisations to increase effectiveness and efficiency in allocating resources for activities focused on building social value. It is a process for understanding and measuring the social, economic, and environmental value created by interventions, programmes, policies, or organisations (Sholten et al., 2006).

The conduct of an SROI study requires progression through six stages. This process is depicted in Figure 3. The first three stages are centred around the collection of data. In the fourth stage, data is also collected, but the overlaps between the individual stages in the process are analysed. During



the fifth stage, the data collected is analysed and is followed by the final stage of publicising and presenting the data (Banke-Thomas, 2015).

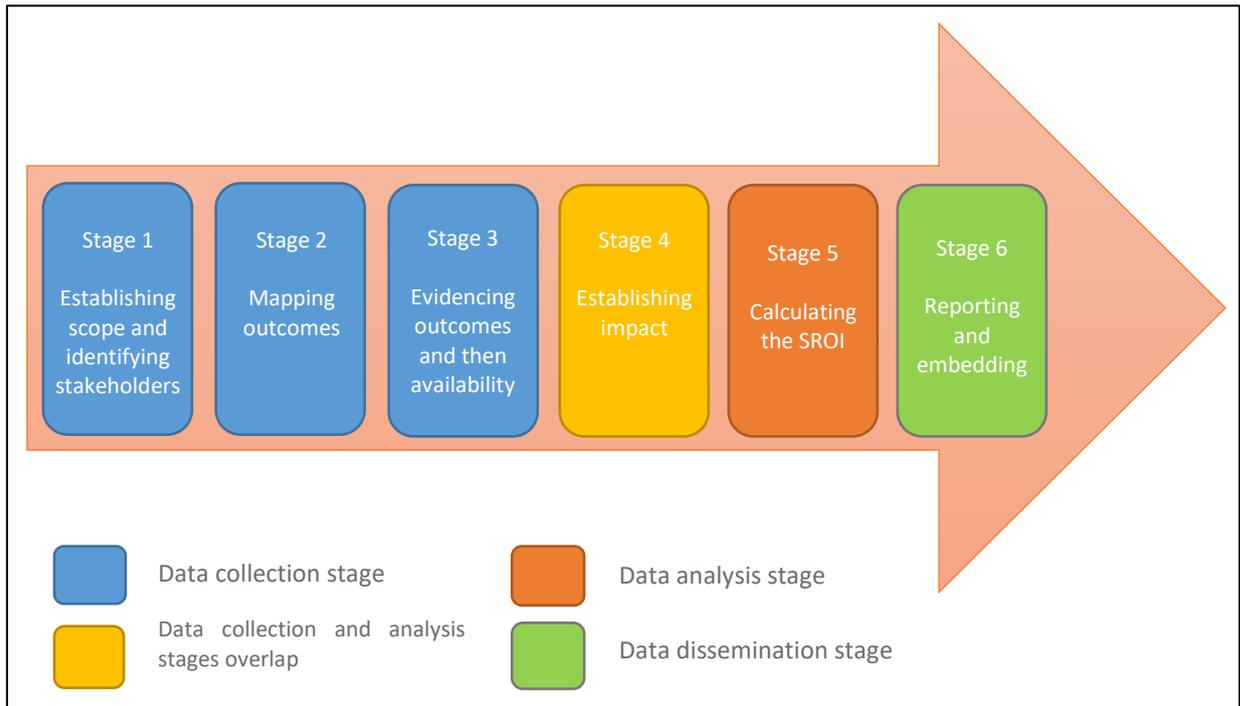


Figure 3 *Stages of the social return on investment process*  
Source: Banke-Thomas, (2015)

#### Self-assessment questions:

1. What are social innovations and in which fields or sectors are they mostly applied?
2. Which stages does the process of social innovation development consist of?
3. What is the difference between output and outcomes regarding social value?
4. What are the most frequently used methods of social value measurement?
5. What are the social value principles?
6. What is social impact?
7. How is the social impact assessed?
8. Which factors affect the performance of a social enterprise and how is it measured?
9. What is the SROI method?
10. Which steps does the process of social return on investment measurement contain?

## 6. Summary

Social innovations are concerned with innovative activities and services that are targeted at addressing social issues and meeting social needs. Some essential sectors where social innovations are applied include, for instance, health-care services for the retired, disadvantaged groups of citizens, or the unemployed, or the climate-related or environment-related sectors. The process of social innovation development consists of five stages, namely: generating ideas or understanding needs; prototyping, and piloting ideas; assessing and then scaling up ideas; managing innovations; and seeking systemic change. Social value is described as broader non-financial impacts of programmes, organisations and interventions focused on the well-being of individuals and communities, social capital and the environment. The most common methods of social value measurement are SROI, Cost-Benefit Analysis (CBA), Social Accountancy, and Basic Efficiency Resources Analysis (BER). There are seven fundamental principles of social value in terms of involving stakeholders, understanding changes, evaluating outcomes, including the appropriate information and evidence to give stakeholders, assessing the change/value organisations are responsible for creating, being transparent, and verifying the results. Social impact assessment is a framework for the measurement of all social impacts, and it consists of six stages throughout which assessment indicators and key stakeholders are identified, potential impacts are mapped and analysed, an assessment strategy is developed, followed by the final analysis, where the sensitivity of the results is tested. Well-managed social enterprises, both strategically and entrepreneurially, create social value. The measurement of their performance takes place along three dimensions concerning their economic-financial performance, social effectiveness, and institutional legitimacy.

