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Bakalářská práce

Characteristics of Social Entrepreneurship

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## Abstract

This paper explores the topic of social entrepreneurship and social entrepreneur. Following that definition it discusses activities that are often associated and connected to social entrepreneurship, but display essentially different character. It examines the nature of social enterprises as organizations and their position in the traditional framework of institutions belonging to the private sector. Further it presents social entrepreneurship from the perspective of the three most discussed theoretical approaches to the topic: social innovation approach, commercial activities of the non-governmental non-profit organizations, and the European framework of social entrepreneurship. Finally it shows an example of a social enterprise in the Czech Republic based on the criteria defined by European research network EMES.

The purpose of this paper is to point out on the different approaches and possible different understandings of social entrepreneurship, to discuss its advantages and disadvantages, and eventually to discuss how social entrepreneurship benefits to the society.

## Abstrakt

Tato bakalářská práce se zabývá definicí sociálního podnikání a sociálního podnikatele. Zároveň diskutuje aktivity se sociálním podnikáním často spojované a jejich odlišnosti od sociálního podnikání samotného. Zobrazuje povahu sociálních podniků a jejich pozici vůči tradičním institucím soukromého sektoru. Dále tato práce představuje sociální podnikání z pohledu tří nejčastěji diskutovaných přístupů, a to z pohledu sociálních inovací, podnikatelských aktivit nestátních neziskových organizací a evropského rámce sociálního podnikání, který vychází ze sociální ekonomiky. Závěrem uvádí příklad sociálního podniku v České republice a identifikuje u něj charakteristiky definované evropskou výzkumnou sítí EMES.

Cílem práce je poukázat na existenci různých přístupů k sociálnímu podnikání a na jeho případné výhody a nevýhody, a stejně tak poukázat na přínos sociálního podnikání pro společnost.

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## 1. INTRODUCTION

In the last years, the concept of social entrepreneurship and social business has been emerging in many parts of the world, discussed by an increasingly growing number of academic literature, given wide attention in public debate. It has been intensively promoted by organizations that support social entrepreneurship and social innovations, opening their branches in more countries worldwide, spreading the whole concept further. It has recently started to be promoted by European Commission, which declares interests in contributing to the development of the emerging social enterprise sector. Business schools have started to embrace the topic, teaching how to develop business models to pursue social objectives and generate profits at the same time.

The topic has been only recently enjoying growing recognition, since it is a relatively new concept that has not yet been precisely and universally defined, neither embraced by the economic theory. The idea is already widely spread around the world, however it has been appearing in environments with different socio-economic, political and cultural circumstances. Thus it might be also understood and practised differently in different frameworks.

The objective of this paper is to view social entrepreneurship with this notion, to demonstrate the most used approaches to the topic and eventually to question its significance and importance. Giving examples, the paper will focus on social entrepreneurship that provide solution to poverty, and has inclusive and integrating function; mainly work-integration incentives.

This paper investigates mainly four subject matters. Firstly, it proposes definition of social entrepreneurship as a concept, based on revision of the existing literature. Secondly, it explains the nature of enterprises that might be considered as “social” by positioning them against the conventional understanding of institutions belonging to the private sector and their function. The third part presents the main theoretical approaches that emerged around the topic of social entrepreneurship, and demonstrates the principles in which they operate. At the same time, we present the main framework of social entrepreneurship in Europe together with the criteria most often used to identify social enterprises. The last, fourth part shows an example of a particular social enterprise in the Czech Republic, and assesses it based on the previously defined criteria.

## 2. SOCIAL ENTREPRENEURSHIP

Discussing the topic we distinguish between two theoretical approaches, based on the methodology of Jaques Defourny, one of the main researchers investigating the topic in Europe. Those are *the normative approach* and *the institutional approach* (Defourny, 2001: 6).

The *normative approach* explains values and principles that are common for entrepreneurs and enterprises, regardless of which institutional forms they operate in. Defourny stressed the importance of use of the normative approach, since it relates to primary values of the institutions and influences productive purpose of the ventures as well as their internal structures.

On the contrary, the *legal/institutional approach* discusses specific organizational ways in which the enterprises operate, including their legal forms. The legal forms of social enterprises vary in different countries, based on historical, cultural and political conditions that are external to the organization. In many countries, social enterprises have not yet been given legal recognition for their activities, therefore social entrepreneurs typically decide to operate within various legal forms, choosing those that allow them to pursue their mission comfortably. This is an important factor since the entrepreneurs typically refer more to the values and practices than to their legal forms (Defourny, 2001: 6).

*Social entrepreneurship* is understood as an activity and process that aims at creating and maintaining social value. It encourages entrepreneurial approaches for social use; its important quality is that it displays variable degrees of innovation and change (Mair in Fayolee, 2010: 45). Social entrepreneurship is considered as an activity launched in order to solve various social problems using entrepreneurial approach.

*Social entrepreneurs* are mainly considered as individuals who tackle social problems and want to create and sustain solutions to the situations chosen by them. Such persons are concerned with helping to particular groups of people or to the society in general. Social entrepreneurs create social enterprises.

The following chapter will explore the terms stated above and based on the existing theoretical literature will offer a definition of social entrepreneurship.

## 2.1. Entrepreneurship and entrepreneur

### *Opportunities*

“*Entrepreneur*” derives from the French *entreprendre* (to undertake) which comes from *entre* (between) and *prendre* (to take), giving a sense of a trader who goes between and takes something out of a deal.” (Clark, 2009: 10)

Clark, as well as various other authors mentioned further in this paper, refers to Schumpeter's studies of opportunities, that explained the entrepreneur as *an agent of change within the larger economy*. Such agents identify a commercial opportunity and organize a venture (enterprise) around it. In this understanding, the whole economic development consists of “*carrying out new combinations in the production process*” (Defourny, 2001: 11), and entrepreneurs are the persons who implement these new combinations.

Martin and Osberg suggested a definition of “social entrepreneurship”; their discussion is based on identification of opportunities. As examples they presented famous commercial entrepreneurs such as Steve Jobs who established Apple or Jeff Skoll, the founder of Ebay (Martin and Osberg, 2007:31). These authors explain the process of identifying an opportunity using three key steps in the entrepreneurial process. Those are *Entrepreneurial Context*, *Entrepreneurial Characteristics* and *Entrepreneurial Outcome*.

The frame consists of the idea of *unsatisfactory* or *suboptimal equilibrium* (an inefficient long term situation for particular segment of society). This equilibrium is changed and transformed to more satisfactory one. The entrepreneurs are initiators of such changes, and they achieve them by identifying an opportunity in the existing inconvenience. After, they solve the problem by inventing, designing and implementing sustainable solutions.

Exploring the three steps of entrepreneurial approach as defined by Martin and Osberg will help us to establish a basis for definition of social entrepreneurship.

*Entrepreneurial context* was explained as the suboptimal equilibrium, which remains stable for a long period of time, for it is generally seen as an inconvenience, but is tolerated by most participants of the system. In Martin and Osberg's example, in the case of Steve Jobs “*it was a computing system in which users were dependent on mainframe computers controlled by a central IT staff*” and they had to wait in line for a very long time before their tasks were done. However this system remained in use because there was no alternative that would be more



convenient (Martin and Osberg, 2007: 31).

The entrepreneur is someone who is attracted to such inconvenient situation. They see such situation as a source of inspiration to actively investigate with their self-made solutions. Such pro-activeness and aiming at providing sustainable solutions represent the main *Entrepreneurial characteristics*. In case of Steve Jobs, such pro-activeness emerged as inventing the personal computer that allowed users to free themselves from the existing mainframe (Martin and Osberg, 2007: 33). It would be more of an indirect action if he possessed some kind of activism such as a protest towards his managers against the existing framework. *The Entrepreneurial outcome* is a new, more satisfactory equilibrium, that provides a “*higher level of satisfaction for the participants in the system*” (Martin and Osberg, 2007: 34). Moreover, the outcome remains permanent and it moves beyond the original entrepreneurial venture through mass-market adoption. Therefore, such a new equilibrium does not depend on the original venture's existence. In case of Steve Jobs, the new product was successfully diffused; personal computers had been widely adopted by markets, and even if Apple disappeared from the market, the personal computer would keep being sold by its new competitors (Martin and Osberg, 2007: 34).

Together with land, labor and capital, the entrepreneurial ability is nowadays considered as one of the basic inputs (factors of production) in the economy (McConnell, 1998: 24). In McConnell's economic textbook, an entrepreneur is defined by the following functions:

- *takes the initiative in combining the resources to produce goods or services*
- *makes the strategic business decisions that set the course of an enterprise.*
- *is an innovator, he or she commercializes new products, new production techniques, or even new forms of business organisations*
- *bears a risk with no guarantee of profit* (McConnell, 1998: 24).

