

## *SOCIAL ENTREPRENEURSHIP PROBLEMS AND SOLUTIONS: A CASE STUDY OF LATVIA*

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### **Abstract**

The aim of the present research is to identify and investigate the constraints on and development possibilities for social entrepreneurship in Latvia. After analysing the scientific literature on social entrepreneurship, social and economic criteria for identifying a social enterprise and a definition for the term social entrepreneurship were elaborated. Based on a case study analysis, the following constraints on developing social entrepreneurship in Latvia were identified: no legal regulation on social entrepreneurship exists, the lack of support instruments particularly for establishing and developing a social enterprise, and dependence on donations and subsidies for self-sustaining a social enterprise. A SWOT analysis for social entrepreneurship in Latvia was performed in the present research.

**Keywords:** social entrepreneurship, social business, case study

### **Introduction**

In its report “Social Entrepreneurship and Social Enterprise” of 26 October 2011, the European Economic and Social Committee (hereinafter – EESC) states, “Social enterprise is a key element of the European social model. It is closely linked to the EU 2020 strategy and makes a significant contribution to society. It is crucial, therefore, to support and promote it so that we can make the most of its growth potential and capacity to create social value”. One can conclude that the term social enterprise (SE) is invested with more and more greater significance within the European context. It may be explained by the fact that Europe faces serious problems (unemployment, poverty, emigration etc.), and innovative solutions are needed that unify economic and social welfares. The promotion of social entrepreneurship, especially under the present economic circumstances, may become a significant instrument of support in tackling economic problems.

The term social entrepreneurship becomes more and more topical in the world, therefore, various authors have tried to develop the most optimal definition of this term. Yet, there is no unanimity among them. In the result, it is hard to collect statistical data on social enterprises and conduct further comparative research on social entrepreneurship (Lyon F., Sepulveda L., 2009).

There is a lack of studies on social entrepreneurship in Latvia. Social enterprises were studied for the first time in the survey Global Entrepreneurship Monitor 2009. In comparison with other countries, the indicator of social entrepreneurship in Latvia is neither high nor low – 1.9% (Bosma, Levie, 2010). It is hard to interpret it within the context of other countries, as a figure of 10% – which comprises social enterprises out of the entire EU business – mentioned in a European Parliament resolution may only be conditionally used for comparison, as the definitions and understandings of social entrepreneurship in various countries are different.

In Latvia, activities related to social entrepreneurship are periodically held, mainly with funding from the EU Funds, however, information on these activities is not widely available, and these programmes are initiated by the EU, not Latvia. Some SE initiatives were supported by the Soros Foundation – Latvia (SFL), implementing such programmes as “Grow, Latgale” (“Audz, Latgale”) and “Brigade”.

Initiatives of another nature are observed in social entrepreneurship in Latvia – study courses and informative activities on social entrepreneurship. In the autumn of 2011, Latvian Christian Academy implemented an ERUSMUS intensive lecture course entitled “Social Economics, Social Enterprise and Associative Democracy” in which students and academics from five countries participated (Social Economics..., 2011). Since 2012, a course in social entrepreneurship has been also included in the master studies at the Faculty of Economics, Latvia University of Agriculture. The Stockholm School of

Economics in Riga (SSE Riga) provided information for an internationally recognised global comparative study (Bosma, Levie, 2010) as well as introduced a course in social entrepreneurship and held a forum on social entrepreneurship several times. One can conclude that insignificant work on social entrepreneurship has been so far done in Latvia, and there are large possibilities for its development and research.

The research **aim** is to identify and investigate the constraints on and development possibilities for social entrepreneurship in Latvia. To achieve the aim, the following research **tasks** were defined:

- 1) To investigate the nature of social entrepreneurship and to identify criteria for defining a social enterprise;
- 2) To make a case study analysis of the constraints on developing social entrepreneurship in Latvia;
- 3) To make a SWOT analysis of social entrepreneurship in Latvia.

Research **hypothesis**: There are several constraints on developing and maintaining social entrepreneurship in Latvia. The following research **methods** were employed in the present research: the monographic and descriptive methods, analysis and synthesis, induction and deduction, the graphical method, case study analysis, SWOT analysis, and financial analysis. Data of the Latvian Central Statistical Bureau (CSB), the survey Global Entrepreneurship Monitor 2009, and the Lursoft company and the scientific literature were used in the present research. Given the fact that there is a lack of scientific studies on social entrepreneurship in Latvia, findings of foreign scientists and social entrepreneurs were also used.

### **1. The nature of social entrepreneurship and definition criteria for social business**

Presently, various definitions and interpretations of the term social entrepreneurship exist. Economists and social entrepreneurs have tried to develop an optimal definition of the term social enterprise (Wallace S.L., 1999), yet, there is a lack of single and precise criteria for its definition. Instead of it, various criteria characterising a social enterprise may be found in the scientific literature. For instance, the Social Enterprise Coalition sets three main criteria: approach of entrepreneurship, social goals, and social ownership. A similar approach for identifying social enterprises was also specific to F.Lyon and L.Sepulveda (2009). J.Pearce (2003) stresses 6 unifying elements for a social enterprise, while the founder of social entrepreneurship M.Yunus (2010) sets 7 ones: the goal of business is to solve the problem of poverty or other problems of society instead of raising profits; an enterprise has to be financially sustainable; investors get back only their original investments without any interest; profit is used for enterprise development; an enterprise is friendly to the environment; labour is paid wages corresponding to a market situation, working under better conditions, and work is done with pleasure.

The EESC points to the following common characteristics of a social enterprise:

- 1) enterprises mostly target social objectives instead of profit-earning;
- 2) enterprises are mainly non-profit structures and their financial surpluses are reinvested instead of distributing them among private shareholders or owners;
- 3) enterprises are of different legal forms and models;
- 4) enterprises are participants of the economy that produce goods and services (often those of general use), the social innovation aspect is often very strong;
- 5) enterprises operate as independent units, the aspects of participation and common decisions (employees, users, members), management, and democracy (representation or open democracy) are very specific to them;
- 6) enterprises often originate from civil society organisations or are related to them (Social entrepreneurship, EESC report, 2011).