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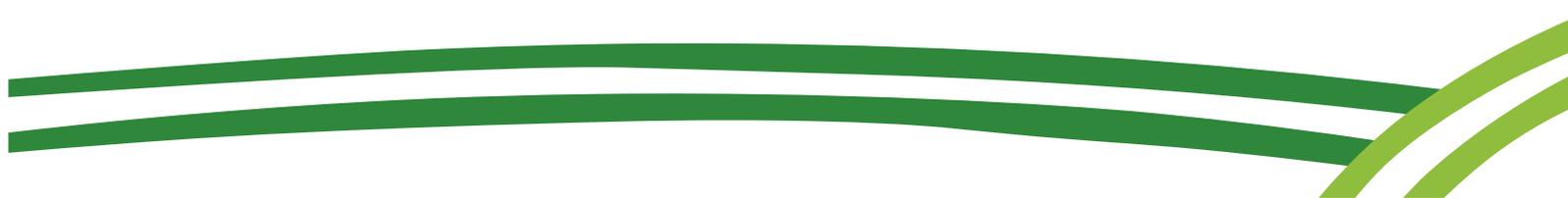
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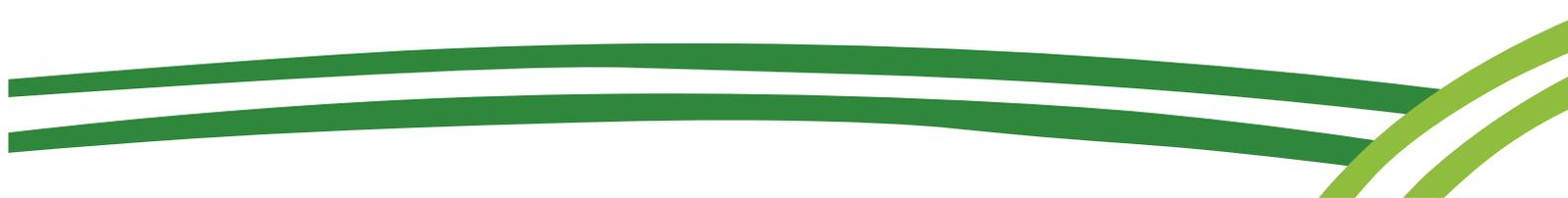
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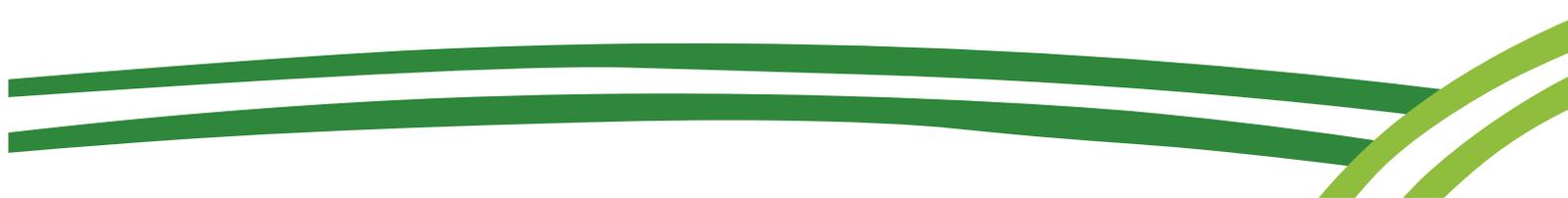
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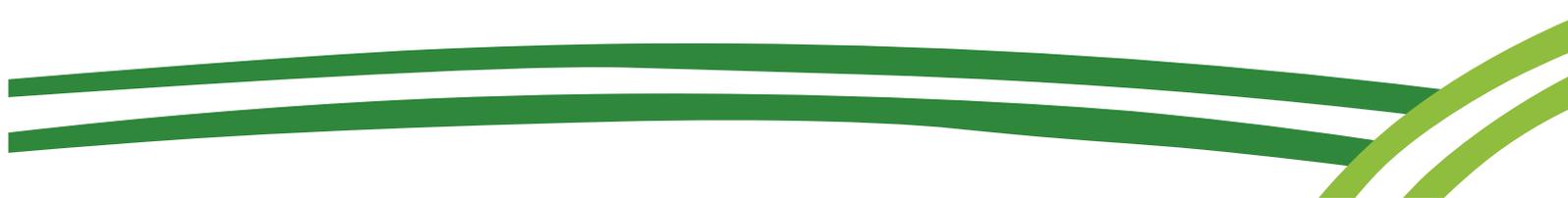
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## Chapter 4. The Business Model Canvas

### Introduction

The most successful companies in the world use the CANVAS method for developing strategies for new products or assessing and improving strategies for existing products. This method helps them to eliminate excessive orientation towards a product and take advantage of all essential elements that comprise a business model. Included within these is an innovative approach to business strategy development, considering all components of the business model while searching for their optimal combination. Such a concise form of business modelling is easily comprehensible and quickly presentable to a potential sponsor or funder; it links entrepreneurship and implementation, it is very instrumental in explaining teams for whom and what they create, in clarifying how enterprises, including social ones, generate value and revenues, and in how they deliver the product to customers.

### Learning objectives

After completing this chapter, the learners will understand:

- What the Canvas business model is
- What the key pillars of the Canvas business model are
- How to create the Canvas model for a social enterprise
- What to pay attention to in the process of the Canvas business model development.

## 1. The Business Model Canvas

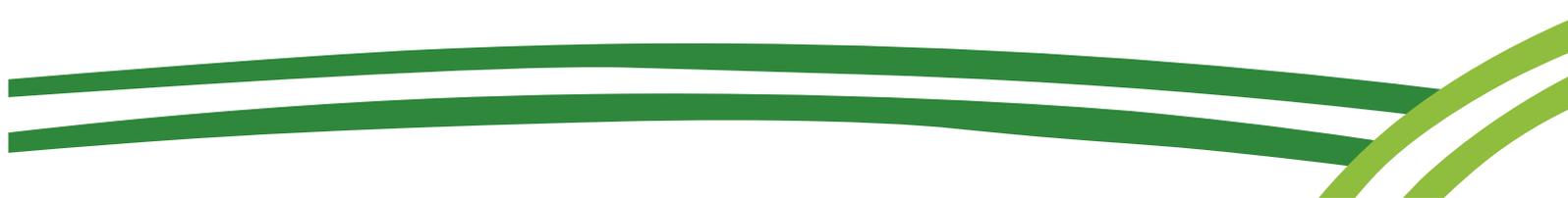
### 1.1 The business model Canvas and how it can be applied to a social enterprise

The Business Model Canvas assists companies in understanding the complexity of running a business. Because the model is easily understandable, it is an ideal hands-on tool to foster entrepreneurship and facilitate the innovation of existing business models. It is also suitable for social enterprises as they need, like all businesses, to generate profit to survive.



The Business Model Canvas was initially proposed by two authors, Osterwalder and Pigneur, as a strategic management template that clearly describes and visually represents key business elements. The Canvas model is simple, relevant and intuitive, although it does not simplify the complexity of the business organisation (Osterwalder and Pigneur, 2010). The Canvas model provides all stakeholders with a tool to find a shared language in their discussions about the business model for their enterprise.

**The nine basic building blocks** of the Business Model Canvas comprise:

1. **Customer Segments:** Various groups of people or organisations an enterprise aims to reach and serve.
  2. **Value Propositions:** The bundle of products and services that create value for a specific customer segment. The value can be quantitative (e.g. price or speed of service) or qualitative (e.g. design, customer experience or preferences).
  3. **Channels:** Methods or entities an organisation uses to communicate its value proposition to a specific customer segment. Channels can be direct or indirect, and owned or partner.
  4. **Customer Relationships:** The types of relationships an organisation establishes with specific customer segments.
  5. **Revenue Streams:** The cash an organisation generates from each customer segment and the structure of revenues resulting from value propositions, including the proportion each source of revenue contributes to the overall revenues. Each business model can involve transaction revenues from one-time/non-recurring customer payments and recurring revenues from ongoing payments based on long-term business contracts.
  6. **Key resources:** The strategic assets that are required to sustain and support the business. These resources allow an organisation to create and offer a value proposition, reach markets, maintain relationships with customer segments, and earn revenues. Key resources can be physical, financial, intellectual or human. Key resources can be owned by an organisation, or they can be leased or acquired from key partners.
  7. **Key activities:** The most important actions an organisation must do to make a business model work effectively; they are crucial for executing an organisation's value proposition, reaching markets, building customer relationships, and earning revenues.
  8. **Key partnerships:** The network of suppliers and partners that an organisation cultivates to make the business model work.
- 

9. **Cost structure:** All costs incurred to operate a business model. The cost structure is defined as all primary and most important monetary consequences while operating under a particular business model. The structure of costs mainly comprises of fixed and variable costs and cost advantages of economies of scale.