### ***Innovation***

The theory of opportunities was further formulated as a concept of innovations that have a crucial importance for production possibilities of the economy. McConnell explains the importance of innovation for the technological development; the technological advance occurs in the very long run and consists of three main steps: *invention*, *innovation* and *diffusion* (McConnell, 2009: 13), that are similar to the three entrepreneurial characteristic as presented by Martin and Osberg.

Addressing the example of Steve Jobs, *invention* (the idea of a personal computer) is the discovery of a product or process that results in *an invention* (the product - personal computer). Innovation means that *an invention* is successfully commercially introduced or used for the first time (first presentation of the new product, followed by first sales). The final step, *diffusion*, means the spread of an innovation through imitation or copying (the idea embraced and similar product sold by other companies) and is considered as a critical element of technological change (McConnel, 2009: 13).

Innovations occur not only as technological changes and do not always have to consequence in large changes of equilibria. Defourny proposed six fields of introducing the changes to markets:

- *a new product or higher quality of a product*
- *new methods of organisation and / or production*
- *new production factors*
- *establishing a new market*
- *acquisition of a new source of raw material*
- *reorganization of a sector of activity* (Defourny, 2001: 14).

As seen, the entrepreneurial approach is innovative – introduces new ways and tools to solve problems and create more satisfactory equilibria; therefore it is also sustainable, since it aims to maintain the new equilibria and effectively transform the new solutions into common practice.

## **2.2. Social values and Social entrepreneurship**

### ***Motivation of social entrepreneurs***

The former definition of entrepreneurship serves us as a base to modify it with “social”.

First, regardless of the consequences of their practises and regardless of the impact they eventually create, the basic difference lies in the motivation of the entrepreneurs.

As mentioned above, all entrepreneurs are motivated by the opportunity they identify; by a particular vision to provide a solution. Martin and Osberg propose that the difference between those two types of entrepreneurs is placed in the *value proposition*. Taking in account the theory of self-interest as a source of creation benefits for all participants on the economy as defined by Smith (Smith, 1776: 30), entrepreneurs are motivated by identification of an idea

that is eventually feasible and serves as a source of a needed financial gain. “*The value proposition is organized to serve markets that can comfortably afford the new product or service, and is thus designed to create financial profit*” and “*the entrepreneurs and their investors are always expected to derive some personal financial gain. Profit is essential to any venture's sustainability and to market adoption*” (Martin and Osberg, 2007: 34). *The value of the opportunity is the economic gain resulting from the innovative use of resources* (Mair and Noboa, 2003: 2).

On the contrary, the authors propose that social entrepreneurs are motivated by other opportunities than those that have high potential to generate financial rewards; they propose *social category* of opportunities (Martin and Osberg, 2007: 34) “*The social entrepreneur is never motivated by his or her personal gain, or a gain of his or her investors. Instead, they aim for value in form of transformational benefit that accrues to a significant segment of society*”. This definition shows that the motivation of socially oriented entrepreneurs lies in their strong sympathizing or even identification with other individuals and groups, and their interest is to create benefits towards them.

### ***Social problems and social opportunities***

“*Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence*” (Smith, 1776: 30).

Dees explains social problems and opportunities as *unmet or poorly met consumer needs* that can be understood as the gaps “*between socially desirable conditions and the existing reality*” (Guclu, Dees, Anderson, 2002: 4). Particularly such problems are usually related to poverty and other issues that have not yet been tackled sufficiently (by public or private sector), and they continuously cause deprivation to particular segment of society.

Importantly, the nature of “social” needs and problems relates to the particular cultural circumstances and the level of economic development. Dees proposes that definition of social needs simply depend on values; values can be either embraced by wide society, or strongly disputed. He suggest that “*the values and commitment to addressing a particular social need must be shared by enough key stakeholders to give the proposed venture some initial viability*” (Guclu, Dees, Anderson, 2002: 4).

Social needs in this understanding are meant as dissatisfaction with inequalities in terms of ability to pay for goods and resources. Incentives to solve such problems sympathize with

particular, often marginalized groups of people. The aim is to create benefits towards such target groups. With the focus on incentives to eliminate poverty and unemployment, these target groups will be people with very low ability to pay for goods, which consequences in risk of permanent social exclusion. Such solutions then lie in the direct, immediate help towards those groups.

The purpose to solve social problems is often associated with the social sector, traditionally represented by welfare states and charitable non-profit and non-governmental organizations, that aim at solving issues such as poverty, social exclusion, disabilities and integration to the job market.

### ***Venture sustainability***

Entrepreneurs who are directed towards social needs as described above aim at providing solutions that will last and eventually create higher standards of living to the targeted groups. Since they create long term change, sustainability is a critical basis for their success. Creating long term solutions requires financial stability as well as a significant level of financial independence, and therefore social entrepreneurs mostly achieve their goals through business practices. To ensure that their social impact does not remain constrained by their uncertain financial situation, the financial bottom line is in general almost equally important to their mission to tackle social needs.

*“Social entrepreneurship is different in these aspects: social entrepreneurs are moved by different motivations to discover and exploit a distinct category of opportunities, the way they pursue opportunities might diverge from typical business approaches, and the outcome they aim for involves both social and economic aspects” (Mair and Noboa,2003: 1).*

### **2.3. Activities that are not social entrepreneurship**

Based on the description above, the following paragraph explores several social mission-driven activities that are often connected to and associated with social entrepreneurship. However, for the reasons stated below, they should not be confused with the term “social entrepreneurship”.

## ***Philanthropy***

The traditional understanding of philanthropy is often restricted to pure financial donating to the non-profit sector. Philanthropy lacks in entrepreneurial approach; it is a simple donating amounts of money with no ensuring to sustain the solutions.

On the contrary, there is another type of philanthropy, much more linked to the entrepreneurial approach. Engaged philanthropy (or “venture philanthropy”) is understood as a complement to this classical philanthropy, where the distinguishing factor is the level of donor’s involvement.

Engaged philanthropists provide not only financial but also intellectual and social capital “*to enable their grantees to achieve social goals*” (Davis, 2005: 3). They support the non-profit organizations which often lack capacity and infrastructure; the sustained support is provided to them so they can reach larger success. Such philanthropists act not only as donors, but also as investors – in the meaning that their return is a “social return” rather than financial (Davis, 2005: 16).

The intellectual capital often involves capacity-building, mentoring, or management assistance to help charities to success in meeting their goals (Davis, 2005: 2). The engaged philanthropists often get involved as voluntary consultants. They tend to provide sustained long-term support, employing an investment approach and focus on the overall organisational health rather than only funding individual projects. They also typically share the risks with the supported organisations (Davis, 2005: 4). Clark stresses the entrepreneurial nature of such individuals (he uses the term “*philantropreneurs*”), who get involved with the subject the donated money is spent on. They view their money donated as an investment more than just as a one-off support. Clark suggests that one of their motivations is that “*they might be frustrated with the way charities do things*” (Clark 2007: 104).

## ***Charitable social service provision***

The traditional charities address big social problems and set up programs to tackle them. They typically use voluntary donations. Martin and Osberg explain possible vulnerability of charities if they are not financially sustainable. Their strong focus on social mission exceeds the attention to ensuring their long-term sustainability, which can eventually threaten their mission or even their existence. As a consequence, “*their impact remains constrained, and their scope determined by whatever resources they are able to attract at the moment*” (Martin and Osberg, 2007: 39). Masendeke and Mugova provide similar description, distinguishing

social enterprises from public social services and traditional non-profit organisations. *“The key distinction is that social enterprises seek to generate revenues for further investment in charitable activities, whereas public utilities and social services are not driven by this motive. Social enterprises should also not be confused with NGOs. Many social enterprises are created by NGOs, but not all NGOs create social enterprises (Masendeke and Mugova in Kerlin, 2009: 115).*

Many social entrepreneurs and enterprises operate within charitable areas and provide social services; still, the entrepreneurial approach is central for their definition. Charitable activities definitely aim at solving critical social problems, but as long as the enterprises do not intend to operate sustainably and independently through some level of market-based activity, we consider them as traditional charities or traditional nonprofit organizations rather than as social enterprises.

### ***Social activism***

Social activists attempt to create change through indirect action, by persuading others to change the unsatisfactory situation (Martin and Osberg, 2007: 39). The “others” might be governments, non-profit and for-profit organisations or consumers. Social activism also can definitely lead to improvements of existing systems (new equilibria). However, in contrast to entrepreneurship, the nature of the action of social activism is indirect. Activities such as protesting, manifestations or lobbying aim to persuade other persons to solve problems. Social activism aims at appealing at those who have tools to change the unsatisfactory situation. On the contrary, social entrepreneurs invent new, alternative solutions, design their own tools and apply them in order to change the unsatisfactory situation. Again, as one of the characteristics entrepreneurship is defined by inventing and applying own solutions, social activism, appealing at those who already have tools to change the unsatisfactory situation, lacks the entrepreneurial approach. On the contrary, social entrepreneurs invent new, alternative solutions, design their own tools and apply them in order to change the unsatisfactory situation.