One can conclude that there are no single criteria to be used for precisely defining social enterprises. K.Peattie and A.Moorley (2008) believe that there are only two explicitly defined criteria identifying a social enterprise: priority of social goals and engagement in business activities. The author also agrees with this outlook on condition that these two criteria have to be defined in more detail, as there are narrow bounds among social enterprises, socially responsible corporations, and charity organisations.

**Social criteria.** The priority of any social enterprise is a social goal or the creation of social values, and gaining profit is a subordinate priority (Mair, Marti, 2006). To achieve the social goal, it is important to engage socially little-protected groups of society in social enterprises (Boschee, 2006). These might be poor or low-income individuals (families) and socially little-protected groups, as they face social rejection in the labour market most often. Latvian Cabinet Regulation No.32 Regulations regarding Socially Little-protected Groups of Persons (11 January 2005) sets 16 groups fitting the

status of socially little-protected group of individuals (the disabled, individuals freed from imprisonment, the long-term unemployed etc.). However, these are not the only socially little-protected groups; young individuals with poor skills, individuals of pre-retirement age, and parents after a child care leave might belong to such groups.

To obtain the status of social enterprise, two development scenarios are possible:

- 1) to employ the mentioned socially little-protected groups of society (65%) or other categories of individuals at a social enterprise (including their engagement in the management of enterprise) if an entrepreneur can prove their belonging to a socially little-protected group,
- 2) to provide the most necessary services/goods to socially little-protected and/or poor groups of society at a lower cost that corresponds to their income level.

A significant criterion for identifying social enterprises is also sustainability of social values (Thompson J.L., 2008).

**Economic criteria.** First, social enterprises are engaged in business activities generating income; it means that they operate based on the principles of business, as it is important to provide the self-sustaining of enterprises. According to the ideas of M.Yunus (2007), a social enterprise has to operate with profit or at least without loss.

As regards profit distribution, it is important to stress that owners of a social enterprise are not allowed to distribute the enterprise's profit; it has to be reinvested in the enterprise or invested in further promotion of public goods by providing the society with goods/services of lower price and better quality, which are also available (Wallace S.L., 1999). M.Yunus (2007) assumes that only original investments, without any interest, are given back to social investors. In case such an enterprise is liquidated, its accrued profit and assets are transferred to another social enterprise, thus ensuring that the goals are achieved (Galera G., Borzaga C., 2009).

Social (democratic) ownership is also specific to social enterprises; it is closely associated with making decisions which do not relate to the shares of equity owned.

To precisely distinguish social enterprises from traditional ones, there is a significant criterion of social enterprises – they supply certain goods or services to the market (poor or low-income individuals), the production of which is not desired by or financially unprofitable to the private sector. Given the fact that social entrepreneurs, who supply necessities (food, housing, education), used to face a problem – the poor are not able to pay even a low price for goods and services supplied (Seelos C., Mair J., 2005), support of the central or local government is required.

One can conclude that a social enterprise has to conform to several social and economic criteria. Based on these criteria, an ideal type of social enterprise may be determined.

Based on the previous studies, a *social enterprise is defined as an organisational economic entity founded with the purposes of creating social values in the society, employing socially little-protected groups of society at the enterprise, or providing such groups with services and/or goods.*

Social entrepreneurship includes the above-mentioned criteria for a social enterprise and characteristic elements of social entrepreneur, therefore, the term social entrepreneurship will not be analysed in a wider scope. One can say that *social entrepreneurship is a type of entrepreneurship, the priority of which is to create social values while ensuring its financial self-sustaining and sustainability.*

## 2. The case study method and the interpretation of research results

### Justification for choosing the case study method

Research on social entrepreneurship is limited in the scientific literature, as it is based on qualitative research methods: analysis of terms, descriptions of practical examples, and case study analysis. The reason is because the phenomenon of social entrepreneurship is a comparatively new one, besides, the methods that allow research participants to tell about their experiences in a social enterprise and its role are necessary in order to get an understanding of the nature and principles of social enterprises and to analyse them in detail (Gartner et.al.,1992; Schutt, 2004).

The author chose case study analysis as the most appropriate method, as it assists in understanding complicated and less-researched topics (Eisenhardt, 1989; 2007; Yin, 1984). It is also employed in situations when other research methods such as a survey do not provide clear results on real life situations or their use is too complicated in certain situations (Bakker, 2000). One of the advantages of this method is the different data collection ways (surveys, interviews, documentary analysis, observations etc.) and the various sources used during conducting the research; in the result, data obtained may be both quantitative and qualitative (Hurmerinta-Peltomaki, Nummela, 2004). Situation

analysis is a popular method used in researching social entrepreneurship (Amin, 2009; Bull et.al. 2008; Diochon, Anderson, 2011; Mas-Verdu, et al., 2009; Martin, Novicevic, 2010). It has to be stressed that case study analysis has disadvantages, too. Some researchers believe that researching a small number of cases does not provide credible data and findings may not be generalised and verified (Diamond, 1996).

Given the fact that Latvia lacks studies on social entrepreneurship, it is appropriate to start a research with a case study analysis that provides a detailed view on the situation in social entrepreneurship in Latvia – development constraints and possibilities. To more completely reveal the situation and problems regarding the nature of social enterprises in Latvia, the approach of multiple case studies was chosen (Eisenhardt, 1989; Eisenhardt, Graebner, 2007) in order to expose the diversity of social enterprises in Latvia (legal forms, fields of activity, target groups employed etc.).

**In the first stage of the research**, the research aim was defined – to investigate the constraints on and development possibilities for social entrepreneurship in Latvia. One can conclude that the cases investigated in the case study analysis included two groups of elements:

- 1) Entrepreneurship element – the economic activity of a social enterprise is assessed by specifying the self-sustaining of it.
- 2) Social element – the effect caused by a social enterprise on the society.

