# Petra Tausl Prochazkova<sup>1</sup> SOCIAL ENTERPRISES PRACTICES: CZECH REPUBLIC CASE STUDY

This paper undertakes qualitative and quantitative observation of social enterprises with a special focus on discussing their nature, barriers and opportunities. Thank to this examination a comprehensive understanding of their business practices and conditions within business social environment is provided.

**Keywords:** social enterprise; entrepreneurship; financing sources; barriers and opportunities in business.

Peer-reviewed, approved and placed: 28.03.2016.

## Петра Таушль Прохажкова ПРАКТИКА СОЦІАЛЬНОГО ПІДПРИЄМНИЦТВА: ЗА ДАНИМИ ЧЕХІЇ

У статті представлено результати якісного та кількісного досліджень соціального підприємництва, особливу вагу приділено опису суті даного явища, а також пов'язаним з ними бар'єрами та можливостями. Авторське дослідження дає можливість розглянути всі аспекти соціального підприємництва якнайповніше, а також умови соціального середовища, необхідного для його успішного розвитку.

**Ключові слова:** соціальне підприємство; підприємництво; джерела фінансування; бар'єри та можливості ведення бізнесу.

Форм. 1. Табл. 11. Літ. 22.

## Петра Таушль Прохажкова ПРАКТИКА СОЦИАЛЬНОГО ПРЕДПРИНИМАТЕЛЬСТВА: ПО ДАННЫМ ЧЕХИИ

В статье представлены результаты качественного и количественного исследований социального предпринимательства, особое внимание уделено описанию сути данного явления, а также связанным с ним барьерам и возможностям. Авторское исследование даёт возможность рассмотреть все аспекты социального предпринимательства максимально полно, равно как и условия социальной среды, необходимые для его успешного развития. Ключевые слова: социальное предприятие; предпринимательство; источники финансирования; барьеры и возможности ведения бизнеса.

**Introduction.** Social entrepreneurship concept is deeply rooted into the entrepreneurship terminology already and has quite a long history (Dees, 1998). There are many definitions of what social entrepreneurship present and social entrepreneurs produce. Increasing attention to finding a proper definition of social entrepreneurship and enterprises appeared approximately in the 1980s (Raghda El Ebrashi, 2011). Some scholars would argue that the definition of social entrepreneurship today is anything but clear. W. Grassl (2012) mentions that some recent publication lists 27 different definitions (Zahra et al., 2009). As a result, social entrepreneurship, or rather, social enterprises terminology has become so wide that now may cover a variety of manner of socially beneficial activities (Martin and Osberg, 2007). There is a mutual agreement between scholars that social enterprises and entrepreneurship is important (Cooperrider and Pasmore, 1991; Certo and Miller, 2008; Tausl Prochazkova, 2015).

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However, S. Venkataraman (1997) noted well that there are fundamentally different interpretations and concepts of entrepreneur, and entrepreneurial roles. So, one may find different samples explaining what social enterprises are. Some scholars (e.g., Reis and Clohesy, 2001) argue that social enterprises practices are just application of business practices of non-profit organizations and that they use really radically different business approaches and represent doing good. Some (Chhabra, 2015) consider social enterprises as new counterparts of non-profit organizations. L.M. Salamon et al. (2003) point out an increasing trend of social enterprises growth. He argues their growth is due to factors such as dissatisfaction with inflexible market conditions, state mechanisms or increased public expectations.

Social enterprises. Definitions of social enterprises may vary. Majority of scholars work usually with a combination of a business profit model and a social, nonprofit, philanthropy model (Short et al., 2009; Moss, et al., 2011). The OECD publication (Mendell and Rogales, 2009) understands social enterprises as an innovative business model combining social and economic objectives. Thank to such business model nature contribution to labor market integration, social inclusions and economic development is provided. In general, social enterprises are typical of employing entrepreneurial capacities that help solving social problems (Alvord et al., 2004). Many social enterprises description can be easily summarized by intention to build economic independence and nourish community. The mission of a social enterprise dwells usually in combining 3 main perspectives – economic, social (such as workforce development, education, health, community) and environmental one. The trend among social enterprises and other stakeholders answers the philosophy of doing sustainable business. The key principle of sustainable business is clear. Such entrepreneurial behavior goes beyond a narrow financial aim to a more complex system integrating environmental and social principles into a sustainable business approach. Activities of social enterprises can be very easily considered as one of the best example of sustainable business.

