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# **SOCIAL ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT**

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## ***Abstract***

*The time in which we currently live and will continue to live is a time of changes, which are comprehensive, deep and quick. They occur in almost all spheres and areas of human activity and life. Regardless of their causes, they are all structural changes whose consequences are primarily economic in their nature. The last three decades have been characterized by a rather significant increase in entrepreneurial activities, which is why they are often referred to as "the age of entrepreneurship", "entrepreneurial revolution" and "entrepreneurial renaissance". Enthusiasm towards the role of entrepreneurship in the economic development has had an impact on the development of social entrepreneurship in the last few decades. Thus, the new entrepreneurial culture has also spread to the social sector. Increasingly higher expectations are being set on social entrepreneurship in terms of addressing the needs in the social sector and achieving socio-economic security. Social entrepreneurship implies innovative and financially sustainable activities targeted at social problems. However, its commercial activities do not necessarily need to coincide with the social mission; rather, their purpose is to create financial resources to implement social objectives. Thus, social entrepreneurship can encompass a rather broad range of organizations and businesses – ranging from those which generate their own profit to those which obtain resources for*

*other organizations that fulfill the social mission. This paper will explain the importance of the social entrepreneurship concept, entrepreneurship with moral and ethical integrity, criteria for its classification, as well as criticism of this concept. In the end, an overview of development of social entrepreneurship in the Republic of Croatia and in the world.*

**Key words: social entrepreneurship, social objectives, entrepreneurial culture, ethics, morality**

## 1. INTRODUCTION

The term „entrepreneurship” generally describes the mechanism by which new products, services, and organizational processes are identified realized as a sustainable part of the society. Societies depend on entrepreneurs to drive job growth, innovate solutions to pressing problems, and pioneer technologies. Entrepreneurship is not limited to the for-profit business world. Although profit is fundamental for a sustainable organization, it’s not always the end goal. This is the reason that social entrepreneurship was developed and implemented in the last centuries. Social entrepreneurship rather aims to benefit the community by redirecting all profit back towards a social mission.

Trends from the preceding two decades show that social entrepreneurs have moved from their traditional philanthropic and charitable moorings to find more effective and sustainable solutions to social problems using the tools from the world of business.

## 2. CONCEPT AND HISTORY

Over the past two decades, then citizen sector has discovered what the business sector learned long ago, there is nothing as powerful as a new idea in the hands of a first-class entrepreneur. (Franičević, 1990; Buble, Kružić, 2006).

The term "social entrepreneurship" is relatively new, but it builds upon centuries of transformative leadership. Social entrepreneurs are people or organizations that use economic and technological innovation to achieve social goals. They use entrepreneurial skills to create organizations that, instead of seeking profit, pursue a more just and humane society. (Noya, 2009)

The results of a research conducted by the American economist David Birch in 1979 are responsible for the nowadays almost generally accepted link between entrepreneurship and economic development, with entrepreneurship being its main driving force. Rather unexpectedly, this research has shown that in the course of the observed period, the businesses with less than one hundred employees generated more than 80% of new jobs in the USA.

In Europe, the collective dimension is important and social entrepreneurship is almost always launched by means of a joint initiative, common ownership and democratic management structure. The European Commission has therefore outlined its own definition of social entrepreneurship, according to which it is defined as the sector located between the private and the public sector, which operates in accordance with the social mission and requires entrepreneurial spirit (European Commission, 2010).

Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. Social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to move in different directions.

Social entrepreneurs create new organizations, new markets, and new ways of thinking and behaving in solidarity with poor communities to provide basic services, such as renewable energy, clean water, health care technologies, education, and access to financial services. SEs devise highly affordable products and services that can be bought by people living on a few dollars a day, and create businesses that can distribute these to poor communities. Many SEs come from the communities that they serve. Some SEs work with women and their specific socio-economic needs. (Austin, Stevenson, Wei-Skillern, 2006)

Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are visionaries, but also realists, and are ultimately concerned with the practical implementation of their vision above all else. (Dees, 1998)

Social entrepreneurs present user-friendly, understandable, and ethical ideas that engage widespread support in order to maximize the number of citizens that will stand up, seize their idea, and implement it. Leading social entrepreneurs are mass recruiters of local change maker's role models proving that citizens who channel their ideas into action can do almost anything.

Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss to improve systems, invent new approaches, and create solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur develops innovative solutions to social problems and then implements them on a large scale.