The most appropriate study cases or social enterprises were selected in the **second stage** of the research. There are several study case selection strategies (Flyvbjerg, 2006; Seawright, Gerring, 2008). The author selected social enterprises that corresponded to the type of different case studies described by Seawright and Gerring (2008), as it gave an insight into the overall situation in Latvia in the aspect of entrepreneurship. Characteristics of the selected social enterprises are shown in Table 1.

Table 1  
*Characteristics of the social enterprises selected for the case study analysis*

Social enterprise	Year of foundation	Legal form	Kind of activity	Number of socially little-protected employees in 2011	Socially little-protected group engaged in the organisation
Wooly World	2011	Ltd	Production of toys	7 (4 weak-eyed people)	People with special needs (the weak-eyed)
MAMMU; MAMMU Production	society - 2010; Ltd – 2012	society and Ltd	Production of exclusive accessories (mainly scarves)	8-35 new mothers	New mothers
Ludza Society of the Disabled (LSD)	2006	society	Engaged in machine knitting within a SFL project	45 (disabled people trained in the project)	Disabled people
Samaritan Association of Latvia	1992	society	Training in providing medical and social care services	No one	Provision of services to low-income and socially little-protected groups

*Source: author's construction*

In the **third stage**, data were collected based on the developed interview protocol. It was designed based on the questions set in the present research – to investigate the entrepreneurship and social elements.

To obtain information on the analysed social enterprises, first, an analysis of secondary data – information from the public environment of Latvia (printed mass media, the Internet etc.) and the data company Lursoft etc. – was performed. Second, the author took structured interviews with the following owners or leading managers of social enterprises:

- 1) Madara More, the founder and manager of Wooly World;
- 2) Fionn Dobbin, the founder and creative director of MAMMÚ;
- 3) Ilona Senkova, the chairwoman of the executive board of Ludza Society of the Disabled, and Tatjana Juskane, the project director for the project “Establishment of Knitting Shops in Ludza and Zilupe to Raise the Economic Capacity of Disabled People (ADDA)” submitted to the Soros Foundation-Latvia’s project tender “Grow, Latgale”;
- 4) Indra Leitane-Valdmane, the head of the Jelgava Department of the Samaritan Association of Latvia.

To study each social enterprise, an interview was conducted with one or two representatives of it to avoid the lack of objectivity (Eisenhardt, Graebner, 2007). The data collection was done from March to June of 2012, and the average length of interview was 150 minutes.

An analysis and interpretation of the data and a comparison of indicators of the social enterprises were performed in the **fourth stage**. In the final or **fifth stage**, the owners of the social enterprises were familiarised with the research findings.

### **Characteristics of the social enterprises and the justification of choices**

**Wooly World Ltd.** It was founded on 15 April 2011, and in June the enterprise produced its first products – felt bears. People with special needs (weak-eyed) from Liepaja Society of the Blind are engaged in producing soft toys. The enterprise positions itself as a social enterprise, and since its foundation it works based on the principles of social enterprise. It started its activity with the support of the Kurzeme Business Incubator. Wooly World has successfully participated in several tenders, winning an award of the Kurzeme Industrial Exhibition “Elements 2012” and an annual Swedish Business Award in the category “Corporate Social Responsibility Initiative”.

**MAMMÚ (society MAMMÚ and MAMMÚ Production Ltd).** It is the first brand in Europe that functions in accordance with the principles of Grameen. In cooperation with new mothers, exclusive, multifunctional, and high quality linen and knitted fabric scarves are produced. The enterprise creates jobs for new mothers who can combine their job and the upbringing of their children. The social enterprise “MAMMÚ” is internationally known and gained the support of M.Yunus. It is one of the most popular and innovative social enterprises in Latvia and in the world.

**Ludza Society of the Disabled (LSD).** It was founded in 2006 with the purpose of stimulating the integration of the disabled into the society and to promote the education, employment, and businesses of the disabled. In 2011, LSD participated in the Soros Foundation-Latvia’s project tender “Grow, Latgale” with its project “Establishment of Knitting Shops in Ludza and Zilupe to Raise the Economic Capacity of Disabled People (ADDA)”. Within the project, two knitting shops “ADDA” were established in the towns of Ludza and Zilupe. People produced knitted products and sold part of these products to the local population. The project’s goal was to motivate the individuals engaged in it to start their own business. As a result of the project, a social enterprise – SinaVita Ltd – was founded with the purpose of continuing the machine knitting activities started during the project. When the equipment becomes the property of LSD, a rental contract on exploiting the equipment and premises will be made with SinaVita Ltd. Since the enterprise was founded only in the summer of 2012 for the purpose of continuing what was started during the project, instead of the newly established social enterprise, LSD and its activities in the project “ADDA” will be further analysed in the research.

The **Samaritan Association of Latvia (SAL)** is a public organisation, the slogan of which is “Helping to Live”. The Samaritan Association is well known in Latvia owing to the following projects and services: “For Satiated Latvia”, “Well-cared Life” or Social Home, “Help for Abused Children”, “Safety Button”, and first aid courses. By implementing these projects and services, many lives were saved and many children were protected from violence, many hundreds and thousands of people in the entire Latvia were provided with food and security. In Latvia, the Samaritan Association is one of the largest nongovernmental organisations with more than 450 hired employees and more than 300 volunteers. The Association offers many social, medical, and training services that are available both with the involvement of a local government or employers and individually.

**Definitions of social enterprise and the choice of legal form.** Understandings of the concept of social enterprise are different. Representatives of the organisations that are studied did not provide a certain definition for a social enterprise, however, they specified the main criteria which were met by a

social enterprise: social goal, ability to generate income, sustainable development, engagement of socially little-protected groups, reinvestment of profit, operation of an organisation in harmony with the environment. One can conclude that the mentioned criteria correspond with the criteria of social enterprise set by the author.