Doing social business is modified by several stakeholders' opinions and business environment. Since social enterprises operate at the same market with classical profit-oriented businesses, their competitiveness and the ability to survive may be reduced. Thanks to their social mission, they have to face specific barriers and obstacles standard enterprises don't face. However, several support initiatives and institutions have been established in order to help fulfilling their mission.

To better understand the core essence of social enterprises the following attributes (Table 1) should be mentioned. These attributes can be divided from economic and social (environmental) perspectives.

Social enterprises can be understood as a compendium of the following attributes trying to reach social and economic impact:

$$SE = f(SN, RT, M, I, C, PO, P/SC),$$
 (1)

when subject to (S) and (EC) in order to create effective ecosystem where SE – Social Entrepreneurship; *I* – Innovation; *C* – Creativity, SN – Social Need; RT – Risk taking; PO – Perceived Opportunities; P/SC – Product/Services Creators; S – Social and EC – Economic Mission. Motivation can be religious or humanistic. What is important is that the process must be guided by a vision that should be effective for the social enterprise.

| (101101, 2011, 0                                    |   |
|---|---|
| Economic  | Social/environmental                          |
| Social enterprises activities play a significant    | Social enterprises' activities contribute     |
| role in regional (local) development.               | positively to society. They meet directly     |
| Profit is not the key aim, they generate profit for | social needs.                                 |
| a charitable or social purpose. The majority of     | Social entrepreneurship activities contribute |
| profit is redistributed for further development of  | positively to environment and try to          |
| the social enterprise. Profit is abstained from     |   |
| distributing to shareholders.                       | activities.                                   |
| Social enterprises develop new product/services     | 1 1   |
| using a viable business model while meeting         | work opportunities for people experiencing    |
| social and environmental needs.                     | some form of exclusion and disadvantage.      |
| Management of social enterprises is very often      | 1   |
| not locked into traditional entrepreneurial         | creating and sustaining social value and they |
| thinking but combines sustainable way of            | 5 I   |
| thinking and managing.                              | Social enterprises prefer to use local        |
| Social enterprises trade to fulfill their mission.  | resources and satisfy needs and demands of    |
| Financial viability depends on the efforts of       | local community.                              |
| members/managers who take care of ensuring          | Social enterprises are often started by       |
| financial resources. Therefore, social enterprises  | individuals passionate to make a difference.  |
| have significant economic risk.                     | Social enterprises are the result of an       |
| Social enterprises are directly engaged in sales    | initiative involving individuals who belong   |
| of goods, services or in production.                | to a community with a certain need.           |

### Table 1. Attributes of social enterprises, authors' of the data (Porter, 2011; OECD, 2006)

To better understand what factors influence upon social enterprises, Table 2 provides an overview of barriers and opportunites in social entrepreneurship.

| <i>Table 2.</i> Barriers and opportunities of social enterprises, <i>author's of the data</i> |
|---|
| (European Commission, 2011; OECD, 2013; Grassl, 2012)   |

| Opportunities                                 | Barriers   |  |  |
|---|--|--|--|
| Changes in individual behavior.               | Lack of specialized training and education         |  |  |
| Adequate number of best practice cases and    | among social entrepreneurs.                        |  |  |
| literature on social entrepreneurship.        | Social enterprises have to demonstrate they are    |  |  |
| Changes in financing (possible savings) -     | sufficiently beneficial to society.                |  |  |
| crowdfunding platforms, microfinances,        | Difficult access to financing, need of multisource |  |  |
| grants, donations etc.                        | financing.   |  |  |
| Increasing support from various institutions, | Heterogeneous classification of social enterprises |  |  |
| especially governmental (public) ones.        | can bring several divides according to chosen      |  |  |
| Products and services can become a            | criteria, and thus, misunderstanding concerning    |  |  |
| synonym for quality.                          | their hybridity.                                   |  |  |
| Products and services are often very          | Lack of single definition of social                |  |  |
| specific, according to consumer needs.        | entrepreneurship and very limited insight into     |  |  |
| Product and services are usually the sources  | what social entrepreneurship is about.             |  |  |
| of innovative approaches to problem           |  |  |  |
| solving.                                      | Requires special approaches to employees.          |  |  |
| Democratic management.                        | Government pays attention to it sometimes          |  |  |
| Social enterprises can get benefits from      | slower than needed.                                |  |  |
| government for the employment of people       | e Marketing and coordination of business efforts   |  |  |
| excluded from the labor market.               | are not on the top list of preferences.            |  |  |
| The level of economic development has its     | s Missing recognition of centrality of             |  |  |
| influence on the demand for social services.  | . entrepreneurial functions.                       |  |  |
|   | Lack of effective planning and management.         |  |  |