Increasingly business graduates are recognized as possessing important skills that can drive social change. This new discipline is often referred to as Social Entrepreneurship. SE-s describes the discovery and sustainable exploitation of opportunities to create public goods. This is usually done through the generation of disequilibria in market and non-market environments. The SE-n process can in some cases lead to the creation of social enterprises. These social

ventures are hybrid organizations exhibiting characteristics of both the for-profit and not-for-profit sector. Individuals engaging in SE-s are usually referred to as social entrepreneurs, a term that describes resourceful individuals working to create social innovation. They do not only have to identify (or create) opportunities for social change (that so far have been unexploited), they must also muster the resources necessary to turn these opportunities into reality. (Mair, Marti 2006)

A typical example is Prof. Muhammad Yunus, is a Bangladeshi social entrepreneur, banker, economist and civil society leader who was awarded the Nobel Peace Prize for founding the Grameen Bank and pioneering the concepts of microcredit and microfinance. These loans are given to entrepreneurs too poor to qualify for traditional bank loans. In 2006, Yunus and the Grameen Bank were jointly awarded the Nobel Peace Prize "for their efforts through microcredit to create economic and social development from below".

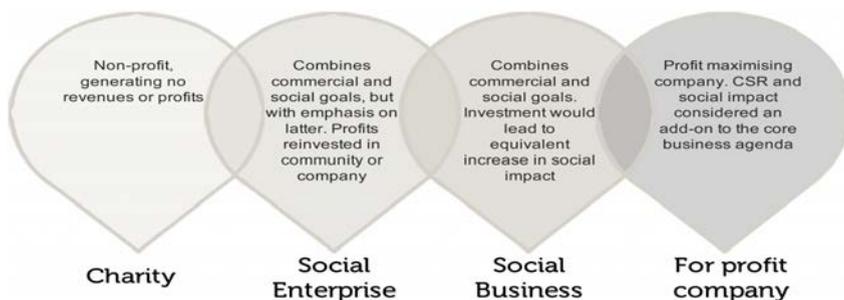


Figure 1 Models of social enterprises

Many people who approach us ask how social enterprises make their money, or how a social enterprise is different from a business (or indeed how it is different from a charity). Because there is such a range of high-impact organizations operating in such a myriad of ways, these questions are impossible to answer precisely except that, simply put, these businesses have impact and financial success at their core.

Sometimes it is useful to consider some organizations as “impact first”, like charities, and some as “purely for profit”. This spectrum of organization types shows the range of organizations working to create change and there are many. It’s also very limiting. Considering the landscape as “charity vs. company” or “social enterprise vs. social business” obscures the wider movement that sees business and finance as a force for good.

It means disregarding the idea that all businesses have an impact. Some have overwhelmingly positive impacts, some have overwhelmingly negative impacts, and many fall somewhere between the two.

The critics of the social entrepreneurship concept argue that attributing the crucial role to social entrepreneurship in the process of dealing with social problems, and especially in the creation of employment, is arbitrary and groundless (Cook et al, 2000). It is believed that social entrepreneurship system does not have the strength to offer a solution for structural unemployment. Another problem is the inability to measure social effects and social values that social entrepreneurship creates (Dees, 1998). It is difficult to establish whether social entrepreneurship justifies the invested resources in the economic and social sense, and whether it contributes to social development.

Debates have been held on positioning social entrepreneurship within one sector (non-profit sector), or in the sphere of cross-sectoral activities. Ultimately, this paper analyzes how the social entrepreneurship concept can be observed as the product of dominant values in a society. It also examines how social innovation can bring about new aspects of socio-economic balance and general well-being? If social entrepreneurs were to stimulate their employees' entrepreneurial initiatives, a greater number of innovations would be achieved and, consequently, competitive advantage would increase. The role and the importance of social entrepreneurship is an increasingly interesting area of study.

Theoreticians of entrepreneurship are trying to provide answers to the following questions: 1. Why, when and how do opportunities for creating value occur? 2. Why, when and how certain individuals detect and capitalize on those opportunities? These current issues are dealt with by means of social entrepreneurship.

The public system in Croatia, which ensures at least some degree of equality, keeps becoming more and more obsolete, which is reflected in the crisis of the welfare state, permanent growth of unemployment, stratification of the society into the extremely rich and the extremely poor, and the disappearance of the middle class which was the main driving force of Croatia's economic development. The new concept and phenomenon of social entrepreneurship offers a solution to accumulated social problems by indicating the need to broaden the horizons and establish a new social balance.

### **3. SOCIAL ENTREPRENEURSHIP IN CROATIA**

In recent years, social entrepreneurship initiatives are becoming very important subject in the economies of many countries around the world. In Croatia, the interest in social entrepreneurship has increased only in the last several years. The number of stakeholders involved in social entrepreneurship activities is still modest. A particularly important step in the institutional recognition of the phenomenon is a recent initiative by the Ministry of Economy, Labour and Entrepreneurship for the development of a social entrepreneurship strategy. This not only recognizes the uniqueness of this type of activity, but also

acknowledges its importance in the socio-economic development and attempts to establish new balance in the Croatian society.