The Latvian legislation does not include the term social enterprise, therefore, a diversity of the forms of social enterprise exists in reality. In Latvia, associations often operate in accordance with the principles of social enterprise, as their priority is social goals (for instance, the Samaritan Association of Latvia). Yet, it has to be noted that economic activity is allowed to associations only as an additional activity, which burdens the operation of associations as social enterprises. For instance, the social enterprise MAMMŪ was founded in 2010 as an association, but since March of 2012, there are two records in the Lursoft database: association MAMMŪ and MAMMŪ Production Ltd. It may be explained by a possibility to get refunds of VAT tax for its exports. Presently, MAMMŪ Production Ltd performs business activities, but the association deals with training issues.

Within the Soros Foundation-Latvia project, LSD performed economic activities – it produced knitted products and sold them. However, given the fact that the society is granted the status of public benefit organisation, a social enterprise, SinaVita Ltd, was established to avoid further economic activities that might create an additional administrative burden on the society; the given enterprise, after the project is finished, will continue the started project activities – it will produce knitted products by using knitting machines.

A strategically prudent decision was to establish Wooly World as an Ltd, as supermarket chains and foreign companies are interested in cooperation with limited liability companies instead of associations or sole proprietors. The reason for it is because an Ltd is responsible for its liabilities with all its property, which causes a smaller risk to cooperation partners of the Ltd.

One can conclude that various legal forms are possible in Latvia if establishing a social enterprise, yet, the author suggests Ltd as the best among the previously described ones.

#### **Correspondence of the analysed organisations to the concept of social enterprise**

**Social goals.** Social goals are the priority for all the researched organisations. The goals of LSD are to promote the integration of the disabled in society, contribute to the satisfaction of their social, everyday life, sport, and cultural needs, defend the interests of the disabled by engaging in the elaboration of laws and other legal acts, as well as to further the education, employment, and businesses of the disabled. To achieve these goals more successfully, a social enterprise, in which mostly the disabled would be employed, was founded.

Wooly World's operation is based on 3 values: be green, be social and love design. Being green is achieved by choosing certain materials, the social element is implemented through social responsibility and integration, while the design is stressed because it is important to pay attention to any product produced.

The mission of the social enterprise MAMMŪ is to create jobs for new mothers, so that they can combine their job and the upbringing of their children.

The goal of the Samaritan Association of Latvia is to offer services that help people to live.

**Engagement of socially little-protected societal groups.** Individuals from socially little-protected societal groups, mostly as employed individuals, are engaged in all the researched organisations. There is a different situation with the Samaritan Association of Latvia which provides its services to socially little-protected groups instead of employing these groups.

People with special needs from Liepaja Society of the Blind are engaged in producing soft toys at Wooly World. According to the enterprise's owner, such employees were selected intentionally.

*“Many lack patience to sit for six hours and to do the same work. Felting is a very time-intensive work. I lived next to Liepaja Society of the Blind for 18 years and knew that a lot of cooperative people needing a job were there. Therefore, it was a logical step for getting motivated employees for a long-term.”* (M.More, Wooly World)

The social enterprise MAMMŪ was established with the purpose of employing new mothers, as it is hard to them to find a job with a flexible working schedule. Given the long waiting lines at kindergartens, new mothers have to search for solutions to how to combine the upbringing of their children and their job, as a government benefit after a child reaches the age of one year is only LVL 38 (1 LVL = 1.42 EUR).

**Engagement in business activities and the provision of self-sustainment.** All organisations are engaged in economic activity. It is important to emphasise that business activity is the main activity for the organisations that chose business as their legal form, while for associations it is an additional activity in accordance with the Associations and Foundations Law. Since MAMMŪ Production Ltd

and SinaVita were established only in 2012, their financial performance data are not available. Therefore, the author analyses the financial performance of Wooly World for the year of its foundation, i.e. 2011.

According to the financial report data, the net turnover of Wooly World totalled LVL 4117 in its first year of operation (June to December), while a net turnover of approximately LVL 1600 was reached in the first quarter of 2012. According to the income statement of Wooly World, the enterprise performed financially successfully. The profit of the first year of operation amounted to LVL 391, which indicates the enterprise's ability of being self-sustaining. It is also proved by the enterprise's efficiency indicators: a gross margin of 55.1% and a profitability of 9.5% on operational performance and sales. Yet, it has to be stressed that the support of the Kurzeme Business Incubator had a significant role in developing the enterprise's operation. Besides, the weak-eyed are employed only one day a week, which means that the enterprise is not able to work at a full capacity, and support is needed for establishing and developing such enterprises.

Table 2  
*Self-sustaining characteristics of social enterprises*

<b>Social enterprise</b>	<b>Self-sustaining indicator*</b>	<b>Self-sustaining characteristics in 2011</b>	<b>Support instruments for developing an organisation</b>	<b>Constraints on operation</b>
Wooly World	high	profit of LVL 391; gross margin of 55.1%	•Kurzeme Business Incubator •Micro-enterprise taxpayer	• the weak-eyed are employed 1 day a week
association MAMMŪ	medium	in 2011: loss (LVL 1013) at the end of year, surplus (LVL 1183) at the beginning of year	funds of the Soros Foundation - Latvia programme „Brigade”	•product sales – based on the number of projects implemented
SinaVita	presently not available	presently not available	knitting machines purchased by LSD within the Soros Foundation – Latvia project–rental contract	• 4 knitting machines are available, which limits the number of employees
Samaritan Association of Latvia	low	in 2011: loss (LVL 38 202) at the end of year, surplus (LVL 31 809) at the beginning of year	earmarked subsidies of local and national governments	•the largest share of income is made up of donations and earmarked subsidies

\* without external funds; evaluation scale: high, medium, small

It is important to emphasise that incomes of social enterprises have to be mainly based on their economic performance results instead of donations or subsidies. It is especially topical in the case of associations. According to the income statement of the Samaritan Association of Latvia for 2011, one can conclude that more than half of the incomes, i.e. 57.1%, consist of national and local government subsidies (Table 3). The income gained from economic activity accounts for 14.4% of the organisation's total income, which means that the Samaritan Association of Latvia does not meet the criterion of social enterprise, as it is not able to be self-sustained without donations and subsidies. Besides, the expenditures exceeded the incomes at the end of 2011, making a loss of LVL 38 202 to the organisation. It may be explained by an increase in all expenditure items. One can conclude the Samaritan Association of Latvia is not able to exist only owing to paid services offered to private customers. The funding of national and local governments plays a significant role in providing a surplus in its budget.

