

SOURCES OF FUNDING FOR SOCIAL ENTERPRISES

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Abstract

The authors of the contribution based their research on the theoretical concept of the resource-based theory (Pfeffer and Salancik, 1978). This theory was used in long-term research of social enterprises, which were implemented with the utilization of the international methodology. Resource-based theory is working with the three assumptions. 1. It depends on the social context. 2. Organizations develop strategies that help them keep their autonomy and objectives. 3. Power is important for understanding why organizations were acting in certain ways (Davis, Cobb, 2010). Social enterprises are relatively new economic entities in the Czech Republic. They are private and in their activities they follow not only economic but also social and environmental goal. Social enterprises are partly commercial companies, cooperatives and also some of the non-state non-profit organizations. Using the methodology of the European international research company EMES (Defourny, 2001) authors of the paper came to the conclusion that in social enterprises is used a combination of financial resources; and that the motivation for social entrepreneurship in nongovernmental, non-profit organizations is the possibility to generate own resources. It confirmed the resource-based theory in particular, provided that the custom funding helps to maintain the autonomy and can influence the behaviour of the organization.

Key words: social enterprises, resource-based theory, non-profit organizations

JEL Code: M12, M14, O35

Introduction

The paper covers the main issues in the area of funding of social enterprises (SE) in the Czech Republic. The research is based on long-term qualitative research provided by the Faculty of Humanities at Charles University in Prague. Social enterprises are relatively new economic entities in the Czech Republic. They are private and in their activities they follow not only economic but also social and environmental goal. Social enterprises are partly commercial companies, cooperatives and also some of the non-state non-profit organizations.

1 Funding of social enterprises

Study of the European research network for social entrepreneurship (EMES) reports that funding of social enterprises is as various as their legal forms. Each country has own specifics, both in area of prevailing legal forms and organisation structure, focus, political support and in the method of funding. Generally speaking, hybridization of resources that social enterprises receive for their activities may be emphasised in relation to their funding. It may involve income from sale of own goods or services, fees from users and specific funds from public budgets. Depending of determined mission, it may also involve income from donors and use of volunteers work (Defourney, Nyssens, 2008). Multiple source funding supports financial sustainability and independency of entities. Should one source of funding cease to exist, then social enterprise may replace the missing financial flows by another resources. Dependence on a single main resource may directly threaten an existence of the social enterprise. The new Bill on Social Entrepreneurship in the Czech Republic requires ensuring at least 50 % of sources from own economic activities, identically to, for instance, United Kingdom. Should the entity is unable to ensure at least half of own funds generated by sales of own goods and services, then it cannot be defined as social enterprise (Defourney, Nyssens, 2008). Therefore this perception of social enterprises is in compliance with its perception as an entity positioned at the border between profit and non-profit sector. Therefore it is neither a typical profit nor typical non-profit organisation. It represents a new type of organisation striving to achieve „a triple bottom line“ also rejecting a dependence of non-profit sector on public subsidies. It competes with competitors in market environment, but also does not give up own public benefits that represents main ground of its existence. Public procurement may represent an important support in gaining resources for social enterprises and therefore become one of possible instruments of financial sustainability of social enterprises (Defourney, Nyssens, 2008).

Appropriate legislative premises shall be implemented for this form of financial sustainability support of social enterprises. It would not only establish equality of social enterprises and other entities bidding for public procurement, but in addition a preferential treatment would be given to social enterprises in the public procurement process with respect to its socially benefitting nature (Čadil, 2011). Application of socially-beneficial criteria is not yet too common in the European Union during the public procurement process (Defourney, Nyssens, 2008).

It is important to consider a Resource Dependence Theory in research of the social enterprises funding. This theory was developed by authors Jeffrey Pfeffer and Gerald Salancik (1978). The Resource Dependence Theory elaborates on three premises:

- (1) Depends on social context.
- (2) Organisations develop strategies that help them to maintain their autonomy and objectives.
- (3) Power is important for understanding why organisations act in certain ways (Davis, Cobb, 2010).