For the social entrepreneurs in Croatia to be willing to invest their knowledge and skills, as well as their time and energy, it is necessary to establish a working environment which stimulates employees' creativity and the process of innovation, while it is also necessary to highlight that this cannot be achieved without appropriate support and understanding at all levels within the state. Therefore, support to a social entrepreneur, which is reflected in the willingness to enable, support and promote entrepreneurial activities by providing all necessary resources, is a crucial factor in the development of social entrepreneurship.

The consequences of the ongoing financial crises have highlighted advantages of social enterprises that have demonstrated robustness in periods of negative economic developments and stable positive social impact on the societies in which they are operating. European Union has included development of social entrepreneurship and social economy very high on its list of priorities in the 2014-2020 periods.

The concept of social entrepreneurship in Croatia has become recognizable in the last several years mostly because of initiatives from nonprofit organizations and couple of pilot grassroots initiatives. Due to insufficient funding these organizations are increasingly turning to social entrepreneurship as the self-financing practice.

Although social entrepreneurship as a new paradigm in dealing with social problems is increasingly popularized in the world, organizations and individuals that are part of the social entrepreneurship development in Croatia are faced with various problems, such as lack of structural support of any kind, misunderstanding of the concept and the lack of clarity about responsibilities for its implementation by institutions dealing with social issues.

*In Croatia, almost all of the social enterprises have emerged through one of 3 models:*

1. Civil society organizations trying to become independent from grants and donations start asking fee for their services mostly in the field of environmental study, social services, education and research or culture and community development. Becoming social enterprises, they do generate profit, but this profit is then reinvested into the society. Still, not all CSOs are social enterprises; moreover it is still a rare practice.

2. Grassroots initiatives in which social entrepreneurs have detected needs in the local community to solve specific problem or to provide a specific social service (e.g. SLAP Osijek, ACT Čakovec).

3. Social enterprises created through the work of social incubators or incubating programs, unfortunately still very limited in Croatia (newly founded Impact Hub Zagreb program of Croatian Caritas and Ministry of Economy, 2006-2010, UNDP)

Faced with the consequences of economic crises that has struck world in the last few years, many people have started to think about the roots of the crises and the position of today's financial institutions in the society.

In quest for solutions, people have started looking for alternative financial models that would be different from the current flawed ones and could serve needs of people and communities in the better way than the present ones.

Instead of accepting this situations, this group of young experts from different profiles (physicists, mathematicians, econometrists, economists, IT experts and lawyers) have begun looking for a new models that would put not profit but needs of the community into the focus of financial institutions and would position banks as a pure service to the productive part of the economy with improvement of the social services and quality of lives of individuals as the main objective of their work.

Since the 1930s the banking business, which originally had social connotations, has been losing its original ethical features. This has made necessary the birth of a new generation of social banks, the so-called "ethical banks". These have the objective of achieving a positive impact in the collection and in the use of money. They invest in new activities such as organic farming, renewable energies, the Third sector (or not-for-profit sector) and Fair Trade.

Table 1

## Social entrepreneurship in Croatia

<i>NAME</i>	<i>AREA OF ACTIVITY</i>	<i>MAIN GOALS</i>
<i>ACT</i>	<i>Čakovec</i>	<i>Development civil society</i>
<i>BARKAN</i>	<i>Otočac</i>	<i>Promote cycling in Otočac</i>
<i>GRUPA KORAK</i>	<i>Karlovac</i>	<i>Protection of women's and children's rights</i>
<i>UDRUGA LASTAVICE</i>	<i>Split</i>	<i>Improving the quality of life people with disabilities</i>
<i>UDRUGA MI</i>	<i>Split</i>	<i>Development local community</i>
<i>ZADRUGA DOBRONAM</i>	<i>Zagreb</i>	<i>Personal and social development</i>
<i>NOA</i>	<i>Osijek</i>	<i>Social banking</i>
<i>PLAVI SVIJET</i>	<i>Veli Lošinj</i>	<i>Protection of the Adriatic Sea</i>
<i>RODA</i>	<i>Zagreb</i>	<i>Protection children and parents rights</i>
<i>SLAP</i>	<i>Osijek</i>	<i>Development local community</i>
<i>ZELENI OSIJEK</i>	<i>Osijek</i>	<i>Environmental protection</i>

Source: author research

Development of social entrepreneurship in Croatia is still in a beginning. There are ten forms of entrepreneurial activities in field of civil society and one social bank. They are developed in Čakovec, Otočac, Karlovac, Split, Zagreb, Osijek and Veli Lošinj. Main goals are mainly focused on protection of women's and children's rights, improvement the quality of life people with disabilities, protection of Adriatic Sea and environment as well as development of local community.