**Case study content and results.** Although many extant researches are concentrated on case studies (Alvord et al., 2004; Datta and Gailey, 2012; Thompson and Lees, 2000) still there have been limits in understanding the important facts and circumstances of social entrepreneurship. At least a few fields should be clarified. For example, managing a social enterprise is not only about business skills. It is more about balancing a social idea with an intention to do business. Running a social business may bring cost implications in addition to social challenges to key activities, resources or costumer relationships. That does not mean that social enterprises cannot run a viable and prospective business, they just have to recognize that their business model can be a little different from ordinary business. In such situations, rational reconstruction of the essentials of social enterprise ontology can help improve their perception.

The case study has been compiled by using two sources. Quantitative analysis of the social enterprises sample was provided and 8 field experts were asked to give their opinions. Field experts are involved professionally in the social entrepreneurship sector, either on the state level (consultancy, support agencies, education) or non-government level (associations etc.). No manager or social entrepreneurs were asked on purpose. The reason behind it is simple: they are very often locked into their daily activities and are not capable to consider many aspect from the outside. The aim of our analysis was to get familiar with life conditions and environment of social enterprises. By means of quantitative analysis several groups of aspects were followed in order to create a coherent framework in the field. The analyzed groups are described in Table 3.

| Quantitative analysis   |  |   |   |   |
|---|--|---|---|---|
| Basic demography  | Employment   | Finances  | Barriers  | Opportunities                                     |
| <ul><li>legal form</li><li>sector of activity</li><li>social impact</li></ul> | <ul> <li>employees</li> <li>trends in</li> <li>employment</li> </ul> | <ul><li>financial sources</li><li>financial stability</li></ul> | <ul><li> enterprise</li><li>weaknesses</li><li> external barriers</li></ul> | <ul><li>strengths</li><li>opportunities</li></ul> |

Table 3. Quantitative analysis by groups of aspects, author's

Together 141 social enterprises were asked in 2015, 79 of them responded to the author with further details about their social business. By the legal form not surprisingly the leading position got limited companies (37%) and civil society organizations (27%) followed by other legal forma of NGOs. The respondents could select up to two sectors concerning their social impact. The major fields (45%) seem to be involved in employment and training for people excluded from the labor market, then in various social consultancies and services (26%), economic, social or regional development (19%) and others – in ecological or cultural activities. The majority of the observed social ventures are active in services - cleaning, gardening, maintenance (21.52%), also in culture (15.19%) or wholesale trade (10.13%), only a few were engaged in environmental services, healthcare, medical services or tourism. Some social enterprises do not focus only on one main activity, but provide secondary activities too. There is an interesting observation when comparing this data with the OECD and the EU studies. The OECD study (2013) covered 655 enterprises and there are quite big differences in the preferred sectors. The OECD study was dominated by social assistance services sector (26%), education and training services (21.1%) and work integration sector (19.6%). Different data was obtained by the EU study (2013) where 600 social enterprises throughout Europe were asked. The top 3 preferred sectors were social assistance services (16.7%), training (14.88%) and environmental services (14.52%). All these data confirm quite a wide scope of social enterprises' range.