For **social enterprises**, which Osterwalder and Pigneur regard as "non-for-profit business models", Canvas can be adapted to correspond to the requirements placed on such enterprises and enable them to prepare and then innovate their business models. In the model of an enterprise funded by a third party, the beneficiary/recipient of a product or service is not a payer. The payer is the third party, such as, for example, a donor. The third party pays the organisation/enterprise to fulfil its mission, which can be social, ecological or public by nature. The examples of payers include philanthropists, charities or governments (Osterwalder and Pigneur, 2010). Canvas for non-for-profit organisations resembles a multi-sided platform for for-profit business models, and it does not require any substantial changes in comparison with the original Canvas model. For models with the triple bottom line of corporate social responsibility (which is the case of a social enterprise), Canvas is supplemented with two new fundamental building blocks in line with its values (Elkington, 2004), namely:

**10. Social and environmental costs**

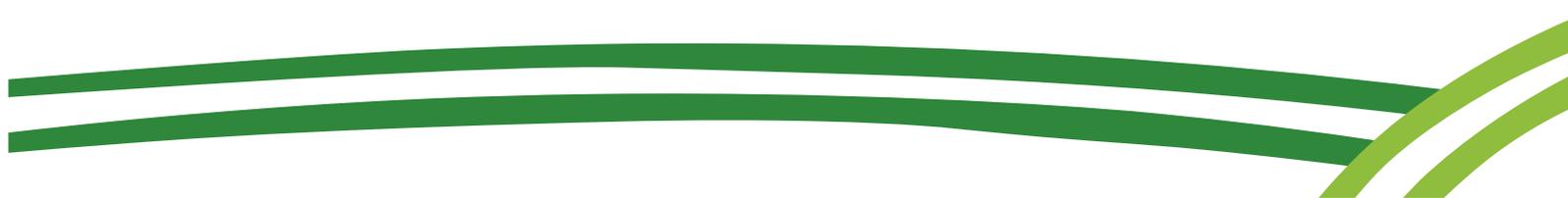
**11. Social and environmental impacts/benefits**

The model with the triple bottom line of corporate social responsibility seeks to minimise negative social and environmental impacts and maximise positive ones.

Consequently, the supplemented key elements change the sequence of the building blocks as follows:

1. Mission; 2. Customer segments; 3. Value propositions; 4. Channels; 5. Customer relationships; 6. Revenue streams; 7. Key resources; 8. Key activities; 9. Key partnerships; 10. Cost structure, and 11. Impacts and measures.

The Business Model Canvas is a **business plan** free from all unnecessary details and forecasts that cannot be made and that are usually present in a traditional business plan. It outlines what an organisation seeks to do, for whom, and how it believes it is going to work.



Social entrepreneurs have to think of:

- a) Mapping a business model: **What is our business model like?**

After its completion, there is a one-page map of how exactly they will create and capture a value proposition for customers.

- b) Exploring the environment: **What does the market look like?**

Each business model is put under pressure from different sources coming from the environment where an organisation operates. Social entrepreneurs must explore this environment to be able to identify potential threats, great opportunities, and fill potential gaps in the market.

- c) Finding a unique value/competitive advantage: **What can we compete in?**

Social entrepreneurs must decide against whom to compete if they want to defeat their competitors. They need to discover key opportunities to differentiate from their competitors.

- d) Assessing quality: **How will we know our business model is right?**

Developing a business model can be easy, but figuring out what improvements are needed can be difficult. Social entrepreneurs must be able to recognise opportunities for improvement.

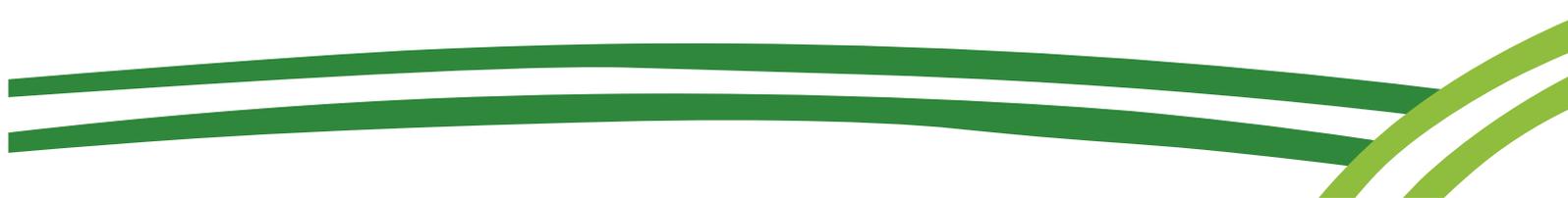
- e) Prototyping: **How can we improve?**

If a social enterprise knows its status quo and it is aware of what improvements are needed for success, it must attempt to bridge the identified gap. Organisations must create a cheap and fast prototype of several business model versions. With such prototypes, new options will come up surprisingly fast.

- f) Testing and risk-assessing: **What could mar our ideas?**

Why do the majority of business models fail? It is necessary to predict the most common mistakes as all businesses do tests to avoid failures. Organisations must set an internal system of business experiments to alleviate risk.

### Customer/Beneficiary Segments



Social entrepreneurs must explicitly specify their target segments even though these segments do not pay and would not have a place in the ordinary Business Model Canvas.

### **Social Value Propositions**

It is necessary to make sure that there is the perfect rationale behind a social enterprise, encouraging customers to purchase products and making them realise what impact the social enterprise creates in society.

### **Impact Assessment**

Social entrepreneurs must exactly know what kind of social impact they create and how they assess it.

### **Surplus**

It is imperative that social entrepreneurs plan and clearly communicate how they intend to deal with and reinvest the profits earned.

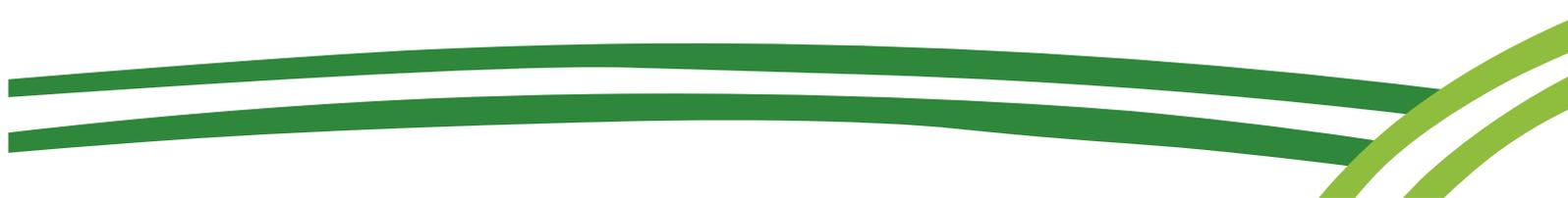
## **2. The mission of a social enterprise**

The mission of social entrepreneurs is the reason why they do business.

**The formulation of what an organisation is interested in** and how it will meet its goals can help make decisions that go beyond its mission. It is always good to forget about words and recall the primary reason why an entrepreneur set up a business. It is appropriate to start with the activities an organisation intends to realise rather than ideas or feelings.

**It is necessary to quantify if possible.** "A laptop for every child" is a company that exists to create educational opportunities for the most impoverished children in the world by providing every child with a powerful, inexpensive and low-battery-consumption laptop equipped with the content and software designed for a happy, independent and cooperative learning.

**Social entrepreneurs should abide by their decisions.** Not everyone will care for (or agree with) the drivers of a social enterprise. Not everyone will want to buy its product – and this is perfectly all right. An organisation fails when it seeks to satisfy everyone and ends up doing things by half.



Defining its mission helps an organisation distinguish between new initiatives and requirements that correspond to the purpose of social enterprise and those that do not (regardless of how lucrative they are and how loud they will be voiced).