### ***(Corporate) Social responsibility***

In 2011, the European Commission defined Corporate Social Responsibility (CSR) as *“the responsibility of enterprises for their impacts on society”*, and it stressed *“maximising the creation of shared value for their (firms) owners/shareholders and for their other stakeholders and society at large; – identifying, preventing and mitigating their possible*

*adverse impacts*” (European Commission, 2011: 6).

Some researchers include the CSR initiatives to the theory and broad understanding of social entrepreneurship. For instance, Kerlin mentions that in the United States the term is understood to include also profit-oriented businesses engaged in social commitments such as CSR or corporate philanthropy (Kerlin, 2009: 88). Also Mair and Noboa mention that some researchers refer to social entrepreneurship as the “*socially responsible practices of commercial businesses engaged in cross-sector partnerships*” (Mair and Noboa, 2003: 5).

However, there are crucial differences between social responsibility and social entrepreneurship. First, “social responsibility” is a term that can be applied to wide range of activities and implemented by various groups of people and institutions both from public and private sectors. “Corporate social responsibility” is then associated mainly with for-profit organizations and corporations. Indeed, the corporations implementing CSR practices are primarily product-oriented and profit-maximising, and their social responsibility programs are an additional activity that might be driven by wide range of motivations, but hardly they represent the first purpose of the company's existence. Instead, they serve as additionally imposed sets of rules or recommendations, in most cases separated from the mission of the company. Davis argues that for-profit business might decide to adopt socially responsible practices; however, they can be later modified if they start to inhibit the company's financial bottom line, since the priority of for-profit businesses lies in the financial gain (Davis, 2003: 13). Social entrepreneurship then can be defined as launched for a social purpose; to help a particular segment of society. Its entrepreneurial nature signifies that it is a continuous activity aiming to sustain the solutions, rather than provide one-off charitable help. Also, it differs from activism as it provides new, alternative and innovative solutions to the unsatisfactory situations, rather than persuading authorities to change policies. Finally, social entrepreneurship differs from corporate social responsibility, since the first has other objectives than generating wealth, unlike corporations that primarily generate profits. Although corporate social responsibility is referred to fall to the scope of social entrepreneurship by some researchers, we do not consider it as social entrepreneurship for the purpose of this paper.

In his critical article, “*All entrepreneurship is social*”, Schramm questions the fashionable way of using this term, emphasizing the possible danger of diminishing regular entrepreneurs, “*people who create new companies and then grow them to scale. In the course of doing business as usual, these regular entrepreneurs create thousands of jobs, improve the*

*quality of goods and services available to consumers, and ultimately raise standards of living*” (Schramm, 2010). He stresses the importance of all types of entrepreneurship, emphasizing the fact that especially in developing countries, all types of entrepreneurs regardless of their attributes create significant benefits and improvements to the society.

Unlike the economic activity that is driven by growth and financial gain, eventually resulting in generating wealth, the characteristics of social entrepreneurship lie in the direct, immediate and sustainable activity oriented towards specific target groups, providing them with resources that they cannot possess by themselves in the existing systems.

Martin and Nobeoa stress the innovative dimension; they claim that the social entrepreneurship poses *“innovative approaches to address issues in the domains of education, environment, fair trade, health and human rights”* (Mair and Nobeoa, 2003: 1).

Globally, the social enterprise movement is understood as market-based solutions to social problems, an *“activity intended to address social goals through the operation of private organizations in the marketplace”* (Young quoted in Kerlin, 2009: 88). The challenge lies in the fact that issues such as extreme poverty or work integration hardly belong under highly profitable opportunities, neither they are very interesting for investors. Moreover (as will be seen from the criteria identifying social enterprises in next chapter) one of the basic rules of social entrepreneurship is that their venture is not accountable to any shareholders, in order to preserve the primacy of the social mission and independence of ownership. This is a framework that might create extremely resource constrained environment. Entrepreneurs who compete at the market but stay devoted to their objectives, often have to do so with less effective operations, less profitable products, or targeting customers with a very low ability to pay (Kickul in Fayolle, 2010: 232).

*“Social entrepreneurs must have the same commitment and determination as a traditional business entrepreneurs, plus a deep passion for the social cause, minus an expectation of significant financial gains”* (Guclu, Dees, Anderson, 2002: 13).



### 3. SOCIAL ENTERPRISES

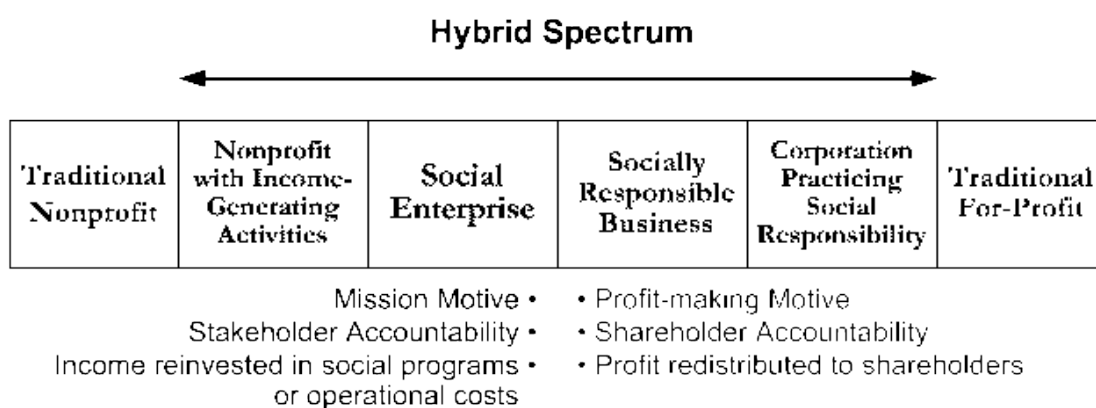
#### 3.1. Hybrid nature of social enterprises

Discussing the nature of social enterprises we want to show their position in the private sector.

Social enterprises are either autonomous organizations, or projects launched by an organization, that primarily address social needs and their assets and wealth are used to create community benefits. They are characterized by having a precise social mission, as well as financial self-sufficiency, and they take a variety of legal forms (Mair in Fayolee, 2010: 33).

In the recent literature that explores the topic, some authors point out on the possibility to differentiate between social and economic value (Porter, 2011, Alter, 2006) and propose the definition of the organizations belonging to the private sector based on the type of value they create the most. The particular type of value is fundamentally connected to the purpose of existence of the enterprise. Alter (Alter 2006) proposes that these elements are central to the organization's ethos and all its activities.

Alter proposes the distinction between organizations that focus at producing purely social value (non-governmental non-profit organizations) and those established to create primarily economic value (for-profit organizations). The spectrum below shows the intersection of those as proposed by Alter (Alter, 2010). The purpose of existence (mission) of the enterprise is the main indicator that separates the forms of traditional for-profit and non-profit sectors.



*Figure 1: Hybrid nature of social enterprises*

Source: [http://www.4lenses.org/Setypology/hybrid\\_spectrum](http://www.4lenses.org/Setypology/hybrid_spectrum)

### *Traditional Non-profits*

Mission of non-profit non-governmental organizations is often purely social. As implied by their name, they do not create profits, thus they do not carry out any commercial activities. Depending on external financial resources, as their main goal they are engaged in redistributions of financial flows. The use of their financial resources (particularly grants) might be very limited since they are typically related to particular activity or project. Also, they involve a certain level of voluntary participation. Non-profits typically cannot distribute profits as personal financial gains (known as a *non-distribution constraint*) (EMES, 2015).

*Nonprofits with Income-Generating Activities* are organizations that integrate commercial methods as one of their sources of financing. The main reason for emerging such practices is typically experiencing a higher competition for external grants and donations and external pressure to strengthen their efficiency (further reasons of non-profits to incorporate commercial practices will be explained in chapter 3.4.)

On the other side of the spectrum, *Traditional For-Profits* are the institutions that generate wealth through commercial activities, are driven by financial gain and possibility of growth and thus they are strongly product oriented. “*The high potential monetary rewards create powerful incentives for existing firms to innovate and entrepreneurs to pioneer new products and processes.*” (McConnell, 1998: 30) *Socially Responsible Businesses* are driven by the same motives, are product or service oriented but since their establishment they follow social objectives which are also important for their practises and identity.