In 2011, the association MAMMŪ obtained funds within the Soros Foundation – Latvia programme “Brigade”, however, the association did not base its operation on these subsidies. According to the income statement of the association for 2011, 89.6% of its incomes consisted of income from economic activity. Yet, irrespective of this fact, the organisation had problems to ensure its self-sustaining, as it made a loss of LVL 1013 at the end of year.

Attracting external funds is essential in ensuring the existence of associations. The chairwoman of LSD admitted that it would not be possible to purchase the knitting machines without winning the project tender held by the Soros Foundation – Latvia.

Table 3  
*Analysis of the incomes and expenditures for the Samaritan Association of Latvia, the association MAMMŪ and Ludza Society of the Disabled for 2011, LVL; %*

Indicators	Samaritan Association of Latvia			Association MAMMŪ			Ludza Society of the Disabled		
	end of reporting year	beginning of reporting year	% of total*	end of reporting year	beginning of reporting year	% of total *	end of reporting year	beginning of reporting year	% of total *
<b>Total income</b>	<b>2 453 067</b>	<b>2 191 305</b>	<b>100</b>	<b>25695</b>	<b>3937</b>	<b>100</b>	<b>31 071</b>	<b>19442</b>	<b>100</b>
Membership fees, entrance fees and other annual fees	70	347	0.02	10	0	0	62	181	0.9
Donations and contributions	266 474	47 348	2.2	22	408	10.4	1164	165	0.8
Donations	1 410 628	1 250 616	57.1	-	-	-	704	2006	10.3
Income from economic activity	319 672	314 718	14.4	20 663	3 529	89.6	-	-	-
Other incomes	456 223	578 276	26.4	5000	0	0	29 141	17 090	88.0
<b>Expenditure</b>	<b>2 491 269</b>	<b>2 159 496</b>	<b>100</b>	<b>26708</b>	<b>2755</b>	<b>100</b>	<b>24 827</b>	<b>15 979</b>	<b>100</b>
<b>Income minus expenditure</b>	<b>-38 202</b>	<b>31 809</b>	<b>100</b>	<b>-1013</b>	<b>1182</b>	<b>100</b>	<b>6244</b>	<b>3463</b>	<b>100</b>

\* at the beginning of the reporting year (incomes or expenditures)

Source: author's calculation based on the yearly reports of the associations

One can conclude that the self-sustaining indicator for the organisations significantly differs (Table 2). It was determined by analysing the following criteria: ability to be self-sustained without external funds, loss or surplus during the reporting year, income trend, and number of employees.

**Social value sustainability.** The financial stability of an organisation determines its social value sustainability. It has to be stressed that out of the researched organisations, Woolly World and MAMMŪ are able to provide their self-sustaining in a long-term without attracting external funds. Although MAMMŪ obtained grants from the Soros Foundation – Latvia project tenders, yet, their share relative to the enterprise's total income was insignificant. Woolly World started its activity owing to the Kurzeme Business Incubator, whereas SinaVita established by LSD exploits equipment bought with the financial support of the Soros Foundation – Latvia. The Samaritan Association of Latvia, in its turn, is subsidised by the national and local governments when providing medical and social services to socially little-protected societal groups.



One can conclude that the analysed organisations only partially can solve the social problem in a long-term, as they depend on external funds. However, it has to be emphasised that a social enterprise has to ensure the creation of social value in a long-term.

**Profit distribution.** Wooly World's profit is always reinvested, and SinaVita also plans to invest its potential profit in its development and in enhancing its technological resources. MAMMÚ has developed a profit distribution system – ½ is spent on wages, ¼ on materials, and ¼ is administrative expenses.

**Payback of investments.** The analysed social enterprises stress that they did not face significant problems to start their activity. Their own funds were used to start their operation. *“In the beginning, it was hard to find social investors, as people did not understand the term social entrepreneurship.”* (F.Dobbin, MAMMÚ)

*“The initial capital was 1 lat – to found a small-capital Ltd –, and some 300 lats (for materials, needles, wages of employees for the first months) for current assets were invested from own finances.”* (M.More, Wooly World)

Yet, to start a successful operation, various kinds of support were accepted. For instance, Wooly World's operation was supported by the Kurzeme Business Incubator – accounting services, the rent of the premises, the creation of a webpage, the development of a new product, certification, and the design of a package were financed through it.

Approximately LVL 400 was invested to start the operation of MAMMÚ. These funds were used to design the first collections, a brand, fliers, visit cards, and a logo. The association held its first exhibition and participated in fashion expositions. Significant support was received through social networks from friends and acquaintances who provided several services free of charge.

**Decision making.** The employees of Wooly World, i.e. people with special needs are engaged in making decisions. The enterprise's manager, planning to employ also people in wheelchair, discussed it with her employees so that they do not feel unsafe. Besides, the employees are engaged in making various decisions, beginning with the choice of materials and the development conception of the enterprise through to its participation in tenders.

F.Dobbin holds a discussion with the employees – new mothers – before making a significant decision, while daily decisions are not made based on discussions to make the management of the enterprise fast and operational.

**Provision of goods and services to poor and low-income individuals.** Only the Samaritan Association of Latvia partially meets this criterion, which provides medical and social care services.