Organisations are subject to external control when depending on external environment due to a high level need of critical resources (Pfeffer, Salancik, 1978). However, theoreticians believe that managers are able to learn how to understand an organisation where environment dominates (Hatch, 1997). The theory focuses on ability of organisation to gain and maintain resources required to secure its stability and legitimacy (O'Brien, 2010). Authors Aldrich and Pfeffer (1976) claim that the Resource Dependence Theory follows from a premise that organisations are unable to generate all resources they need; they must therefore build relationship with other organisations who may help completing missing resources and services. (Aldrich, Pfeffer, 1976). By virtue of asymmetry among donors owning funds and organisations, a loss of organisational autonomy may occur (Mitchell, 2014). There are several consequences of the Resource Dependence Theory, according to Mitchell (2014). First of all, social enterprises may adopt market orientation and transform a social enterprise into an enterprise that neglects its objectives in order to generate sufficient funds. Second, external control may limit ability of the social enterprise to plan in an innovative manner which ultimately change the objectives. Social enterprises then may, irrespective of their identity and real needs, manipulate own objectives and activities in order to meet preferences of their donors (Mitchell, 2014). Dependence on external resources follows from a need to satisfy resources such as capital, work, equipment and knowledge (Hatch, 1997). Primarily a pressure on competitive prices, required products and services, effective organisation structures and processes belong among external influences (Hatch, 1997). A requirement to adapt to external environment may limit an ability of organisation to manage their operations and determine a strategy of the social enterprises. Social enterprises are according to this theory therefore considered as active participants who are able to determine a nature and scope of dependence to certain extent (O'Brien, 2010).

2 Funding of social enterprises in the Czech Republic

Research of funding of social enterprises is based on secondary analysis of data published in publications of authors Dohnalová, Šloufová and Legnerová in 2010, 2013 and 2014 that map social entrepreneurship in the Czech Republic. Authors collected and described a representative set of 56 social enterprises during these years (13 enterprises in 2010, 16 enterprises in 2013 and 27 enterprises in 2014); when selecting them, authors followed a definition created by a mutual project of Charles University in Prague, Department of Civil Society Studies of the Faculty of Humanities (FHS UK) and the Research Institute For Labour and Social Affairs (RILSA) performed in 2008 – 2010. Researchers strived determining what entities are involved in the Czech Republic, using legal-institutional and normative approach. Czech social economy is, according to them, created by private entities independent of state, such as:

- public service companies, civic associations and church legal persons, performing economic activities in order to fund own mission or to find employment for its clients,
- selected co-operatives, business companies and self-employed persons,
- organisations supporting social enterprise in different ways (foundations, financial institution, consulting and education organisations).

From the economic view, they are entities for whom economic activities and concurrent creation of work positions represent one of the main grounds for their existence. These entities demonstrate a high level of autonomy in their activities. As regards social characteristics of these organisations, they feature primarily activities benefiting the society or specific group of people. Decision-making in this type of organisations is not based on a level of invested capital; a democratic style of management and involvement of all stakeholders (employees, clients, customers, etc.) play a decisive role. Social enterprises usually do not distribute the profit, or distribute profit only partially, sometimes rather a large share of the profit, however an effort to maximise the profit is never their ultimate goal (Dohnalová 2010). From the perspective of economic activities of selected enterprises, they are organisations operating in social services, services for households, gastronomy, retail, chemical production, etc.

Since data on enterprises were not always complete in individual years, we have not monitored economic criteria in individual years neither year-over-year changes, but we considered the entire set of enterprises for the years 2010, 2013 and 2014.

The results are coming from the research sample and do not represent the whole Czech social market. The research sample represents approximately one quarter of companies in the Czech Republic, that are openly declaring themselves as social enterprises. The research will continue. From the view of size, these organisations employ from 4 to 570 employees, while there were 25 micro companies (1 to 9 employees) in the set, i. e. 46 %; 23 of small companies (10 to 49 employees), i. e. 43 %; 4 medium sized companies (50 to 249 employees), i. e. 7 % and 2 large companies (4 %) employing more than 250 employees (KONZUM, commercial co-operative in Ústí nad Orlicí and Člověk v tísni, o.p.s.).