*Social enterprises* are organizations which are established purely to follow their social mission and their purpose of existence is to be devoted to this mission. However, the approach to follow these missions is characterized by using business practices and engaging in commercial activities. Still, most of social enterprises typically use multiple sources of financing. Importantly, they are oriented towards various stakeholders (Defourny, 2001: 18). “*The hallmark of social entrepreneurship is its ability to combine social interests with business practices to effect social change. Its hybrid world—part business—part social—has spawned a new breed of practitioner, the social entrepreneur, as well as a new brand of organization, the revenue earning social enterprise.*” (Alter in Nicholls, 2006: 205)

### ***Not-for-profit sector***

Organizations that have common characteristics as the primacy of their social mission, accountability to various stakeholders and reinvestment of their income back to the social mission, rather than redistributing it as private gains (*Nonprofits with Income-generating Activities* and *Social Enterprises*), fall to the scope of so called *not-for-profit sector*. The organizations of the *not-for-profit* sector have other primary objectives than profit generating and profit maximization, however they *do* create profits, or at least aim at being to some extent financially independent and to manage without losses. Usually they use multiple sources of financing, both self-generated and external in forms of voluntary donations, subsidies or grants.

*“The financial viability of social enterprises depends on the efforts to secure financial resources”* (Defourny, 2001: 16) and such organisations *“place a high value on independence and economic risk-taking related to ongoing socio economic activity”* (Defourny & Nyssens 2008 in Kerlin, 2009: 13).

### **3.2. Social business concept**

Whereas a *social enterprise* can be any type of venture that is established as *not-for-profit* and uses multiple financial resources, “social business” represents a concept of a specific form of venture that primarily pursues social impact, but is exclusively financially independent and sustainable. Social businesses use their own revenues to run the enterprise, and the important fact is that they are never accountable to any shareholders. Social businesses are founded for purely social purposes but their further objectives are equally social and financial.

Profit-maximising behaviour might occur in social business, but it must never threaten the clearly defined social mission. Also, the profit generated by a social business should be reinvested to the enterprise rather than redistributed as a personal gain of its members or owners.

Santos's definition claims that social business enterprises are typical for South-East Asia, and in this region that experiences fast economic development, *“they are usually for-profit business enterprises, directed toward financial goals, while at the same time they use other measures for success, such as various social benefits for the community or environmental sustainability”* (Santos in Kerlin: 2009: 64).

## ***Muhammad Yunus***

Muhammad Yunus, a university economist and founder of the first micro-finance bank in Bangladesh, who was awarded the Nobel Peace Prize in 2006, is often mentioned as a pioneer of the social business movement. Yunus's own definition of a social entrepreneurship describes a specific type of social entrepreneur, so called “social business entrepreneur”, who “wants to achieve his objective through creating and supporting sustainable business enterprises. Such businesses may or may not earn profit, but like any other business they must not incur losses. They create a new class of business that we may describe as ‘non-loss’ business.” (Yunus In Nicholls: 2006: 39)

Grameen Bank<sup>1</sup>, a micro-finance venture founded by Yunus, presents a typical example of a social business as a market-based solution to a social problem of extreme poverty and gender inequality. It provided very small loans to the poorest people, mainly women, and it trained them to exercise their entrepreneurial ability in order to solve their difficult financial situation. The bank was also mainly owned and led by women. (Clark 2009: 41)

Yunus ascribes the origins of social enterprise movement to the third world: “social business is a concept originally developed in the context of poor countries” and he understands social business as both an efficient way of fighting poverty and as a productive source of new business ideas. (Yunus, 2015).

An important dimension defining social business is the relationship between the purpose and the spillovers. According to Yunus, the for-profit businesses have economic goals and eventually social spillovers. On the contrary, social businesses always have social goals and business spillovers. Grameen bank started as a socially minded not-for-profit business, but with its success it had grown into an attractive commercial business<sup>2</sup> (Yunus, 2015).

According to Yunus's definition, another dimension of social business can also exist as a project launched by a for-profit company. The company launches a project with a social business model designed to target the poorest population. To explain the nature of social business and differences to the for-profit businesses, Yunus compares the social business model to “traditional low-cost” models. It is useful for this paper to describe the difference between those to get a more precise definition of social businesses.

A *low cost model* is created by a for-profit enterprise to generate profits. The target group is

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1 [www.grameen.com](http://www.grameen.com)

2 According to the UNDP study, in 2008, the bank had 2 499 branches and served to 7,45 million borrowers in more than 97% of villages in Bangladesh. The study also mentions that the poor really benefited; one in five moved out of poverty within approx. four years. (United Nations Development Program, 2008: 26)

poor population, and it offers cheap products to poor people, usually with lower level of quality. Yunus points out the fact that certain number of people are even out of reach of low-cost models – people who cannot afford even basic essentials. This is the target group for a social business, which offers the products to very poor people at rock-bottom prices. Instead of lowering the quality of products, it uses alternative ways of lowering costs mainly by partnering with non-profits and working with other companies on non-commercial basis. This, according to Yunus, can eventually lead to the situation when even the poorest can afford higher-quality products (Yunus, 2015).

Muhammad Yunus defined seven basic principles of a social business that nowadays serve as a base for further definitions and studies of many researchers and authors interested in social entrepreneurship.

Seven principles of a social business according to Muhammad Yunus<sup>3</sup>:

- *“Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.*
- *Financial and economic sustainability.*
- *Investors get back their investment amount only. No dividend is given beyond investment money.*
- *When investment amount is paid back, company profit stays with the company for expansion and improvement.*
- *Environmentally conscious.*
- *Workforce gets market wage with better working conditions.*
- *...do it with joy.”*

Yunus also explained the paradoxical nature of the social business concept. In the most extreme case, the successful social business would have the mission completely reverse to the traditional for-profits that aims at growth by generating wealth; social business, directed towards a social mission pursued by business practices would eventually lose its own purpose of existence after achieving the particular social goal (Yunus, 2015).

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3 <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html>

## 4. MAIN APPROACHES TO SOCIAL ENTREPRENEURSHIP

### 4.1. Existing research

In Western world, there are two main research frameworks around social entrepreneurship as mentioned by Dohnalová (2012). The first is the USA approach, based on the work of J. Gregory Dees, who organizes the debate on the topic around two main schools of thought: *social innovation* and *earned income*. Second approach presents the European framework, defined mainly by the EMES network, which is the largest research network on the topic of social entrepreneurship in Europe. The following chapter will explain the main Western schools of thought more deeply.

### 4.2. Occurrence

Mair (Mair in Fayolle and Matlay, 2010) points out that the space for social entrepreneurship is defined by the local social, economic and political conditions, and thus the phenomenon is manifested and understood differently in different contexts. He suggests three main concepts around the world, where social entrepreneurship occurs in its various forms. Those are:

1) *liberal economy* defined by market mechanisms “*as the best way to shape and maintain economic and social justice*”, such as United States. He proposes that also social entrepreneurship in these areas is strongly characterized by market mechanisms, and that the entrepreneurial approach represents quite a natural way to tackle social needs since the liberal economies pose a higher volume of unmet needs that are not addressed by the state. For example, in the US, one of the biggest issues to address is specific target groups of marginalized citizens such as Native Americans or inner city poor people. Another big topic is the “*failing education system*” (Mair in Fayolle and Matlay, 2010: 21). Such issues provide opportunities for social entrepreneurs.

2) *cooperative economy* that is characterized by more regulated markets, such as most European economies. During the second half of the twentieth century, social economy developed in most cooperative economies as a result of the crisis of welfare states (Defourny, 2001: 31). Nowadays, new socio-demographic trends recently emerging in Europe might raise new opportunities to create social enterprises, such as migration both within the continent and immigration from other continents.

3) *informal economy*, where social justice is not significantly maintained, and neither the state nor the market creates wealth available to large society, mostly South-East Asia and Latin America (Mair in Fayolle and Matlay, 2010: 21). Social business enterprises of Muhammad

Yunus' format are typical for the informal economies, and the issue most tackled here is the problem of extreme poverty.

### ***Role of globalization***

Mair stresses that the boundaries of models of social entrepreneurship are in flux. He points out that the European cooperative models become infused with elements of the liberal economy model present in the United States (Mair in Fayolle and Matlay, 2010: 23). Grenier (Grenier in Nicholls, 2006) also stresses the significant role of globalization, associated with the emergence of “network society” and “knowledge economy”. He explains that “*the globalization forces decentralizing tendencies alongside the dominance of certain powers and nations, which indicates the importance of linking local issues with a global stage*” (Grenier in Nicholls, 2006: 124). He stresses that the term “social entrepreneurship” originated in Western society, and that Western organisations supporting social entrepreneurship have been spreading their own version of this concept globally (Grenier in Nicholls, 2006: 12).

Due to increasing use of modern communication technologies the entrepreneurs can be much more easily inspired by different practices across the world. According to Dees, these tendencies raise the danger of applying “*similar concepts and plans to different settings where culture, wealth, infrastructure, government, history and legal system matter a great deal.*” He highlights the importance of careful use of different concepts since the social sector consists of “*wide diversity of purposes, covering everything from pollution to poverty and education to health care*” (Dees in Nicholls, 2006: 144).