Table 4

*Compliance of the analysed organisations with the status of social enterprise*

	Criteria	Wooly World	MAMMÚ	LSD (within the project ADDA)	Samaritan Association of Latvia
social	Social goals	x	x	x	x
	Social value sustainability	partially	partially	partially	partially
	Engagement of socially little-protected societal groups	x	x	x	-
economic	Engagement in business activities	x	x	x	x
	Profit making (incomes > expenditures)	>0	variable	cannot be specified	variable
	Profit distribution in compliance with the status of social enterprise	x	x	x	x
	Profit distribution in case of liquidation	not defined	not defined	not defined	not defined
	Repayment of investments	own funds	own funds	not repaid (SFL)	-
	Engagement of employees in making decisions	x	x	x	x
	Provision of goods and services to poor and low-income individuals	-	-	-	x

*Source: author's construction based on the case study analysis*

### **Value added from social entrepreneurship**

Based on the case study analysis, the value added created by the social enterprises was analysed at the individual, local, regional, and national levels.

**Individual level.** One of the most significant gains is the promotion of employment of socially little-protected groups. According to T.Juskane, the primary need of people with a disability is their work, as their engagement in the labour market ensures substantial financial gains. *“Even one or two lats is a large gain for them. A monthly pay of 40 lats, which is earned by the majority of them, accounts for half of a government benefit that is 70 or 80 lats a month for the disabled of Categories 3 and 2.”* (M.More, Wooly World). M.More emphasises that presently it is possible to employ the weak-eyed only once a week, yet, it is planned to employ up to 50 individuals in the future.

F.Dobbin stresses that an effect caused by a social enterprise may not be measured only through employment, as there are several social contributions, for instance, socialisation and an increase in self-esteem. *“Either you always stand with an outstretched hand because it is not sufficient to you or you can earn yourself.”* (I.Senkova, chairwoman of the executive board of LSD).

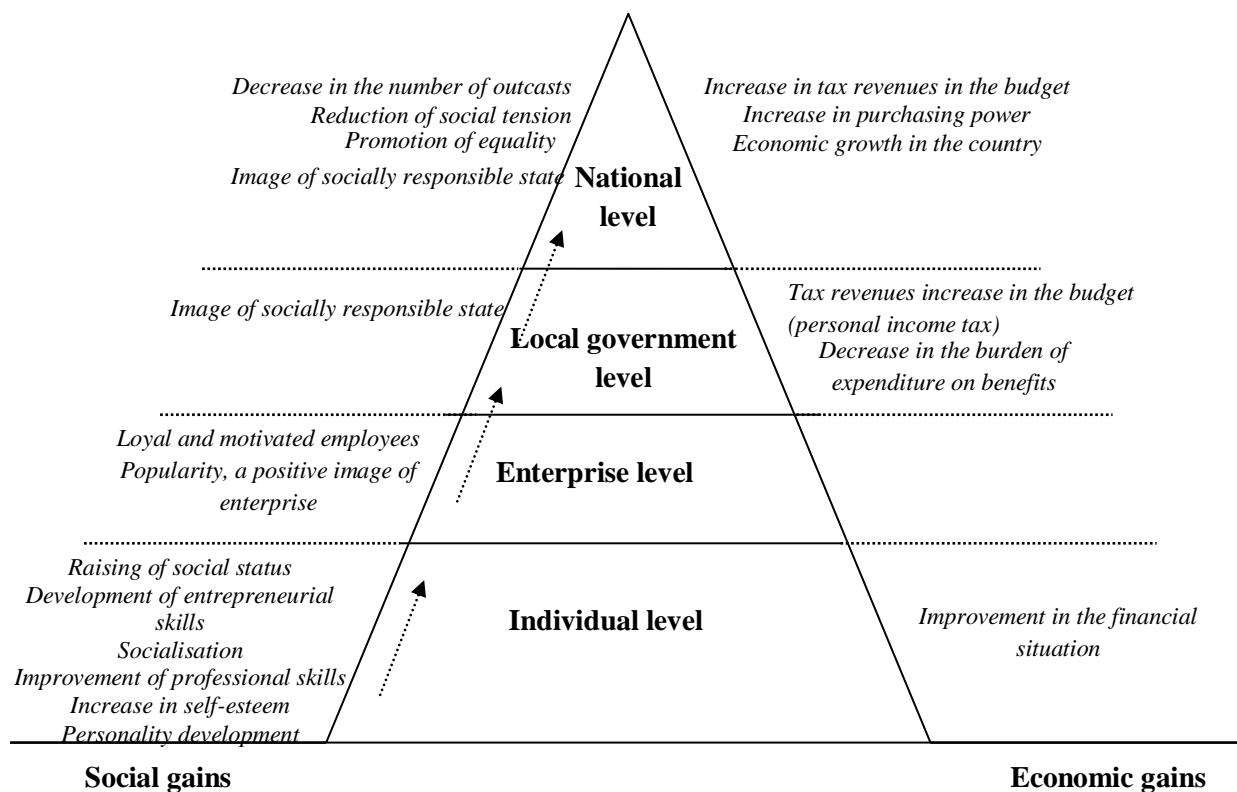
It is important to emphasise that employees of social enterprises are not only employed, but they are also trained, which raises their qualification and promotes the development of their personality. It is important because the system of government benefits degrades human personality in a long-term, and individuals get used to government benefits in a long-term. In the result, they work out a position: “I am entitled to benefits, as it is a hard time for me”.

A significant gain is the development of entrepreneurial skills and the raising of social status. For instance, the employees of MAMMŪ – new mothers – register themselves as self-employed persons and the social enterprise MAMMŪ uses their services. Some employees of MAMMŪ have started a successful career at other enterprises.

**Enterprise level.** A social enterprise gets very loyal and motivated employees. *“Dressmaking in Liepaja is very popular and sewing machine operators may change every month. Very loyal and motivated employees are acquired for a long-term by employing the weak-eyed from Liepaja Society of the Blind.”* (M.More, Wooly World).