| Sector (secondary sector)         | Frequency | Percent | Cum.<br>percent | Frequency | Percent | Cum.<br>percent |
|-----------------------------------|-----------|---------|-----------------|-----------|---------|-----------------|
| Building support services         |           |         |                 |           |         |                 |
| (cleaning, maintanence,           | 17        | 21.52   | 21.52           | 8         | 10.13   | 10.13           |
| gardening)                        |           |         |                 |           |         |                 |
| Culture and recreation            | 12        | 15.19   | 36.71           | 4         | 5.06    | 15.19           |
| Wholesale and retail trade        | 8         | 10.13   | 46.84           | 6         | 7.59    | 22.78           |
| Agricultre, forestry and fishing  | 7         | 8.86    | 55.70           | 3         | 3.80    | 26.58           |
| Manufacturing                     | 7         | 8.86    | 64.56           | 2         | 2.53    | 29.11           |
| Social assistance services        | 5         | 6.33    | 70.89           | 0         | 0.00    | 29.11           |
| Construction                      | 4         | 5.06    | 75.95           | 7         | 8.86    | 37.97           |
| Education and training            | 4         | 5.06    | 81.01           | 8         | 10.13   | 48.10           |
| services                          | 2         | 2.00    | 04.01           | 0         | 0.00    | 40.10           |
| Environmental services            | 3         | 3.80    | 84.81           | 0         | 0.00    | 48.10           |
| Healthcare and medical services   | 3         | 3.80    | 88.61           | 4         | 5.06    | 53.16           |
| Tourism                           | 3         | 3.80    | 92.41           | 1         | 1.27    | 54.43           |
| Other                             | 3         | 3.80    | 96.20           | 10        | 12.66   | 67.09           |
| Professional consultancy services | 2         | 2.53    | 98.73           | 4         | 5.06    | 72.15           |
| Financial and insurance           |           |         |                 |           |         |                 |
| services (no secondary            | 1         | 1.27    | 100.00          | 22        | 27.85   | 100.00          |
| activity)                         |           |         |                 |           |         |                 |
| Total                             | 79        | 100.00  |                 | 79        | 100.00  |                 |

Table 4. The sample's demography, author's

Social enterprises display an interesting variability in terms of size. Their typical size is up to 10 employees (56.96%), or up to 50 employees (35.44%). The employees' typology consists mainly from handicapped (31.95%), long-term unemployed people (24.85%) and ethnic minorities (11.24%), less covered are such groups as drug addicted people (2.96%) or home violence victims (1.18%). While the majority of respondents fits into the micro-size category. A very important question regarding the trend in employment was answered. The respondents were asked if they could estimate their employment rate in the period 2014–2015. Table 5 shows that in be observed period while 20.25% increased their number of employees, 22.78% decreased this number, and 56.96% maintained stable levels of employment. The trend in employment creation should be treated with some caution, especially because the observed period was connected with low financing possibilities from the EU funds.

The employment trend is directly connected with financial stability of an enterprise. As a positive fact can be evaluated that more than 77% of the respondents did not have financial problems with their activities, moreover, 35% out of them generated a surplus. Surplus is usually used for further development of the social enterprise.

| rable 5. Employment trends, additor 5  |           |            |                 |  |  |
|--|-----------|------------|-----------------|--|--|
| Employment trends                      | Frequency | Percentage | Cum. percentage |  |  |
| Stable level of employment             | 45        | 56.96      | 56.96           |  |  |
| Increased overal number of employees   | 16        | 20.25      | 77.22           |  |  |
| Descreased overall number of employess | 18        | 22.78      | 100.00          |  |  |
| Total                                  | 79        | 100.00     |                 |  |  |

Table 5. Employment trends, author's

| Table 6. | Financial | stability, | author's |
|----------|-----------|------------|----------|
|----------|-----------|------------|----------|

| Financial stability | Frequency | Percentage | Cum. percentage |
|---------------------|-----------|------------|-----------------|
| Financial surplus   | 28        | 35.44      | 35.44           |
| Loss                | 18        | 22.78      | 58.23           |
| Breakeven point     | 33        | 41.77      | 100.00          |
| Total               | 79        | 100.00     |                 |

Unfortunately, not very positive is the fact that almost all the respondents use as one of their financing sources grants or contributions on active policy of employment. After that own and generated sources are used. Such situation is very common for social enterprises and shows one of their acute weaknesses – "addiction" to governmental help. Table 8 also demonstrates that more than 55% of the respondents use in 41% and more cases external finances.