### **4.3. Social innovation approach**

Within the social innovation approach to social entrepreneurship, success is understood as creating a large social change in scale. For success of a social innovator, one crucial measurement of success is used: *replication*. Replication means that the original idea is embraced and used by other entrepreneurs or enterprises, which consequences in a large social change, typically raising the living standard of large groups of people.

The social innovation approach is more individual than institutional – it focuses on individuals, so called “social innovators”. They do not necessarily have to operate within a for-profit sector or markets, but they certainly need to have the ability to use business tools to maintain their own ideas. The focus is put on their ability to address unmet needs of large

target groups of people and on their managerial and entrepreneurial skills to pursue the change (Dohnalová, 2011: 52).

This approach has been largely imposed and promoted by organisations such as Ashoka<sup>4</sup> (Dohnalová, 2011: 52), which is considered as a key institution supporting social innovators, spreading the concept across the world. Such organisations search for talented and mission-driven individuals, who aim to pursue social changes within large scale, mostly regardless of types of structures and sectors they operate in. The individual social innovators are commonly considered as agents of such large social changes that are supposed to be maintained and to create new equilibria. They are characterized as dedicated to a social, charitable missions, *“while behaving as true entrepreneurs in terms of dynamism, personal involvement, and innovative practices”* (Defourny in Kerlin, 2009: xi).

As an example of a successful social innovator we will now return to Muhammad Yunus and the Grameen Bank. Yunus not only created a successful profitable social business enterprise; he was also an initiator of large equilibrium change. Before setting up the Grameen bank, the original idea was to pull out the poorest people from poverty by providing them with very small financial loans. After this idea was tested, the innovative enterprise was set up. Yunus himself explains the microfinance concept as created on principles completely reversed to which conventional banks had been using: the bank operated with no lawyers, did not require any records from borrowers in order to assess their eligibility for loans; instead, it was interested in an effective solution to their financial stability in the future (Yunus, 2015). This itself poses a highly innovative approach to launching a business.

This example can be used to show how social innovation works through lens of the concept of identifying opportunities. The large number of beggars living in poverty represented an unsatisfactory equilibrium. As a social innovator, Muhammad Yunus identified an opportunity in this unsatisfactory equilibrium and invented a solution lending those people limited amounts of money. Afterwards he actively implemented the solution by persuading the beggars to use the loans effectively (for instead, starting to sell goods instead of begging). After he reached a large number of people and his venture became successful, a new equilibrium – decreased poverty – was created.

From the social innovation perspective, this venture was successful not only because the bank turned out to be a financially profitable enterprise, but more importantly because its idea has

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4 [www.ashoka.org](http://www.ashoka.org)



been adopted and replicated around the world. Nowadays, even the commercial banks operating in advanced economies do invest in microfinance (Gregory, 2008).

As another explanation, to provide a more precise definition of social innovation approach, we also use an example presented by professor Kai Hockerts from Copenhagen Business School, who explained the *social innovation mode* of social entrepreneurship positioning it against *social enterprise mode*. The difference is made by understanding of success of the particular venture. For a business enterprise, success is typically measured in terms of profits and growth. For a social enterprise, the success is first measured by the social impact made by the enterprise. On the contrary, for a social innovator, success lies in replication, since a large social change can happen only through replication of the original idea. Thus for a social innovation approach, success of an original venture that invented the new solution is irrelevant. The determinative element is the number of other enterprises spreading the idea to the society and changing the unsatisfactory equilibrium to a more satisfactory one. (Copenhagen Business School, 2014).

#### **4.4. Earned Income**

*Earned income* approach is a different concept that stresses the commercialization of non-profit non-governmental organizations' activities. This approach explains the emergence of commercial activities launched by non-profit organizations. Usually such enterprising activities grow out of the organizations which existed before as a purely non-profit ones. Commercial activities move such organizations closer towards the concept of social enterprise.

Dees explains that “earned income” primarily refers to income derived from selling products or services at the market, and is typically positioned in contrast with philanthropic donations and government subsidies (Dees in Nicholls, 2006: 145). This approach has its roots in the USA non-profit sector. Kerlin claims that especially in the United States, “*there is a strong tendency to define social enterprises mainly as nonprofit organizations more oriented towards the market and developing ‘earned income strategies’ as a response to increased competition for public subsidies and to the limits of private grants from foundations*” (Kerlin, 2009 xii). Alter also points out that the commercial activities of non-profit organizations had emerged as a reaction to external pressure to professionalize their services and increase their social impact, since they are competing for scarce resources. “*In recent times, not-for-profits have come under heavy scrutiny. Pressure is on for these organizations to professionalize*

*their services, increase social impact, and be accountable for results”* (Alter 2006: 206).

*“One group of researchers refers to social enterprises as the initiatives of nonprofit organizations in search of additional revenues after facing cuts in governmental support, cuts in individual and corporate giving, increased competition, more social needs, and pressure from fund providers to merge or downsize”* (Mair and Noboa 2003: 5).

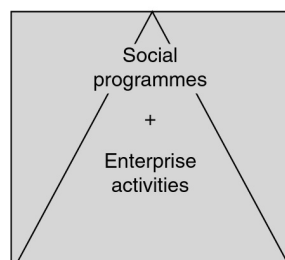
Dees further explains the reasons for which the non-profits incorporate commercial practises. First, he suggests that *“market forces are being widely celebrated, and with growing confidence in the power of competition and the profit motive to promote efficiency and innovation, many observers are suggesting that market discipline should exert more influence in the social sector”* (Dees, 1998). Secondly, he proposes that pure charity might undermine beneficiaries' self-esteem or create feelings of helplessness and weakness. On the contrary, getting them involved in market-based activities (or even charging them for a part of the products and services) might better develop their self-reliance and marketable capabilities, thus such solution has a positive impacts on the social objectives (that applies to disabled, homeless, drug-addicted and in general to socially excluded beneficiaries). The third reason is financial sustainability of the organization, since the earned income might be more reliable than donations and grants. Martin and Osberg claim tha financial viability is important since *“otherwise it would require flow of subsidies from taxpayers or charitable givers. Such subsidies are difficult to guarantee indefinitely”* (Martin and Osberg, 2015). Ensuring some level of earned-income, not-for-profit institutions might have more certainty to secure their existence and pursue their social missions in long terms. However, it is important to point out that self-financing itself does not ensure indefinite resources to an organization (and it definitely does not represent the easiest way to maintain an enterprise). Still, Dees argues that the self-financing activities are considered being more reliable than donations and grants . Moreover, ensuring self-generated income provides the organizations with higher level of independence in terms of freedom of use of their revenues, since many subsidies are limited to particular projects (Dees, 1998).

### ***Models of enterprising nonprofits***

Alter (Alter, 2006) distinguishes between three models of a not-for-profit income-generating enterprise, based on the relationship of the social enterprise to the mission of the organization and based on financial relations between those two units. In this concept, a social enterprise is

understood as a continuous commercial activity that either have a form of independent unit, serving only as a source of financing, or it is a commercial activity directly connected to the social programs of the organization. In fact, Alter differentiates between three types of income-generating activities of not-for-profit institutions; *embedded*, *integrated* or *external* to the social programs (Alter, 2006: 200).

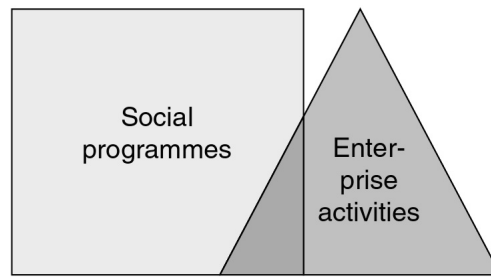
The *embedded social enterprise* presents a type of organization where the core programs are commercialized, and the revenue-generating enterprise and the organization itself share the same mission, social programs and social services, clients, employees and leadership. An example of such organization could be a work-integration non-profit organization that runs sheltered workshops for disabled people, and precisely the products made during the workshops are sold at the market.



*Figure 2: Enterprising activities embedded to the social programs*

Source: Alter 2006: 212

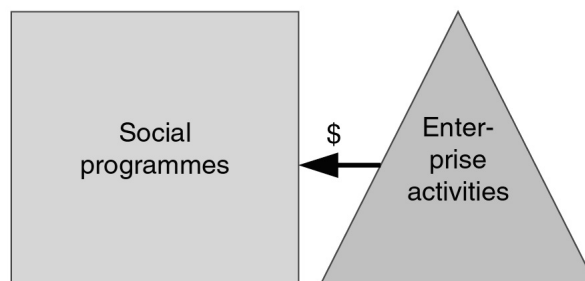
The *integrated social enterprise occurs* if the social programs are only partly connected with the income-generating activities. The relationship between the enterprise and the organization is mutually beneficial, both in terms of social and financial value (Alter, 2006: 212). An example might be a work-integration organization that produces and sells products made by its beneficiaries (and employees at the same time) at the market, and next to that it runs social programs for other beneficiaries who are not the employees of the organization.