**Local government level.** Through employment, the burden of expenditure on government benefits on a local government decreases, as people with special needs receive not only a disability benefit from the government, but also a benefit for low-income persons, which is paid by the local government. A town or municipality obtains an image of socially responsible town by promoting the engagement of socially little-protected individuals in the labour market.

**National level.** The country acquires an image of socially responsible state, and equality is promoted among people instead of making them outcasts. If an enterprise is financially stable, it brings more revenue to the national and local budgets. Besides, purchasing power and economic growth is promoted by stimulating small businesses and employment. By stimulating employment, it is also possible to decrease emigration and reduce social tension which is very high in the result of economic recession.



Source: author's construction

Fig.1. Social and economic gains from the development of social entrepreneurship in Latvia

One can conclude that social and economic gains are generated at the individual, enterprise, local government, and national level by stimulating social entrepreneurship in Latvia.

### 3. SWOT analysis of the development of social entrepreneurship in Latvia

To assess the development possibilities of and constraints on social entrepreneurship in Latvia, a SWOT analysis was performed. Based on the analysis of scientific literature, the case study analysis, and CSB data, the main problems (weaknesses) and advantages (strengths) were identified for social entrepreneurship in Latvia. Proposals (possibilities) for developing social entrepreneurship in Latvia were derived from it.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ A positive trend is observed for the number of micro-enterprises, which indicates the ability of individuals to start entrepreneurship.</li> <li>▪ A high share of educated individuals who could promote the development of social entrepreneurship.</li> <li>▪ A high potential of unemployed individuals who are able to work: people with a disability, pre-retirement age people etc.</li> <li>▪ More and more increasing socio-economic problems (emigration, unemployment, employment) which the government alone is not able to solve.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Social entrepreneurship is not defined in the legal acts on business.</li> <li>▪ No privileges are defined for social enterprises. Large time resources are necessary to train people with special needs and low qualification employees.</li> <li>▪ The labour productivity of employees with a disability is lower; in the result, employers are not motivated to employ them.</li> <li>▪ Lack of enterprising human resources in the regions.</li> <li>▪ The labour legislation is complicated in relation to people with a disability.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ Introduction of tax reliefs for social enterprises (reduction of the corporate income tax or its elimination).</li> <li>▪ Provision of better availability of finances for social entrepreneurs – social investment funds,</li> </ul>	<ul style="list-style-type: none"> <li>▪ Introduction of tax reliefs may cause the risk of fraud.</li> <li>▪ Tax reliefs and privileges for social enterprises may distort the market.</li> <li>▪ Reduction of the tax burden on social enterprises</li> </ul>

<p>interest-free loans.</p> <ul style="list-style-type: none"> <li>▪ Introduction of study courses and programmes on social entrepreneurship at educational institutions.</li> <li>▪ Engagement of business incubators in providing mentoring and consultations for social entrepreneurs.</li> <li>▪ Development of instruments for being familiarised with and popularising social entrepreneurship (an electronic multilingual site, a public database on initiatives in social entrepreneurship).</li> </ul>	<p>decreases tax revenues in the government budget.</p>
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*Source: author's construction*

*Fig.2. SWOT analysis for developing social entrepreneurship in Latvia*

**Strengths.** A positive trend was observed in Latvia in the period 2004-2010, as the number of micro-enterprises increased. It means that the entrepreneurial ability of people was mostly exploited at enterprises of such size. One can conclude that Latvia has adequate human resources that could promote social entrepreneurship, as social enterprises are mainly micro- or small enterprises.

Social entrepreneurship is important especially for young individuals – both school and university students. The reasons relate both to findings that young people are more idealistic and often are ready to work for a lower pay or even for free to achieve social goals and to statistical data showing that the average age of social entrepreneurs is lower than that of “usual” entrepreneurs (Bosma, Levie, 2010). According to CSB data, the proportion of educated young individuals is comparatively high in Latvia. For instance, the number of students per 10 000 population was 475 in the academic year 2011/2012, which was 3 times more than in the academic year 1990/1991. One can conclude that there are educated young individuals who could become potential social entrepreneurs.

Latvia has a high potential of unemployed individuals who are able to work: people with a disability, pre-retirement age people, young individuals without experience etc. which may be engaged in social entrepreneurship. According to CSB data, the number of disabled individuals has not significantly changed in Latvia since 1995. Only 1/3 of the disabled is employed, which indicates that employing the disabled has been a topical problem since the 1990s. Yet, the highest proportion of job seekers among the economically active population is observed for young individuals (aged 15-24). It may be explained by the lack of work experience. The proportion of job seekers among young individuals aged 15-24 is 35% in Latvia compared with 21% on average in the EU. It especially increases the risk of emigration, as young individuals are usually mobile. Social entrepreneurship plays a significant role both in gaining the first work experience and in developing a career. Given the decrease in the working population in Latvia, it is important to employ also pensioners and pre-retirement age residents.

There are several socio-economic problems specific to Latvia (emigration, poverty, unemployment), which the government alone is not able to tackle. The budgetary expenditure on both government benefits and pensions has significantly increased due to the high unemployment rate and the aging of the population. The expenditure on the unemployed (unemployment benefits) significantly increased, i.e. 206.6% in 2010 compared with 2005 and on average 145.5% in the period 1995-2010. With the socio-economic problems becoming more acute, a budget deficit emerged – LVL 1036.5 mln in 2010 and LVL 495.4 mln in 2011 – which indicates that the national government is not able to effectively tackle all the socio-economic problems, and new effective and sustainable solutions have to be searched for. B.Shore in an interview with A.M.Wolk in 2007 emphasises that social entrepreneurs can execute tasks that the government is not able to cope with, as they are ready to take greater risks. Besides, in terms of cost, they work more efficiently than the government does, as they are less bureaucratic and more flexible (Leadbeater C., 1997).