The following sources of funding were monitored for each researched social enterprise:

- public resources, i. e. grants and subsidies are used by 74 % of monitored enterprises as a source of funding,
- 59 % of enterprises received donations in various amount,
- 96 % of enterprises generated income from economic activities,
- 46 % of enterprises received income from abroad,
- 2 % of monitored enterprises drawn credits or loans.

Total income of organisations amounted to several hundreds of thousand up to more than a billion CZK in case of the largest monitored organisation - KONZUM, commercial co-operative in Ústí nad Orlicí, employing approximately 570 employees that reported annual income exceeding one billion.

Tab. 1: Number of social enterprises according to source of funding and amount of funds in %

	Up to 1.9 MCZK		2 – 9.9 MCZK		10 and more MCZK	
	abs.	%	abs.	%	abs.	%
public resources	8	42.1	7	37.1	4	21.2
donations	16	84.2	3	15.8	-	-
economic activity	10	55.6	6	33.6	2	11.2
income from abroad	7	53.8	6	46.2	-	-

Source: own research

42 % social enterprises received grants or subsidies up to 1.9 MCZK. 37 % of enterprises in the amount of 2 to 9.9 MCZK and 21 % of enterprises was supported from public resources in the amount of 10 and more MCZK. In case of four beneficiaries with the

highest subsidy (DOMOV SUE RYDER. o.p.s., ENERGIE. o.p.s., SKP-CENTRUM. o.p.s., Duhová prádelna. s.r.o.) it involved subsidies to non-governmental non-profit organisations from the state budget, regional budgets and budgets of city quarters, including operational programmes. All mentioned enterprises reported Ministry of Labour and Social Affairs as one of the sources of funding. Funds from public resources amounted in average to 47 % of total resources of the monitored social enterprises.

84 % of enterprises received donations up to 1.9 MCZK (31 % of enterprises donation up to 100 TCZK and 48 % of enterprises received donations exceeding 100 TCZK up to 1 MCZK). 16 % of social enterprises received donation exceeding 2 MCZK. Donations amounted in average to 11 % from total resources of monitored social enterprises.

56 % of enterprises generated own income from economic activities up to 1.9 MCZK (44 % of enterprises up to 1 MCZK). 34 % of enterprises reported income within 2 – 9.9 MCZK and income over 10 MCZK was reported by 11 % of enterprises (among others already mentioned KONZUM, commercial co-operative in Ústí nad Orlicí and DOMOV SUE RYDER. o.p.s.). Income from economic activities amounted in average to 41 % of total income of monitored organisations.

54 % social enterprises received income from abroad up to 1.9 MCZK. 46 % of enterprises income from 2 – 9.9 MCZK. Income from abroad amounted to 22 % of total income for monitored enterprises.

Amount of credit or loan was unfortunately not monitored in the stated publications, only 2 % of monitored enterprises that drawn a credit or loan were registered.

Performed analysis revealed that public resources, i. e. grants and subsidies, represent main source of funding together with own income from economic activities (that covered 100 % funds only for two enterprises). It related to already mentioned KONZUM, commercial co-operative in Ústí nad Orlicí and also HUB. s.r.o. - a company initiating, supporting and implementing different innovative projects.

Conclusion

Social entrepreneurship is still at the onset in the Czech Republic. Both legislation definition and more substantial state support are missing. Therefore it is important to diversify risks by multiple sources funding for the sake of social enterprises sustainability. Public sources (grants and subsidies), own funds generated by sale of own goods and services and private resources fall into most frequent sources of funding. The research performed with 56 social

enterprises in the Czech Republic revealed that majority of social enterprises depends on public resources. Only two enterprises of researched sample were fully self-sufficient due to own funds, others combined various forms of funds. Income from abroad utilised by social enterprises is also indispensable. Structure of funding also changes according to turnover of social enterprises. Small enterprises depend more on other resources than on sources from own economic activities.

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