Once an organisation has defined its mission, the mission must be communicated to investors, customers, and suppliers during the presentation of the social enterprise. This mission should be stated on the organisation's website, become part of its email signature or appear on business cards.

The following questions can help define the mission of a social enterprise:

**Part I.**

- a) How to create value for a customer?
- b) How will the value created contribute to the fulfilment of the enterprise mission?
- c) Which service is created to overcome the institutional barriers?

**Part II.**

- d) What is the purpose of value creation?
- e) What are different types of customers (direct and indirect, relationship types and communication channels)?

**Part III.**

- f) How does an organisation distribute the value created?

**Part IV.**

- g) What are the organisation's competence resources? What are the organisation and its people good at?

**Part V.**

- h) How can an enterprise compete and cooperate at the same time?

**Part VI.**

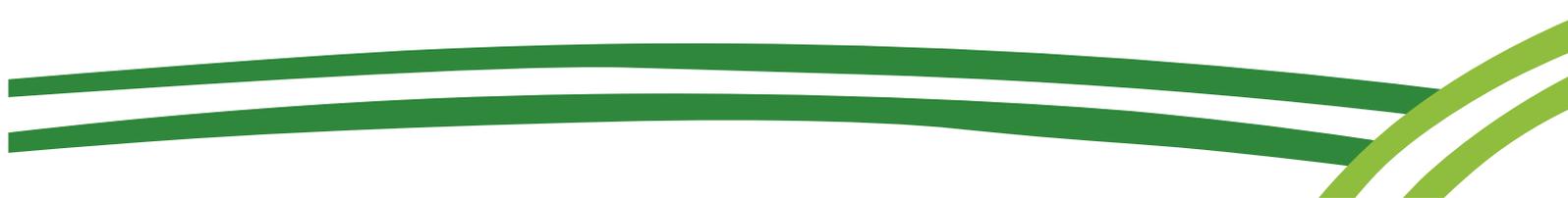
- i) How can an enterprise raise funds?
- j) How can an enterprise earn revenues as part of its own funding?

**Part VII.**

- k) What is the social impact (economic, social, and environmental) of an enterprise and how is the enterprise going to assess it?

**Part VIII.**

- l) What are an organisation's ambitions in terms of time, scope and scale?



### 3. The Business Model Canvas in three steps

**The Business Model Canvas** is a tool that facilitates the creation of a quality business model for a social enterprise. Moreover, it serves as a tool for cooperation, helping the enterprise to communicate with all stakeholders when discussing various business models and generating ideas. The Canvas model allows formulating hypotheses that can be further verified/tested on customers until an organisation reaches the point when it has collected enough inputs to create at least one viable product. Simply put, a good and convincing canvas lays the foundation for an enterprise and changes with every repetition of the process of its creation by the enterprise. It describes the way of **creating, visualising and capturing social value**. The creation, visualisation, and the capture of value are precisely what a social entrepreneur does. A business model as an engine of generating sustainable profits is what any social entrepreneur needs, to avoid being stuck in a vicious circle of writing grant applications and monthly worries about their salary. Besides that, a clearly articulated business model helps to guide the enterprise towards its entrepreneurial journey of seeking solutions oriented to customers/beneficiaries of whom the entrepreneur is sure are willing to pay for a product or service offered.

The Business Model Canvas in three steps:

#### 1. Value creation

Customers are at the heart of any business model. Therefore, they are the first to start with. Customer segments, their specific characteristics and circumstances in which they purchase products and services, are crucial for an enterprise. What can an organisation find out about their socio-economic situation? Their incomes? Their preferences, needs, behaviours, and attitudes? A social enterprise can serve the needs of different segments within a single population. However, a business model needs to define one segment at the start.

A social entrepreneur may need to differentiate between **customers** and **beneficiaries**. Those who pay for a product or service are not necessarily the same as those who exclusively use it. Both customer segments need to be considered, and a specific value must be created for each of them.

A **value proposition** is key to social entrepreneurship. It is a value that an enterprise creates – providing education to disadvantaged communities or providing access to health care – something

the enterprise hopes beneficiaries will appreciate. **A value proposition explains what problem the enterprise has been tackling in the group of its beneficiaries and how.** To figure out whether a product or service meets customer needs is one of the most popular parts of the Business Model Canvas creation. It compels the enterprise to deeply understand the needs and desires of its customers and the reasons why they alone cannot overcome obstacles. A product or service the organisation creates should cater to all these requirements to truly satisfy the needs of its beneficiaries within the bounds of possibility.

A value proposition comprises both: a value created for an individual and a value for the entire society – a **social impact**. If customers and beneficiaries are not the same, it is necessary to make sure that an enterprise knows how to create value for both groups.

**Channels** determine how a value proposition will be delivered to customers. Will an organisation have its own shop, or have a partnership with the existing shops, or will it start to sell products and services online?

Depending on the beneficiaries an enterprise intends to address, some creativity may be required. When identifying simple channels to reach the target group, literacy skills in the segment need to be considered as well as the use of mobile technologies, access to electricity, public transport and the like. It is easy to overlook such limitations, so they need to be considered first.

**Customer relationships** describe what type of interaction an enterprise wants to establish with customers. Does it provide personal assistance or self-service? Will it provide services through community relations or will customers be navigated through an automated system?

When working with marginalised communities, trust and respect are essential. Customer relationships should reflect this in every aspect of communication.

## 2. Value delivery

**Key resources** are vital in the sense of what inputs a product or service requires. If an organisation manufactures a product, key resources can include machinery. If an organisation operates in the service sector, key resources can be technology or some specific intellectual property or copyright. All physical, human, intellectual, and financial aspects must be taken into account.



An enterprise should ask the question: what is most important to start the ball rolling? Create technological solutions? Sell fair-trade products; provide released prisoners with some training to improve their job skills? It is necessary to identify the **key activities** that are supposed to have the intended social impact. It is easy to get overwhelmed with all opportunities an organisation can potentially use to make the world a better place. Still, it must focus on key activities, at least up to the point when it becomes successful and can expand — step by step.

Very frequently, especially in the social sector, enterprises rely on their partners to put their solutions into operation. **Key partnerships** underline relationships, so critical to business success. Social entrepreneurs seek a double or even triple bottom line in corporate responsibility. That means they are – according to the definition – accountable to a broader spectrum of stakeholders. The way that works best for strengthening and managing these relationships is the one that helps build partnerships with key stakeholders in relevant fields. Who else apart from the organisation is trying to address the same problems? Who are the organisation's allies? It is critical, mainly if an organisation operates in developing economies, to build up trust and strong links with partners who share the same values with the organisation.

### 3. Value capture

**How is an enterprise going to pay for all of this? Revenue streams** imply how an enterprise generates income. Ideally, it sells its product to earn profits. If impossible, it can sell one version of the product to the customers who can afford it in order to support those who are poor and cannot afford the same product version. Revenue streams derive from direct sales of products or services, subscription or usage fees, and lending, renting or leasing payments. Creativity is always welcome. Revenue streams then bring the enterprise back to customer segments and value propositions.

Every social entrepreneur has surely been advised not to distribute their product free of charge. It is not a good idea to give beneficiaries gifts for free; they need to be given a feeling of dignity and allowed to pay for what an organisation offers even if only a small price. Everyone values things they pay for more than things they do not. A social enterprise should charge SOMETHING, a low price for their product or find another way to break even. An organisation should have secondary clients for its products or services. It can enter into partnerships with third parties to market its product (e.g. development agencies or insurance companies). If an organisation creates several revenue streams, it becomes more independent and resistant if one of them disappears.