*Figure 3: Enterprising activities integrated to the social programs*

Source: Alter 2006: 213

The *external social enterprise* occurs when the income-generating activities and the social mission are separated, and the first exists typically only for the sake of financing the main social programs. In this case, the enterprise operates institutionally as a separated unit from the original organization. As an example, we propose a work-integration non-profit organization that runs a separated commercial unit that employs external workforce or use voluntary workforce, and such business partly or fully finances the organization's social programs.



*Figure 4: Enterprising activities external to the social programs*

Source: Alter 2006: 213

#### 4.5. European framework for social enterprises

Various streams of thought and research around social entrepreneurship exist in Europe. As Dohnalová points out, various European authors explore the topic from the innovative and entrepreneurial point of view; research on social entrepreneurship takes place at various faculties of management and business mainly in the U.K, and is based on a strong influence of the USA approach (Dohnalová, 2012: 55). According to Nicholls, the pioneering school incorporating studies of social entrepreneurship was Skoll Centre in the Oxford Business School (Nicholls, 2006: 23). We have already used an example of Copenhagen Business School whose understanding of social entrepreneurship draws directly on *social innovation* and *social business* experiences and uses the entrepreneurial approach to the topic.

The second stream of thought is the framework defined by the EMES network. EMES is a European research network “around “SE” concepts: *social enterprise, social entrepreneurship, social economy and solidarity economy*“ (EMES, 2015).

Kerlin also points out that in Europe the social enterprise concept is widely associated with the employment creating initiatives, and that most of the specific public programs and public financing linked to social enterprises are focused on the work integration social enterprises (WISE) (Kerlin, 2009: 19). WISE enterprises are oriented towards those who are either poorly qualified or otherwise disadvantaged by preventing them from the danger of permanent exclusion or marginalization through providing them with employment opportunities. (Kerlin, 2009: 18).

##### ***Social economy***

According to Mair (Mair in Fayolle and Matlay, 2010: 21), most of the European economies may be defined as “*cooperative economies*”. Defourny further explains the specific cooperative nature linked to social enterprises in Europe. He distinguishes between the *non-profit* tradition, which has its roots in the United States, and the *social economy* typical for European countries.

Defourny demonstrates that the American perception of non-profit sector, also called “independent sector”, as market as positions against the state. He points on tax-exemption as

the key criterion, and that in the non-profit sector in the United States, the organizations representing wide range of public benefit activities such as *schools, colleges, universities, hospitals, museums, libraries, day-care centres, and social service agencies* are typical (Defourny 2001: 7).

In terms of Europe, Defourny refers to the *third sector*; institutions between public and private for-profit sectors. He suggests that number of new type of socio-economic initiatives inside the *third sector* emerged in response to new situation as a result of crisis of welfare states (typically housing problems solutions, child-care services or services for elderly). During these years, the awareness of the limitations of traditional welfare states and of the organizations belonging to the private sector grew, and new non-profit initiatives emerged as alternative solutions (Defourny, 2001: 3).

*Social economy* is a part of the third sector and organizations belonging there are those that do not primarily pursue generating financial profits, yet they are to some extent engaged to commercial activities. These were originally *co-operatives, mutual benefit societies and associations*. However, they are typically also supported by states and importantly, cross-sector cooperation is typical for them. Defourny suggested that European economies are “*moving to a new welfare mix where responsibility should be shared among public authorities, for-profit providers and third-sector organisations on the basis of strict criteria of both efficiency and fairness*” (Defourny, 2001: 2).

According to Defourny, social economy draws on the following principles:

- *aim of serving members or the community, rather than generating profit*
- *independent management*
- *democratic decision making process*
- *primacy of people and labour over capital in the distribution of income* (Defourny, 2001: 6).

The social enterprise movement in Europe is considered as new dynamics emerging in the social economy; Defourny stresses this tradition as the emphasis that “*has been often put on the collective nature and on its associative or cooperative form*” (Defourny in Kerlin, 2009: xi).

## **EMES network – definitions of European social enterprises**

The EMES network, established by Defourny, highlights the social enterprise's hybrid character as *multigoal, multi-stakeholder, and multiple-resource* (Defourny, 2001: 15); according to his research, those are the main characteristics that define the enterprises that may be called “social”.

### ***The ideal type of a social enterprise***

The “ideal type of social enterprise” is a concept created by the EMES network, established to recognize critical characteristics in order to identify social enterprises. The EMES network was firstly defined them to research new entrepreneurial dynamics in existing not profit organisations throughout the European Union. The first study was undertaken by researchers from all fifteen EU member countries, and served as a basis for a definition of a set of common criteria which served to identify social enterprises.

The criteria were firstly proposed in 2001 (Defourny, 2001: 16), but since then they have been modified in order to provide more appropriate characteristics (Defourny, 2001: 18, EMES, 2015). They organize the criteria into three main parts, regarding the economic and entrepreneurial dimensions, their social dimensions, and finally, recently added category of dimensions of participatory governance that draw on the cooperative tradition of European enterprises.

#### *Indicators reflecting the economic and entrepreneurial dimensions of social enterprises:*

Firstly, the economic dimensions signify that social enterprises are not limited only by redistributing finances (unlike traditional non-profits); instead, they continuously produce and sell goods and services, which consequences in the fact that they are (at least to some extent) independent in securing their own resources. These criteria are defined as:

- *A continuous activity producing goods and/or selling services*
- *A significant level of economic risk*
- *A minimum amount of paid work*

#### *Indicators reflecting the social dimensions of such enterprises*

Social dimensions represents the definition of a common nature of the primary social mission

of such ventures. They serve a community or a specific group of people, and they also might aim at promoting social responsibility, at least at a local level. They are allowed to distribute profits to their members and owners, but only to a limited extent in order to avoid profit-maximising behaviour. Social dimensions are defined as follows:

- *An explicit aim to benefit the community*
- *An initiative launched by a group of citizens or civil society organizations*
- *A limited profit distribution*

*Indicators reflecting the participatory governance of such enterprises*

At last, social enterprises show a high level of independence; they are not managed by public authorities or any other organisations. Also, they are not accountable to any shareholders. Also, they are typically oriented towards various stakeholders, so to some extent, their decision making might take place with stakeholders that are not members of the organization, but that are somehow affected by the activity of the enterprise. Dimensions referring to participatory governance are defined in this way:

- *A high degree of autonomy*
- *A decision-making power not based on capital ownership*
- *A participatory nature, which involves various parties affected by the activity*  
(Defourny, 2001: 18, EMES, 2015).

These criteria have been used for assessments of the enterprises that pursue social objectives, therefore, as Kerlin points out, with “*the understanding that those who do not meet all the characteristics are nonetheless included in the sphere of social enterprise*” (Kerlin, 2009: 13), since the social economy and social enterprise movement have been experiencing dynamic development.



## 5. SOCIAL ENTREPRENEURSHIP IN THE CZECH REPUBLIC

Dohnalová (Dohnalová, 2011: 65) refers to the tradition of solidarity in the Czech Republic and devotes the social enterprise movement to this tradition. She mentions that voluntary activities of civil society emerged already in the Habsburg Empire. It had been continuously created by active participation of *small and medium-sized enterprises, production and consumer co-operatives, associations, mutual or general co-operative banks and credit unions*. Tessea states that the topic of social economy started to be extensively taken into account after the beginning of the new millennium (TESSEA 2015). Contemporarily, Dohnalová (Dohnalová, 2011) states five types of non-governmental organizations that form the social economy in the Czech Republic:

- public service companies, civic associations and churches that pursue economic activities in order to finance their missions
- cooperatives
- companies that have other purpose of existence than profit generating
- self-employed persons from socially disadvantaged groups
- organizations supporting the social economy (foundations, financial institutions, consulting and educating institutions) (Dohnalová, 2011: 78)

Dohnalová also explains that the importance of social enterprise movement has been nowadays increasing due to issues such as demographic changes and population ageing, gender inequality issues, professional and existential reasons, the nature of family that has been changed, immigration and emergence of ghettos, unemployment and reduction of welfare states (Dohnalová, 2011: 19)

To present the contemporary occurrence of social enterprises in the Czech Republic, the results of a research made in 2013 by organization *People, Planet, Profit*<sup>5</sup> has been used. According to this study, the most common area is work integration, particularly of people with disabilities, followed by helping towards young people and young people from disadvantaged environment. Most of the social enterprises are stated as profit-generating and non-loss. Half of the questioned enterprises were financed mostly by self-generated income. Most of them also do have a financial plan for the future. Most of them operate in the service

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5 [http://www.ceske-socialni-podnikani.cz/images/pdf/P3\\_setreni\\_socialni\\_podniky.pdf](http://www.ceske-socialni-podnikani.cz/images/pdf/P3_setreni_socialni_podniky.pdf)

sector, with most frequently represented areas in gastronomy, accommodation, gardening, cleaning and food production. They were mostly small and medium enterprises, having on average 15 employees, approximately two thirds belonging to disadvantaged groups.