**Weaknesses.** Social entrepreneurship is not defined in the legal acts on business; in the result, a variety of its legal forms exist in Latvia. In addition, no privileges are set for social enterprises regarding their foundation and development.

One of the most significant problems, when engaging people with a disability or low qualification individuals in production, is the quality of products produced. It was stressed by both creative director of MAMMÚ F.Dobbin and manager of Woolly World M.More. MAMMÚ had dealt with low quality scarves which could not be sold. Woolly World, in its turn, reprocessed their initially defective

products. To train employees, larger time resources are needed, as the employees lack appropriate experiences and qualifications.

Of course, the labour productivity of people with special needs is lower and their work process is slower. M. More said, "For instance, during Christmas, we are requested to produce 1000 bear toys a week. We are not able to do it so fast. It is not efficient to store a large stock of products." F. Dobbin, too, emphasised that often there were problems with the time of delivery, as new mothers were not able to complete an order in time.

Presently, employers are not motivated to employ people with problems – individuals with a disability, people sick with various diseases etc. –, as the procedure of laying them off is complicated.

A significant problem is also the lack of enterprising human resources in the regions. I. Senkova said, "There are project tenders for both entrepreneurs and others, but those who want to do something, do it, and do it more than they are able to. And it is not possible to take additional duties."

**External possibilities.** The author proposes five possibilities for developing social enterprises.

First, the introduction of tax reliefs for social enterprises. Given the high labour tax rates in Latvia, which causes a large financial burden on enterprises, one of the proposals is the reduction of the corporate income tax or its elimination for social enterprises, as such enterprises do not pay their profit in dividends, but they reinvest it in their development. The negative aspect of this proposal is that tax revenues will decrease in the government budget. Yet, it has to be noted that by stimulating entrepreneurship, a cash flow between the government and the population increases, which becomes apparent as a rise in purchasing power.

Second, the provision of better availability of finances for social entrepreneurs. It is necessary to establish social investment funds and promote the availability of micro-loans, as social enterprises are mainly micro- and small enterprises. Interest-free loans would be the most recommendable solution.

Third, the introduction of study courses and programmes on social entrepreneurship at educational institutions. More and more graduates from educational institutions choose to engage in social entrepreneurship, however, it is still undervalued in Europe's educational systems (Social Entrepreneurship Initiative..., 2011). Therefore, it is urgent to introduce study courses on social entrepreneurship at higher educational institutions, gradually moving towards introducing study programmes on social entrepreneurship.

Fourth, the engagement of business incubators in providing mentoring and consultations to social entrepreneurs. M. Kourilsk and V. Walstad (2007) emphasise that a significant prerequisite for developing social entrepreneurship is practical assistance – mentoring. Therefore, it is necessary to raise the competence of national and regional administrative institutions regarding social entrepreneurship, so that these institutions are able to provide informative support to social entrepreneurs.

Fifth, the development of instruments for being better familiarised with and popularising social entrepreneurship. Insignificant popularity is specific to social entrepreneurship, besides, the lack of mutual links among various regions and stakeholders from various countries hinder the spread of best practices, the establishment of partnerships, and the identification of new opportunities (Social Entrepreneurship Initiative..., 2011). It is topical to establish an electronic multilingual site in which social enterprises, incubators, clusters of companies, and social investors can exchange information. In its report on increasing the popularity of social entrepreneurship, the European Commission proposed to better familiarise oneself with EU programmes (for instance, ERASMUS, TEMPO, Horizon 2020), which can provide support to social entrepreneurs, and make the programmes easier available (Social Entrepreneurship Initiative..., 2011).

**External threats.** External threats may arise while implementing any development possibility. First, the introduction of tax reliefs may cause the risk of fraud. Second, tax reliefs and privileges to social enterprises may distort the market. Third, the reduction of tax burden on social enterprises decreases revenues in the government budget.

## Conclusions

1. Identifying a social enterprise is based on social criteria (priority of social goals, engagement of socially little-protected societal groups, social value creation) and economic criteria (generation of revenues from business activities, financial self-sustaining, social ownership, and profit distribution).
2. The organisations analysed in the case studies partially meet the criteria of social enterprise. Their most significant problem is the inability to ensure their self-sustaining without external funds. A significant share of their revenue consists of donations and

- subsidies, which means that the analysed organisations only are partially able to solve the problem in a long-term.
3. Latvia lacks legal regulation on social entrepreneurship. The enterprises – both associations and businessmen – identify themselves as a social enterprise according to the criteria set by them, as an understanding of social entrepreneurship only emerges in Latvia.
  4. No support instruments for establishing and developing social enterprises are introduced. As a result, various kinds of support are used: business incubators, funding from the EU Funds, and own funds.
  5. The low labour productivity, the greater consumption of time while training people with a disability, and the complicated labour legislation do not motivate employers to employ such people. It means that special support instruments are needed to develop social enterprises.
  6. Latvia has a high potential for developing social entrepreneurship, which is determined by the share of educated people and the potential of unemployed individuals who are able to work as well as the inability of the government to tackle all socio-economic problems.
  7. There are several possibilities for developing social entrepreneurship: introduction of tax reliefs, provision of better availability of finances, introduction of study courses and programmes on social entrepreneurship, engagement of business incubators, and introduction of informative support instruments.

#### **Brief biography of the author**

Lasma Dobele is a PhD student, a lecturer at the Faculty of Economics, Latvia University of Agriculture. The teaching experience is connected with Social Entrepreneurship, Management, Human Resources Management and Business Information Management.

L.Dobele has several publications in international scientific journals and conference proceedings about social entrepreneurship and human resources. The author has also been a guest lecturer in Portugal and Lithuania.

#### **Acknowledgments**

The academic study and publication is financed by the project „Support for doctoral studies in LUA” /2009/0180/1DP/1.1.2.1.2/09/IPIA/VIAA/017/

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