Generating revenues incurs costs. Each revenue stream might have a different pricing mechanism. An enterprise must clearly understand its **cost structure** to be able to specify the initial price of their revenue streams. No frills airlines work on a low-cost structure basis (a cost-driven business model), whereas a social enterprise will hopefully work on a value structure basis (a value-driven business model), which may include both high quality and a high degree of ethical value. The ideal situation occurs when the two have combined. Quality is not at the expense of price. The enterprise should mind its cost structure, both fixed and variable costs, and earn profits on economies of scale (a price per unit drops for more units produced) or economies of scope (the enterprise can deliver similar products or services while sharing technology with another enterprise or for packaging and so on).

Depending on how the current partnerships of an organisation are structured, it is advisable to consider sharing some costs with partners and obtaining some inputs with a discount or from a philanthropic donation. How much market capital does an enterprise have at its disposal?

The Business Model Canvas is an excellent tool that helps outline a plan for a social enterprise. It develops with every new testing cycle and every repetition through which the initial idea goes.

It must be remembered that Canvas is only a tool. **The tool.** It captures **the key factors of an enterprise.** However, it is up to the enterprise to add all elements that are crucial to its business success.

## 4. The Business Model Canvas for a social enterprise

Figure 1 below illustrates the application of the Business Model Canvas to a social enterprise:



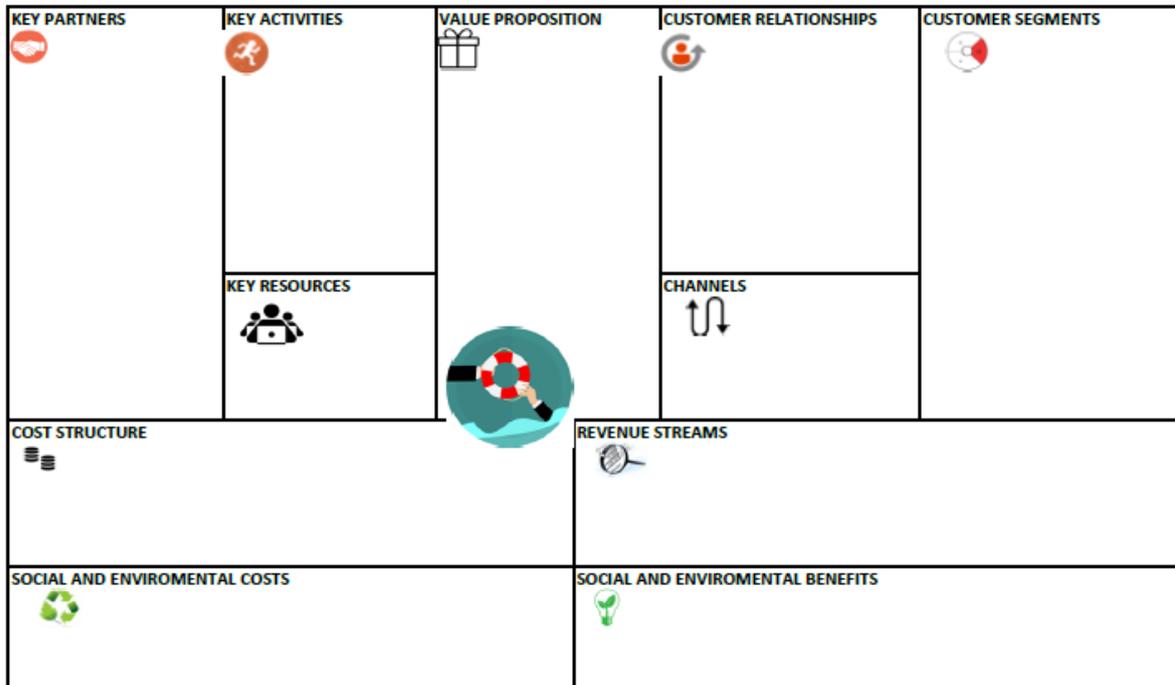


Figure 1 Business Model Canvas to a social enterprise

### 1. Customer segments

- *Different groups of people or organisations an enterprise aims to reach and serve.*

Given the fact that social enterprises are in the business of trading for the purpose of achieving social impact, they can have at least two different (though potentially overlapping) categories of customers:

- a) The customers who want to purchase their goods and services (i.e. the **commercial customers**) and
- b) The “customers” who want to support the social impact an enterprise generates and/or potentially benefit from this impact (i.e. the **impact customers**).

Understanding these two key customer segments (which could be further segmented down within these categories) is critical to understanding the application of the Canvas Business Model to a social enterprise.

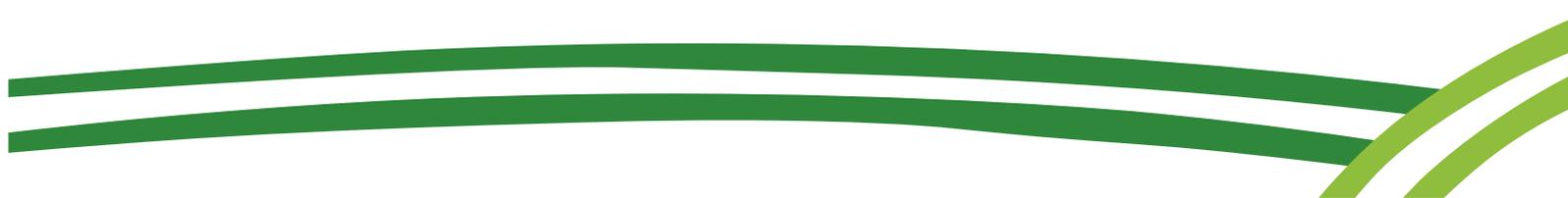
Since social enterprises use the Business Model Canvas to discuss and then develop their own business model, it is required that commercial and impact customers are strictly distinguished.

Some social enterprises do not see the full range of possibilities that occur under individual business scenarios. Therefore, for example, some of them may regard their sponsors/funders as “partners” rather than customers (and that is fine). However, this may make invisible the potential that there may actually be people/organisations/corporations out there who are willing to “pay” for their impact services. If, for instance, an enterprise is having a huge impact on crime rates in a local area, are there any potential “customers” in this area who may benefit from that impact (e.g. insurance companies) and who may indeed see the logic in paying for this service in some way?

Social enterprises can sometimes make assumptions about how significant their “social impact” is in the eyes of their customers. Exploring how much customers appreciate the impact and the products/services an enterprise creates can yield a fresh perspective on its initial value propositions and key activities.

Understanding the different customer segments and whether they value the enterprise’s products/services and/or impact can help business design innovation. For illustration, if the “customers” are currently all government and philanthropic funders, can the enterprise explore additional opportunities for growing the interest of these “customers” in its products and services (e.g. procuring cleaning services through a contract)? Alternatively, if an enterprise has regular corporate customers purchasing its services, are they also interested in exploring potential opportunities in relation to its impacts (e.g. could they encourage their employees to contribute to the social enterprise through an internal gifting programme)?