Since 2010, a continuous monitoring of social enterprise has been made, assessing the enterprises using the methodology developed by TESSEA<sup>6</sup>, a thematic network for social economy, that had developed characteristics for identifying social enterprises in the Czech Republic. Those characteristics were designed based on the EMES methodology and correspond with that in the social dimensions.

TESSEA defines social entrepreneurship as business activities that are beneficial both for the society and the environment. It proposes three main characteristics for the definition of social entrepreneurship<sup>7</sup>:

- *It plays an important role in local development and it often creates employment opportunities for people with disabilities or social disadvantages.*
- *The profit of social entrepreneurship is largely used for further development of social enterprise.*
- *Making a profit is equally important for social enterprise as increasing the public benefit.*

Concerning the framework in the Czech Republic, TESSEA distinguishes between general social enterprise and work-integration social enterprise.

The social characteristics of a work-integration enterprise according to TESSEA are:

- *to employ and integrate persons disadvantaged on the job market*
- *participation of the employees on decision making*
- *focus to develop professional skills of the disadvantaged employees.*

A new stream of thought is has been introduced by Ashoka<sup>8</sup>, that recently have started to operate in the Czech Republic; this organization promotes and investigates social innovation approach to the topic in the Czech environment.

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6 <http://www.ceske-socialni-podnikani.cz/cz/tessea/tessea-2>

7 <http://www.ceske-socialni-podnikani.cz/en/socialni-podnikani/principy-a-definice>

8 <http://ashoka-cee.org/czech/>

### 5.1. Example of a Czech social enterprise: Maturus, o. p. s.

By this illustrational case study we want to show an example of a particular not-for-profit enterprise to demonstrate its pursuit of both social and financial objectives. Although social enterprises often operate under various legal forms, they do not fall to the scope of traditional for-profit or non-profit organizations. Instead, they show various specific characteristics of social entrepreneurship.

For this example, a social enterprise based in Prague was chosen. This enterprise declares itself as a “social firm”, that is a common name for social enterprises frequently used in the Czech Republic.

The documents that is publicly available on the website of the organization Maturus, o.p.s. were used for this study. The analysis of the content enabled us to identify the characteristics of social enterprise according to the criteria of an *ideal social enterprise* defined by the EMES network, and according to TESSEA criteria of a work-integration social enterprise. The documents from the years 2010—2013 were used for this study, namely the Memorandum, annual reports and profit and loss statements.<sup>8</sup> The data were also collected from the organization's website and from other sources available online.

#### ***Information about the organization:***

Name: Maturus, o.p.s.

Address: Na Topolce 1 713/1 a, Praha 4

Legal form: Public Service Company

Organization established: 24<sup>th</sup> September 2010

18<sup>th</sup> November 2010 registered as a public service company

Establisher: Nadace Jedličkova Ústavu, Praha 2, V Pevnosti 4, 128 41 <sup>9</sup>

web page: [www.maturus.cz](http://www.maturus.cz)

Characteristics:

Maturus o.p.s. is a social firm based in Prague, the Czech Republic, providing graphic services. The organization consists of two main constituent parts: the graphic studio and the transition program.

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<sup>8</sup> Available from <http://www.maturus.cz/dokumenty.html>. The documentation for year 2014 was not available.

<sup>9</sup> <http://nadaceju.cz>

## History:

Maturus o.p.s. was established in 2010 after winning the competition within the program named “*Rok Jinak*” carried once every year by *Vodafone Foundation*. The objective of the program “*Rok Jinak*” is to build and support capacities of Czech non-profit organizations by bringing know-how from other than non-profit sectors (mainly from the business sector). Each year the successful candidates from business sector are provided with the opportunity to receive a scholarship which would allow them to launch a particular project in cooperation with a nonprofit organization.<sup>10</sup> Since 2010, Maturus o.p.s. have been existing as a work-integration social enterprise, employing both people with and without diagnosed disabilities, selling graphic services and actively participating on public debates around social entrepreneurship, social responsibility and position of nonprofit organization and disabled people in society.<sup>11</sup>

The firm operates under the legal form of Public Service Company. The transition program is registered as the main public beneficial activity of the organization (Memorandum: 4). The graphic studio is registered as an additional commercial activity (Memorandum: 6).

## Vision and mission:

The vision formulated by Maturus o.p.s. is that in the society there should be no barriers for people with disabilities, and that people with disabilities should have equal opportunities as all the others. The mission of Maturus o.p.s. states that the organization produces and teaches graphics. Pursuing this activity, it wants to demonstrate that the work of disabled people is generally equal to work of people with no diagnosis of disability. The mission states that the “work of disabled people has no handicap”.<sup>12</sup>

## Goals:

Further goals as stated in the documents are: to demonstrate possible high quality of the work of disabled people, to develop their skills and abilities, to cultivate the environment, to create and produce good work, to break down prejudices in society, to satisfy customer needs and to *enrich graphic design with original “disabled” graphics* (Annual report 2013: 6).

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10 <http://rokjinak.cz/rok-jinak/>

11 Maturu. o.p.s. <http://www.maturus.cz/maturus-o-p-s.html>

12 <http://www.maturus.cz/studio.html>

Main activities registered as the mission are:

1. *Helping towards social and work integration of disadvantaged groups with main focus on people with disabilities*
2. *Creating and running a training workplace for people with disabilities*
3. *Promoting principles of enterprising of people from disadvantaged groups among general public, supporting their social integration, and developing philanthropy on the side of customers and other stakeholders. (Memorandum: 4, Annual report 2010-11: 4)*

Beneficiaries:

The beneficiaries of Maturus o.p.s are mostly graduates from its establisher *Jedličkův ústav a školy*; recently graduated young people who belong to disadvantaged groups and who are in need of work experience in order to increase their chances for entering the open job market.<sup>13</sup>

Networks and cross-sector cooperation:

Maturus o.p.s. is a part of the community around social entrepreneurship; it is a member of many platforms and organizations<sup>14</sup>. Also it has participated on various projects supporting employees and beneficiaries of non-profit organizations, developing their professionalisation, aiming to change the existing position of nonprofits in society, to change the simplified perception of people with disabilities and quality of the work produced by them. Also the firm has participated on a conference on social entrepreneurship with aim to support work-integration social enterprises (Annual report 2010-11: 12).

### **Social program: transition program<sup>15</sup>**

The Transition program exists since 2011 and represents the main beneficiary activity of the firm. It consists of two main activities: inclusion of the disadvantaged groups of people, particularly people diagnosed with disabilities (Maturus employs 50% or more people diagnosed with disabilities), and transition – an active process of training and educating the beneficiaries around the professional expertise in graphics, continuously preparing them to enter the open job market.

The transition program operates as a short-term employment, where employees are supervised by a professional lecturer experienced in graphics and information technology area. The

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13 <http://www.maturus.cz/tranzitni-program.html>

14 <http://www.maturus.cz/maturus-o-p-s.html>

15 <http://www.maturus.cz/tranzitni-program.html>

training happens in the environment of a real firm, working on real commissions, fostering communication with real customers, strengthening skills and self-confidence of the beneficiaries, forming a team of regular employees. All of this aims to increase the beneficiaries' chances to successfully enter the job market. The transition program also continuously helps the beneficiaries of Maturus o.p.s. with their professional development (for instance, helping them to compose their resumés, simulating job interviews and so on) (Annual report 2010-11:6).

### **Commercial activity: Graphic Studio**

The graphic studio is registered as an additional commercial activity of a nonprofit organization Maturus o.p.s., yet it represents the main tool for the social activities of the organization. It serves as a source of self-financing of the organization.

The graphic studio of Maturus o.p.s. based its portfolio on the original portfolio of *Jedličkův ústav a školy*, which had been selling New Year's cards and calendars until the establishment of Maturus o.p.s. Since then, this agenda was undertaken by the new social firm. In next two years, the firm expanded its portfolio with other products and it has been successfully generating revenues (Annual report 2012: 16,17).

### **Characteristics of the social enterprise: EMES criteria:**

To assess if this organization belongs to the social enterprise sector, we will use all the criteria as defined by EMES network.