#### **4. ETHICAL BANKS**

##### *Characteristics of ethical banks*

Banks need to satisfy the whole range of criteria in order to be called ethical by the definition of FEBEA. These criteria could be divided through several topics.

##### *Role of an ethical bank*

The role of an ethical bank is to work for the common good and ensure the right to receive credit through a bank activity consisting in raising funds and reallocating them in the form of credits for cultural, social and environmental projects. Through their activity, ethical banks promote social inclusion, sustainable development, development of social economy and social entrepreneurship. Ethical banks also have a role to raise public awareness on the role of money and the failure of the economy based on short-term and profit as the only objective. (Davies, H. 2001.)

##### *Origin of money*

The money on which an ethical bank bases its collection and its capital comes from savings of its customers, which are created through activities in real economy. An ethical bank does not accept "dirty" money, that is money that comes from illegal activities, from criminal groups or mafia, armament industry, highly polluting industries, or non-declared money.

##### *Destination of money*

The purpose of an ethical bank's credit activity is to have at the same time a positive impact at a social, environmental and economic level. For this reason an ethical bank addresses its collection/saving of money to socio-economic activities aimed at social, environmental and cultural profit. This objective is achieved through the support in particular through not for profit organizations to activities for human, social and economic promotion, also dedicated to the weaker sections of the population and to the most deprived areas, favoring social integration and employment. In an ethical bank the relationship with customers is often under the form of partnership.

In an ethical bank at least 90% of financing distributed to companies, institutions, organizations, meets both economic and socio-environmental criteria. The thorough assessment of multiple aspects of each funded project enables ethical banks to have a very low risk level. An ethical bank pays special attention to the support of initiatives for self-employment and women and youth, often through microcredit and microfinance. (Cowton, C. 2002).

#### *Criteria and values for the use of money*

The investments of an ethical bank are managed transparently. The amount of funding distributed by an ethical bank can be max. 15% of the regulatory capital.

In order to grant a loan an ethical bank does not consider only collaterals/real guarantees, but it also values personal or social guarantees provided by the local networks in which the funding is allocated. An ethical bank does not speculate (for clients nor for itself) in short term operations, but it favors the “long term” and the real economy.

#### *Conditions for bank management*

An ethical bank puts credit at the service of people and the exclusive research for profit is not its objective. A fair profit is necessary to ensure the economic viability and sustainability of the bank. An ethical bank is deeply rooted in the territory in which it operates, and in its socio-economic networks. An ethical bank assures this core value of participation through well-codified procedures and statutory instruments that enable members and employees (or their delegates) to influence directly on the management strategies of the bank. Beyond the value of participation, transparency is a fundamental value for an ethical bank: transparency in the origin and in the use of money, in credit and business management.

#### *Need for ethical banking in Croatia*

After the breakup of Yugoslavia and fall of the socialist system and after the war in 1990s, Croatia has privatized its banking sector almost completely. Through a series of privatization actions, most of Croatian banks have ended up in the hands of large foreign banking groups from Italy, Austria, France and Hungary.

This has put Croatian economy in quite difficult position. Fueled by massive privatizations in the country, banks have mainly invested in the consumption part of the economy, especially property sector. Loans for SME's and industry have become very expensive making those parts of economy uncompetitive on the domestic and international markets. Financial support for social enterprises, cooperatives and non-profit sector is almost non-existing because commercial banks see this sector as non-bankable.

## 5. CONCLUSION

Social entrepreneurship implies innovative and financially sustainable activities targeted at social problems. However, its commercial activities do not necessarily need to coincide with the social mission; rather, their purpose is to create financial resources to implement social objectives. Social entrepreneurs act as the change agents for society, seizing opportunities others miss to improve systems, invent new approaches, and create solutions to change society for the better.

In Croatia, the interest in social entrepreneurship has increased only in the last several years. Support to a social enterprise, which is reflected in the willingness to enable, support and promote entrepreneurial activities by providing all necessary resources, is a crucial factor in the development of social entrepreneurship.

Social entrepreneurship has quickly established itself as a dynamic field of practice and academic enquiry. Located at the interstices of the non profit, for profit and government sectors . A strong interplay between theory and practice is characteristic, also contributing to the rapid growth and sustained interest in the research.

For social banks, the responsibility for the whole of society is the most important measure for a good lending practice and is more important than profit alone. This is why social banking is often called “banking for social cohesion”, or “cooperative banking”, instead of the competitive banking approach, that has dominated the banking world in past decades. We have integrated ourselves with the world economy by adopting the respective concepts. In this scenario, it is right time to focus on the social and ethical issues in banking

Further research in Social entrepreneurship can be to explain and precise define the value of social effects that social entrepreneurship added to the entire society and it can also be one of research to demonstrates how commercial enterprise and established business models can be integrated with social value creation.

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