Operating a social enterprise is somewhat more complicated than operating a traditional commercial enterprise because addressing a social impact inside a business operation is not necessarily cost-neutral, and sometimes the customers do not fully understand what they are actually buying (i.e. that their purchase of product/service creates the social impact). Apparently, in some instances, it is not necessary for customers to understand or even know about this social impact (particularly if the product/service speaks for itself). But in other instances, some social enterprises find it essential to “sell” their impact and thereby ensure that the impact costs can be covered by revenue beyond the earnings from trade. A clear understanding of customer segments and their connection to and valuing of products/services and impact can give some great food for thought in using the business model Canvas for enterprise design. It is critical for success that social enterprises understand their customer segments. In addition, it is even vital to understand the



balance within the customer segments. If an enterprise is consistently disappointing its core business customers and increasingly relying on “selling” its impact, then it must understand the implications of this.

### **Constituents as “customers”**

It is important for some social enterprises that “clients”, “beneficiaries” or “constituents” participate and become co-creators of solutions. In this case, it is necessary to consider whether it is helpful for “constituents” to be seen as a distinct customer segment and whether a value proposition needs to be co-created between the social enterprise and the “constituent”.

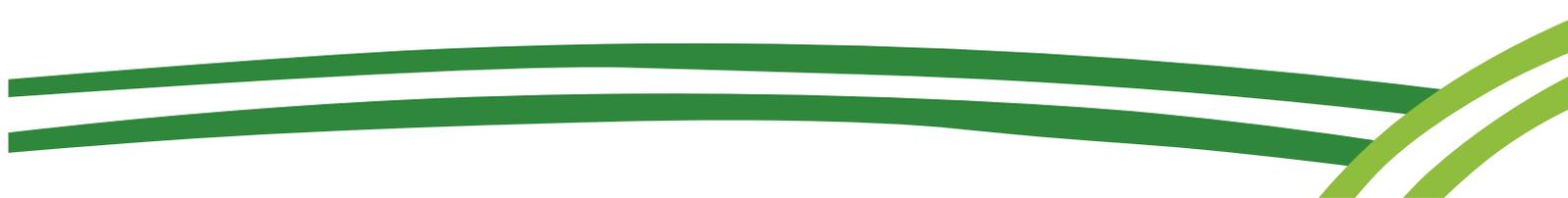
In some instances, especially when “constituents” have individualised support packages of funding, they actually become key customers in the business. For social enterprises, exploring their way into the disability care environment, providing services to people with special needs, for example, having a clear value proposition for constituent customers is crucial. It will be equally important that this value proposition is created together with “constituents” to guarantee that support packages and services are actually meeting their needs.

### **“Funders” as real “customers”**

Understanding when funders and philanthropists become part of the business model of a social enterprise can help in understanding their role in relation to the business model. If they are customers, then it needs to be clear what value proposition a social enterprise is putting forward to them. The social enterprise needs to build relationships with them that ensure their ongoing custom. If they are partners, then a social enterprise needs to find ways to depend less on them as a source of revenue but to explore what other value they could add to its business model.

### **Growing repeat customers**

In both customer segments (commercial and impact) ways need to be looked at to convert one-off customers to repeat customers. A social enterprise wants the impact customers to support its impact in an ongoing way; therefore, they need to be committed to more than a one-off grant. Effectively, they need to be offered the value the enterprise creates in ways that help them to commit to becoming repeat impact customers, and more than this, help them to explore opportunities to join the commercial customer base.



**Social entrepreneurs should ask the following questions:**

- For whom are we creating value – and what kind of value are we creating for them?
- Who are our commercial customers and why will they continue to be our customers?
- Who are our impact customers and what value are they seeking from us (and how much are they willing to pay for this)?
- How important is the linkage between our goods and services and our impact on our customers? Are they ready to pay more for the impact? Who else could pay for the impact?
- Are our constituents our customers? Co-creators? Partners?
- Are our funders customers or partners, or both?
- What kind of value proposition will keep customers returning over the long term?

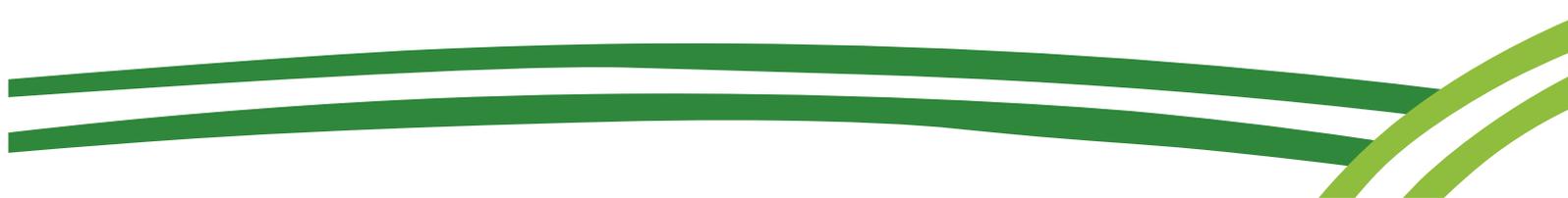
**2. Value propositions**

- *A bundle of products and services that create value for a specific customer segment. The value can be quantitative (e.g. price or speed of service) or qualitative (e.g. design or customer experience).*

When exploring the business model of social enterprises, the first question to ask is, “what value are we creating”? When it is a commercial enterprise that starts with the business model Canvas, it often begins with customers – because ultimately, they are at the heart of the business. However, a social enterprise cannot think only about creating some kind of social value. Social values are generated through the enterprise, so as an enterprise, even a social enterprise also needs to generate equally good commercial value or service it wants to sell in the marketplace.

**Social entrepreneurs should ask the following questions:**

- What value do we provide to our customers? Why should they keep returning?
- What is the relationship between our commercial value proposition and impact value proposition?
- How visible or prominent is our impact value proposition? Who values and would pay for our impact value proposition? Who understands it?
- How shall we measure our commercial value proposition and impact value proposition?

**3. Channels**

- *The ways an enterprise communicates with and reaches its customer segments to deliver a value proposition. There are direct or indirect channels, and owned or partner channels.*

Reaching and then communicating with customers that help them understand and evaluate a value proposition is a crucial part of using business opportunities in social entrepreneurship. For social enterprises, it may not be only about helping customers to understand value propositions. Some customers may also need to understand the impact value proposition. Osterwalder and Pigneur (2009) outline five phases that are significant for designing and nurturing effective channels inside enterprises. Naturally, they are equally substantial for social enterprises; therefore a social enterprise needs to raise a few more questions:

PHASE	Question	Additional questions for social enterprises
<b>AWARENESS</b>	How do we raise awareness about our enterprise's products and services?	How does the social enterprise stand out in a crowded market? Do we raise awareness of our product and its impact? If so, how?
<b>EVALUATION</b>	How do we help our customers evaluate our enterprise's value proposition?	How do we help our customers evaluate our social enterprise's impact value proposition? What evidence should we share?
<b>PURCHASE</b>	How do we enable customers to purchase specific products?	How do customers find and access us? How can we extend the ways customers can find our products?
<b>DELIVERY</b>	How do we deliver a value proposition to our customers?	Can we extend our of delivery mechanisms?
<b>AFTER SALES</b>	How do we provide post-purchase customer support?	Do we follow-up on our customers to ensure that they will become our repeat customers?

#### 4. Customer relationships

- *The types of relationships that an enterprise establishes with specific customer segments.*

Establishing and maintaining excellent customer relationships is critical in social enterprises. Customers may be attracted to the product an enterprise creates, and thus want to buy it, although they may see its value just from a purely business perspective. A social enterprise should aim to retain their custom on this basis as one of its goals; nevertheless, some customers may be positively

affected by the all-societal product value impact and “fall in love” with the social enterprise once they learn of the “added value” its social impact brings to the exchange.