#### *A continuous activity producing goods and/or selling services:*

Maturus, o.p.s. is a social firm running a graphic studio, providing graphic services and selling graphic goods. In the first two years of its existence the firm had been selling only New Year's cards and calendars. Since 2012, the portfolio has expanded and now consists also of designing a *corporate identity, logos, banners and roll-ups, leaflets and nameplates and occasionally providing "other" services.* (Annual report 2012: 16,17)

#### *A significant level of economic risk:*

Maturus o.p.s. aims at securing its own financial resources. The enterprise is trying to be more financially independent each year. They stated that even though they value the external

donations, they strive to reach the state when they would not need donations at all and would be secured by their own revenues.

The profit and loss statements from the period between 2010 and 2013 show the extent of donations received by Maturus, o.p.s. The donations have always been significantly lower than revenues from own goods and services, and they had also been decreasing each year.

It is explicitly stated in the memorandum that the organization is responsible for its liabilities, and that the establisher (Jedličkův ústav a školy) is not responsible for any of the firm's financial commitments. (Memorandum:3) The annual report from 2012 also states that the firm did not have significant problems with financing its operations (Annual Report 2012: 5).

#### *A minimum amount of paid work*

Maturus o.p.s. is a firm employing both people with and without disabilities. Employing people with salary provided is explicitly stated in the mission of Maturus o.p.s and it presents the main pillar of the firm's existence. The organization employs disabled people with equal conditions to other employees (Annual report 2010-11: 1). Maturus o.p.s. had its first two employees in December 2011. Profit and loss statements clearly show the costs of salaries. The beneficiaries of the *Transition program* are usually employed part-time for a limited amount of time. In 2012 the firm employed 11 people in total. (Annual report 2012: 22), and in 2013 it was already 14 employees in total who had been employed by the organization (Annual report 2013: 4). Maturus o.p.s uses voluntary workforce as well (Annual report 2010-11: 9).

#### *An explicit aim to benefit the community:*

Maturus o.p.s. aims to serve people from disadvantaged communities, particularly to those who are diagnosed with a disability. It aims at increasing their chances to enter the open job market. Namely, the organization helps its beneficiaries to gain work experience, skills in administration, skills in graphics, text editing and copywriting. Importantly it focuses on communication and social skills. As stated in their mission, Maturus o.p.s. aims at minimizing prejudices in society. The firm holds a certification of quality of work produced by people with disabilities ( "*Ochranná známka práce postižených*"<sup>16</sup>) (Annual report 2010:11).

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16 <http://www.pracepostizenych.cz>

*An initiative launched by a group of citizens or civil society organizations:*

Social firm Maturus o.p.s. was founded as a collective initiative of the nonprofit organization *Jedličkův ústav a školy* and Tereza Vajtová, who had previous experience working in the for-profit sector.<sup>17</sup>

*A limited profit distribution:*

The memorandum explicitly states that the profit generated by commercial activities of the organization can not be used to benefit the establisher, the members of the organization or the employees of the company and it needs to be reinvested in providing publicly beneficiary services (Memorandum: .3).

*A high degree of autonomy:*

Maturus o.p.s. is an autonomous organization. Its founder, the non-profit organization “*Jedličkův ústav a školy*”, plays its specific role (has rights and duties towards the organization). Since the establishment of Maturus o.p.s, some graduates of *Jedličkův ústav* typically become beneficiaries of the Transition program. However, the establisher does not have decision making rights or any form of power over the organization.

*A decision-making power not based on capital ownership:*

The memorandum states that the establisher of the firm participates by its rights and duties. However those are not connected to its financial input to the organization. (Memorandum: 8)

*A participatory nature, which involves various parties affected by the activity:*

Maturus o.p.s. employs directly the people who are the beneficiaries of its social program. The *Transition program* aims to help disadvantaged groups to successfully enter the open job market. This program is carried out directly by the profit generating activities of the organizations. Therefore the beneficiaries directly participate on the operations of the commercial activities of the organization.

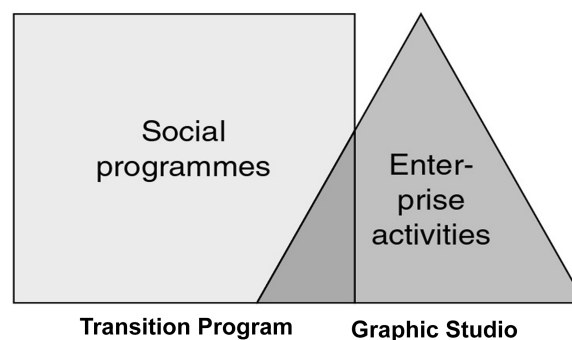
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<sup>17</sup> <http://rokjinak.cz/ucastnik/tereza-vajtova/>



### **“Earned Income” perspective**

The organization declares itself as being a “social firm”, however, its legal form (Public Service Company) is considered as non-profit since it forbids distribution of income to its members or owners (Memorandum: 4), it is established in order to provide publicly beneficial activities, and the income generation must be registered as an additional activity. The commercial activities are represented by the graphic studio, that is an enterprise generating revenues which partly finances the organization. Since the beneficiaries of the social program (*Transition program*) are simultaneously employees of the enterprise, they are directly involved both in generating revenues and in the main social activities of the organization. Thus it is possible to view this enterprise as integrated to the social program of the organization, as defined by Alter's models of enterprising nonprofits.



*Figure 5: Enterprising activities integrated to the social programs of Maturus o.p.s.*

### **Innovation perspective:**

The practices of the organization can be considered as innovative mainly because as is a work integration enterprise, it operates in highly specialised area of graphic services. On the contrary, most of the social enterprises in the Czech Republic operate in fields such as gastronomy, accommodation, gardening or cleaning services (People, Planet, Profit, 2013). Maturus o.p.s. operates in the field of audiovisual services and provides its beneficiaries with the opportunity to start an employment or even a career as qualified professionals.

## Summary

Although the organization exists under a legal form of a non-profit organization, it very well represents a social enterprise belonging to the social economy based on the criteria as defined by EMES. It uses multiple sources of financing, yet it aims to become financially independent and sustainable. Also, its practices very well correspond with the criteria of a work integration social enterprise as defined by TESSEA network, at least at points “*to employ and integrate persons disadvantaged on the job market*” and “*focus to develop professional skills of the disadvantaged employees*”. Locally, the organization cooperates with wide range of other organizations and platforms. It is oriented towards lots of stakeholders, including its customers, beneficiaries, employees, other social enterprises and socially responsible firms, and to the large society by promoting a positive perception of nonprofit organizations and of disadvantaged groups of people. The mission of the organization - to support disabled and disadvantaged individuals and groups of people and provide them with an opportunity to enter the job market, have been achieved by running a sustainable enterprise.

## 6. CONCLUSION

This paper presented the most frequently discussed approaches to the topic of social entrepreneurship. With focus on work-integration social enterprises, it showed that the intersection of those lies in satisfying unmet needs of segments of society that are endangered by exclusion. Unlike the welfare states and private non-profit sector, whose function is mainly to reallocate financial flows from those who generate wealth to those who are lacking it, social entrepreneurship represents sort of new ways of self-privatization of certain social services, that aims to provide sustainable solutions and to ensure new equilibrium with higher standards of living, including people that find themselves at the bottom of society. From this point of view, social entrepreneurship represents a complement to entrepreneurship in its traditional understanding, and an alternative to the welfare state and public sector, providing social services in the areas that are considered as insufficiently tackled, thus benefiting the economy by creating workforce.

Also, the continuous trend of non-profit organizations incorporating commercial practices signifies the trend towards improving their competitiveness and effectiveness and might shift the negative perception that often blames them for ineffective use of financial resources. Social entrepreneurs and enterprises mostly deal with constraints typical for both traditional non-profit and for-profit sector, thus in many cases their position at markets might be immensely difficult. However, since they provide social services, they often enjoy the benefit of certain level of support of governments. For this purposes, criteria for identification and assessment of such enterprises are continuously being designed by various researchers.

Reviewing the literature that has increasingly emerged around social entrepreneurship, especially since the beginning of the new century, we discovered that the topic remains very broad. The research has been dynamic, however altogether inconsistent. Many activities have been recently studied considered as belonging to the concept, and those often distinct movements may be blurred and thus misunderstood. On the contrary, they also have large potential to be mutually inspired by their best practices. So far in the Czech Republic, social entrepreneurial initiatives have been broadly understood in terms of cooperative and non-profit tradition, and most work-integration social enterprises operate in area of less qualified professions. New stream of thought as recently emerged by Ashoka, promoting social innovation approach to the topic, might eventually have the potential to bring new, fresh

entrepreneurial inspiration both to the academic research and practice. Comprehensive research of practices and impact of social entrepreneurship in the Czech Republic, influenced by the new dynamics that are presented by recent initiatives, suggest possibly interesting further investigation on the topic.

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