| Table 7. Sources of Infancing, aution S             |           |            |                 |  |
|---|-----------|------------|-----------------|--|
| Financial sources                                   | Frequency | Percentage | Cum. percentage |  |
| Grants, contribution on active policy of employment | 69        | 45.70      | 45.70           |  |
| Loan, bank credit                                   | 12        | 7.95       | 53.64           |  |
| Donations   | 9         | 5.96       | 59.60           |  |
| Own and generated sources                           | 50        | 33.11      | 92.72           |  |
| Loan from friends, symphatizers                     | 11        | 7.28       | 100.00          |  |
| Total   | 151       | 100.00     |                 |  |

Table 7. Sources of financing, author's

Respondents could select more than one answer. Therefore, the total answers are more than 79.

|  | ,  |        |
|--|----|--------|
| Ratio of external sources on whole sources | N  | %      |
| 0–19                                       | 21 | 26.58  |
| 20-40                                      | 14 | 17.72  |
| 41-60                                      | 26 | 32.91  |
| 61–80                                      | 13 | 16.46  |
| 81–100                                     | 5  | 6.33   |
| Total                                      | 79 | 100.00 |

Table 8. Ratio of external sources, author's

What social enterprises really need is to get to know barriers and weaknesses they will probably face in their everyday routine. Very often it happens so that what is obvious is not realized and can bring troubles. Therefore, experts in the social entrepreneurship field were asked to agree on the list of the main important aspects in this field and to rank their importance. The list of key positive aspects was also determined and ranked. The respondents were furthermore asked to give their opinions on these aspects.

Data in Table 9 shows that more than 88% of the respondents understand the necessity for multisource financing as the most important weakness. On the second position is the lack of marketing and sales knowledge followed by possible difficulties which can bring the work with vulnerable groups. As a positive element can be understood the fact that the respondents stated they do not lack managerial experience. On the other hand, it is very interesting to compare the respondents' evaluation with the experts' opinions. When they carefully consider their experience with social enterprises they evaluated the most important weakness as the lack of managerial experience together with the lack of marketing and sales knowledge. Their judgements are based on the fact that very often passionate people become "suddenly" social entrepreneurs with very limited experience in management or marketing. Also, they mention that work with some vulnerable groups often limit business opportunities and without a proper plan can bring many difficulties. For example, long-term unemployed people are understood from experts 'praxis as one of the most problematic groups.

Different opinions appear also when evaluating strengths of social enterprises. While respondents value as the most important strength that they have a clear vision and passion to follow it, the experts state that the advantage dwells in the offer of specific products and services. Also, another difference in perception between the respondents and the experts was noticed for democratic management possibility.

| Weaknesses   | Percentage | <b>Experts valuation</b> |
|--|------------|--------------------------|
| (W1) Lack of marketing, sales knowledge among social   | 78.48      | 2                        |
| entrepreneurs  |            |                          |
| (W2) Lack of managerial experience   | 39.24      | 1                        |
| (W3) Working with people experiencing some form of exclusion and disadvantage can be difficult | 51.9       | 3                        |
| (W4) The business model needs usually multisource financing                                    | 88.61      | 4                        |
| Strenghts  | Percentage | Experts valuation        |
| (S1) Democratic management at social enterprises   | 60.76      | 3                        |
| (S2) Specific products and services  | 55.70      | 1                        |
| (S3) Clear vision and passion to follow it   | 62.45      | 2                        |

Table 9. Internal aspects influencing social enterprises' activities, author's

Among the external aspects influencing social enterprises (Table 10) were nominated only two most important ones. Their validation by the respondents and the experts is almost similar since they are understood as very important barriers. A little different perception of opportunities shows up though. Experts and respondents agree that the most of opportunity dwells in financing possibilities. Nonetheless, the respondents do not see an opportunity for their business development in individual behavior changes to the concept of social entrepreneurship, wherever the experts do.