It is very important to think through what role the “impact” should play in the relationship a social enterprise has with its customers. Sometimes it is important for the impact to be very present in the relationship, and under other circumstances, it may be inappropriate for a social enterprise to form any part of the relationship. As has been mentioned above, if “mission” is the only thing a social enterprise offers its customers, and if its products/services are inferior, the enterprise tends to exaggerate the value proposition. On the contrary, if a social enterprise cannot deliver its product on time and on budget, then it is likely that no matter how much its customers identify themselves with its mission; they will not be able to continue as its customers.

It can be useful for social enterprises to push out what they consider “traditional” customer relationships and explore how customers could become their “community”, or how they could co-create the social enterprise with them. When customers become active partners of a social enterprise, they can also take on roles associated with deepening its social impact. They can become champions, volunteers, donors, partners, or create networks. There is so much more to customer relationships than consumption in a social enterprise.

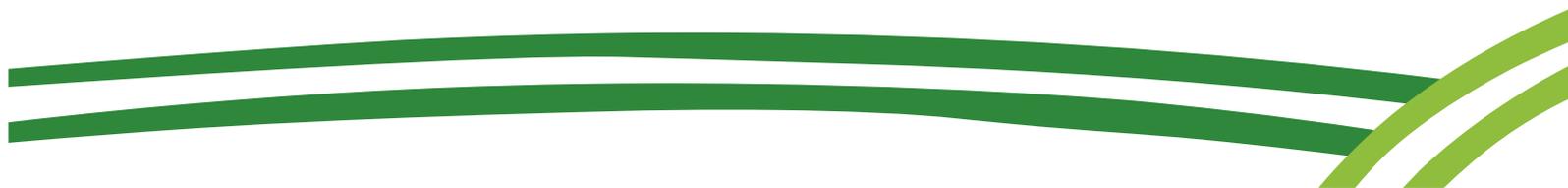
**Social enterprises should ask the following questions:**

- What kind of relationships do our customers want? Are they or could they be interested in our social impact?
- What could happen if customers fell in love with our impact?
- What other roles would they be willing to play if this happened?
- What do we need to bear in mind to ensure that we retain our customers?
- Are the relationships with “impact customers” different?
- What do they expect when they “purchase” our impact?

**5. Revenue streams**

- *The cash an enterprise generates from each customer segment.*

**Social enterprises should ask the following questions:**



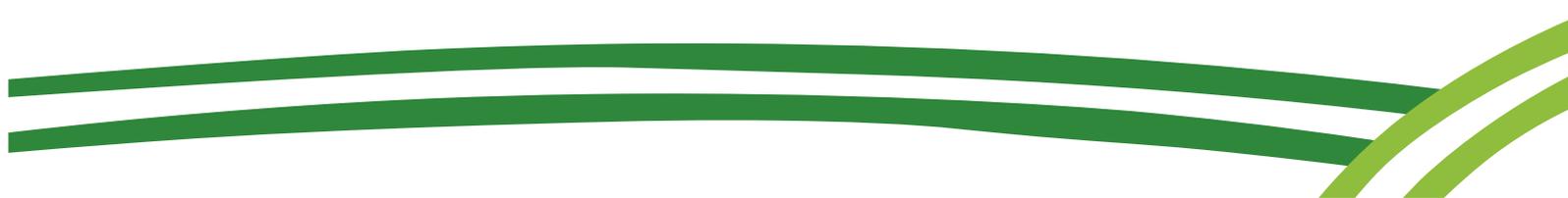
- Can we distinguish between the revenues that are generated through the commercial activities of the enterprise from the revenues generated through the impact? This effectively means knowing what revenue is derived from what part of the business.
- Are we familiar with analogous commercial business models? Have we explored potential revenue streams from the chosen business sector? Can we predict the potential for profits to cover impact costs?
- What ongoing sources of revenue could be generated in relation to impact delivery, and how are we going to value this?

## 6. Key resources

- *The most important assets required to make the business model work. Key resources enable a social enterprise to create and offer a value proposition, reach markets, maintain relationships with customer segments, and earn revenues. Key resources can be physical, financial, intellectual or human. They can be owned or leased by the enterprise, or acquired from key partners.*

Obviously, when social enterprises start up, like many start-up businesses, they may not have all the resources in place to scale up their businesses or their impact. However, it is imperative for social enterprises to understand how critical it is to ensure access to the key resources needed to drive both the commercial business and the impact. Furthermore, it is essential to plan ahead for how such resources can be developed and maintained. Social enterprises should look through the best ways to access the necessary resources and the sorts of capital and networks that may be needed in the process.

### **Social enterprises should ask the following questions:**

- What are the physical, intellectual, human, and financial resources we need for our commercial operations?
  - What are the physical, intellectual, human, and financial resources and impact resources we need to ensure the delivery on our social impact objectives?
  - How could we achieve our social impact objectives?
  - Do all the resources need to be located inside the social enterprise, or can we access some of them through partnerships?
- 

## 7. Key activities

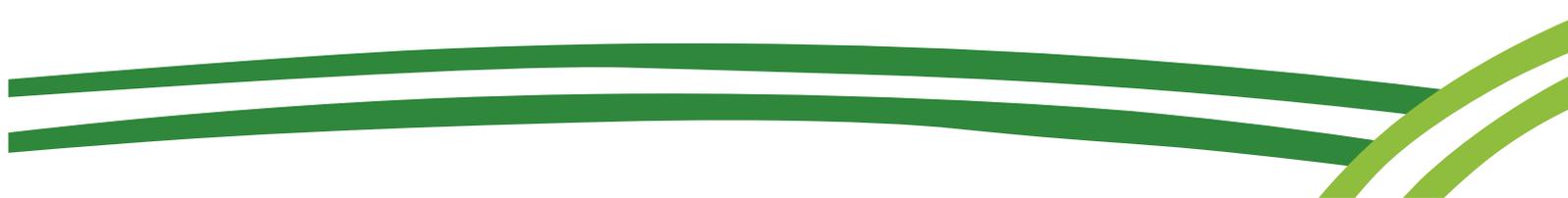
- *The most important activities that an enterprise must do to make its business model work. These are the most critical actions needed to create and offer a value proposition, reach markets, maintain customer relationships, and earn revenues.*

The key activities a social enterprise encompasses are the things it must do to deliver both commercial and social value to its customers. Key activities across the commerce and impact of a social enterprise may be:

- **Complementary** – that is, the business activities are complemented by and/or complement the impact activities. For example, a café can have a wide range of activities, from food preparation, through customer service, to cleaning, offering an array of potential jobs suitable for people who need support and have different capabilities. Complementary activities may be leveraged for greater efficiencies across the delivery of commercial and impact value.
- **Opposing** – there may be activities where it is challenging to balance commerce and impact value delivery. For example, if the café regularly has times when there are long queues and the pressure to serve customers quickly and efficiently is high, then these commercial imperatives and the activities needed to meet them may be in conflict with the activities associated with supporting workers who may not have experience or capacity to cope easily with high-stress customer service. In this case, it is necessary to find such a solution to the problem that the commercial and impact imperatives are balanced or at least can co-exist.

A social enterprise must be specific about what activities are critical to support and deliver its impacts. On the one hand, it helps the social enterprise to understand what needs to be done on a daily basis to maintain its social impact; on the other hand, it also helps it to cost its impact. Unpacking the impact activities is a significant part of understanding the business model of a social enterprise. If impact customers and partners understand what it takes to achieve impacts, it may be of great benefit to all stakeholders.

**Social enterprises should ask the following questions:**



- What are the key activities that we undertake to deliver our commercial value propositions to customers?
- What are the key activities that are needed to deliver our impact value proposition?
- How do these two sets of activities overlap?
- What are the complementary activities? Are there ways we can build efficiencies into these complementary activities?
- What are the opposing activities? How can we address these activities so that they are more balanced?

## 8. Key partnerships

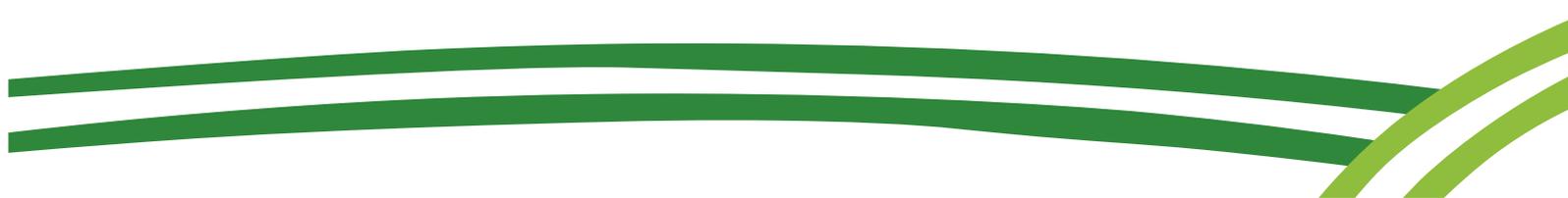
- *The network of suppliers and partners that make the business model workable.*

Partnerships refer to the network of suppliers, supporters, co-creators and champions that are needed to ensure that a social enterprise can deliver on both impact and commercial objectives. Partnerships can support and enhance both the commercial and the impact activities of a social enterprise. The social enterprise can have an active network of supporters who promote products and services or who are vital as suppliers. Equally, the enterprise can have a network of partners who offer added-value to its impact – they may support the participation of employees who have been unemployed, or they may help the enterprise to scale its impact through franchising mechanisms to socially disadvantaged groups. There may be different motivations for engaging in partnerships according to whether the partnership is centred on commerce, impact, or both.

### Social enterprises should ask the following questions:

- What partnerships are critical to helping us achieve our commercial objectives?
- What partnerships can help us deliver and strengthen our social impact?
- How can we better motivate our partners?
- How should we structure our partnerships?
- How can we demonstrate the value of our partnerships to each other and externally?

## 9. Cost structure

- *All the costs incurred to operate a business model.*
- 

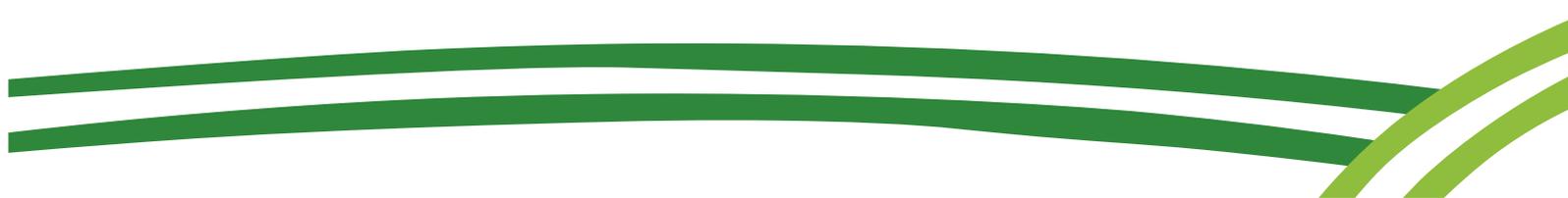
Like other parts of a social enterprise business model, the cost structure must take both the commercial operation and production costs into account, and the costs involved in delivering a social impact. For the majority of social enterprises, this means understanding the costs involved in keeping the “business” going, and unpacking what other costs are needed to actually deliver on the impact of the social enterprise. This impact is rarely, if ever, cost-neutral – if it were, every business would be a social enterprise.

If an enterprise employs people who have experienced long-term unemployment, this can cost it a lot of in terms of extra training, support due to reduced productivity, or poor performance. These are the costs that are incurred above and beyond the financial costs of operating the business. Despite that, they are the costs the enterprise is willing to incur in order to achieve its social impact objectives.

Similarly, if a social enterprise aims to ensure the long-term survival of local farms and farmers by running a community-supported agricultural model, it needs to think about the costs that are involved in achieving this social impact and ask whether it is willing to incur the costs that most commercial operators are not willing to incur. In other words, what costs are stopping commercial operators from purchasing from the local farms and farmers that the social enterprise will have to include?

Understanding and articulating a social impact is essential for a social enterprise to be able to estimate its cost structure. If the social impact is vague or ill-defined, costing will be equally imprecise. It is recommended that an enterprise should clearly articulate what activities it undertakes and what resources are needed to deliver its social impact. This can be done visually by mapping the business process, all the activities that are undertaken in the course of delivering social value to customers, and then exploring the “impact costs” associated with each of these activities. The resources needed to perform these activities can then be added to the map, alongside additional resources needed to deliver on the specific social impact.

**Social enterprises should ask the following questions:**

- What is the social impact we are seeking to achieve in our social enterprise (and what is the difference between our ideal and real impact)?
  - What activities do we have to undertake to achieve this impact?
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- Which of these activities would not be undertaken if this were a typical commercial enterprise?
- What costs do these activities incur?
- What resources are needed to achieve our social impact?
- Which of these resources would not be needed if this were a typical commercial enterprise?
- What costs do these resources incur?

**Self-assessment questions:**

1. What is the Canvas model?
2. What are the building blocks of the Canvas model?
3. How does the Canvas model for commercial enterprises differ from the Canvas model for social enterprises?
4. What makes the nine basic building blocks of the Business Model Canvas?

## 5. Summary

A business model is a set of assumptions and hypotheses as well as a business strategy. The Business Model Canvas helps in turning a business idea into reality. It provides answers to the fundamental questions of entrepreneurship, such as: “what is a product like and what is the added value?”, “to whom does a social enterprise want to help?”, “how should it communicate with target groups?”, “how will it create customer relationships?”, “how, if only, will it generate profits and then use it?”, “what does a social enterprise need to do business and achieve social impact?”, “who can help it?”, and “how much will it all cost?”.

Canvas can be applied to both the brainstorming in team discussions and to discussing various versions and variants of product design.

## Recommended literature

- <http://www.sbagency.sk/mapa-k-vasmu-uspechu-na-jednej-strane-vytvorte-si-business-model-canvas#.XEwug1xKipo>
- <https://www.alexandercowan.com/business-model-canvas-templates/>

## Resources

Burkett, I. Using the Business Model Canvas for social enterprise design.

Elkington, J. (2004) Enter the Triple Bottom Line[Online] Available at:<

<http://kmhassociates.ca/resources/1/Triple%20Bottom%20Line%20a%20history%201961-2001.pdf> [navštívené: 15. apríla 2014]>.

Osterwalder, A. and Pigneur, Y. (2009) Business Model Generation. New Jersey: Wiley.