The influence of the number of employees on the perception of external and internal factors was also evaluated. A relationship between the selected variables and the number of employees can be identified. It was tested whether the opinion on external and internal factors depends on the number (size) of enterprise. A Chi-squared test was used as it establishes whether or not an observed frequency distribution differs from a theoretical one. The value of  $\chi^2$  was compared with the critical

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value of  $\chi^2$ -distribution of degrees of freedom on the chosen level of significance ( $\alpha = 5\%$ ). The results show there is no relationship between the observed factors and the number of employees. In other words, there are no differences in the opinions between micro or middle-sized social enterprises. Such results confirm certain homogeneity in the opinions.

| Bariers  | Percentage | Experts valuation |
|--|------------|-------------------|
| (B1) Lack of visibility  | 87.34      | 2                 |
| (B2) Difficult access to financing   | 86.08      | 1                 |
| Opportunities  | Percentage | Experts valuation |
| (O1) Changes in individual behavior in terms of awareness of the impact of social entrepreneurship | 32.91      | 2                 |
| (O2) Changes in financing, more options how to get money   | 74.68      | 1                 |
| (O3) Growing governmental or commercial support in order<br>to fulfill the social mission          | 58.25      | 3                 |

Table 10. External aspects influencing social enterprises' activities, author's

Table 11. Internal and external aspects and the number of employees, author's

|           | W1 | W2 | W3 | W4 | <b>S</b> 1 | S2 | <b>S</b> 3 | B1 | B2 | 01 | 02 | O3 |
|-----------|----|----|----|----|------------|----|------------|----|----|----|----|----|
| Employees | no | no | no | no | no         | no | no         | no | no | no | no | no |
|           |    |    |    |    |            |    |            |    |    |    |    |    |

**Conclusion.** Social enterprises are located within the economy sector that lies between the government and the market. Therefore, understanding social enterprises' activities can help discuss the nuts and bolts of socially oriented businesses. From the newly gained here information can benefit not only the would-be socially active entrepreneurs but also managers and stakeholders. They can easily benefit from gained knowledge and easily identified some challenges earlier in their evolution, design solutions and rate how business stacks up in practice. This paper assumes that the essence of running prospective social enterprises lies in defining the right design of effective business model, strategy and structure.

Social enterprises are often understood as the agents of correction to profit-seeking businesses, or as intermediate bodies usually identified with non-profit businesses. They contribute to the ongoing transformation of the welfare system, social cohesion, local development and employment creation. They contribute to transformation of the welfare system, for example, by providing greater volume of supply or by helping to improve the quality of services or jobs. They have been recognized as a valuable source of work opportunities for the workers with minimal possibilities of finding a job at traditional enterprises. Today's employment rates shifted many government policies' emphasis to social entrepreneurial activities. The reason is simple: they generate ventures which are unlikely to be fully accomplished within for-profit businesses due to low profitability. Social enterprises on the contrary can help developing services and products for social communities and local development. However, social enterprises can feel dependent when defining their way for finding resources, or defining their strategies according to the public sector. One of the most important tasks in their way to a successfully working enterprise is to fully understood their position at the market and accept the challenge of setting effective ways of running business.

The examination brings around important information from the social enterprises' environment. For the start-up's success social entrepreneur is to absorb as much information about the character and nature of social enterprise as possible. Social enterprises are usually micro or small-size type and their orientation usually concentrates on only one activity. Secondary activity is not significantly important. For the future we can assumed there would be a shift toward limited company legal form. The reason is very pragmatic: due to support possibilities from the EU funds in which can limited company form is the most suitable beneficiary. There is general awareness that financing of this sector depends very often on grants' possibilities. This also has its impact on the number of employees and creation of new workplaces. Lack of managerial and marketing skills is a typical Achilles heel of many social enterprises. Perhaps, social enterprises do not perceive it so unambiguously but other stakeholders see it very clearly. To understand this and other external and internal aspects influencing their daily life managers, owners and other key stakeholders should get off their comfort zone and see across disciplinary aspects to study this entrepreneurial and social phenomenon.

While in the EU (2013) aggregated social businesses via networks are getting popular, in Czech Republic the majority of them fits into the micro- or small-size category. Creating networks in order to reach higher competitiveness is definitely one recommendation to give social businesses a stronger position. A lot of has been written about social entrepreneurship and enterprises. Still, there is a major gap in dissemination such information among key stakeholders, social entrepreneurs especially. Social entrepreneurs become entrepreneurs often "suddenly" just because they have passion to do something right and help the society. There is definitely no discussion about their benefits to society. The discussion should be about how to encourage their social blossoming and capital fundraising and let them be stronger, more competitive and independent.

Acknowledgements. The paper was created within the project SGS-2016-034 "Current trends in the management of organisations and in entrepreneurship" at Faculty of Economics, University of West Bohemia, Pilsen, Czech Republic.

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