

# THE SIGNIFICANCE OF SOCIAL ENTREPRENEURSHIP IN LATVIA REGIONS

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## Abstract

**Purpose** – This paper focuses on functions of social entrepreneurship, which are important for sustainable development of Latvia regions by promoting employment for socially vulnerable people, compensation of government “bottlenecks”, job creation, training, provision of local services and for creating social innovation in various areas, including education, health, environment and business development.

**Design/methodology/approach** - Scientific references, monographic descriptive method, the method of analysis and synthesis, statistical data analysis, logical, comparative analysis.

**Findings** – The development of Latvia regions differs, unemployment rate is high and entrepreneurial activity varies. Social entrepreneurship is a practical, innovative and sustainable business approach that can bring benefit to Latvian society and decrease unemployment rate. Social enterprises can be seen as a basis for solving social and economical problems in Latvia regions.

**Research limitations/implications** - The present study provides a starting-point for further research in the social entrepreneurship field.

**Originality/value** – It is believed that social enterprises are the economic future, but in Latvia there are only few social entrepreneurs, and the concept of social entrepreneurship is very new and less researched. It is topical to evaluate the current situation in Latvia regions and to assess significance of social entrepreneurship in sustainable development of Latvia regions.

**Keywords:** *Social entrepreneurship, Social enterprises, Sustainable development, Human resources*

**Paper type** Research paper.

## Introduction

Nowadays the concept of social economy becomes well-known. It is raised as one of the basic tools of the Lisbon objectives. In the *European Parliament resolution of 19 February 2009 on Social Economy* is emphasized that social economy has one of the main senses of the European economy because it combines profitability and solidarity, creates quality jobs, promote economic, social and regional cohesion, enhance social capital, as well as promote the sustainable development of economy. The social economy is carried out for the business.

The terms “social entrepreneurship” and “social entrepreneur” is relatively new, but the social business features have been well known in ancient history. The first examples are identifiable in the 18th century when was set up private health and social care institutions. Since the 20th century second half in the economy are increasingly used such phrases as “social economy”, “social entrepreneurship” and “social enterprise”, but a special urgency and practical applications they have begun to experience only in recent decades, driven by the social entrepreneur *Bill Drayton* and *Charles Leadbeater*. From the 20th century 50s to 90s the main facilitator of social entrepreneurship was *Michael Jung* who has been called the world’s most successful social entrepreneur.

In recent years, researchers from different countries have turned to social entrepreneurship issues. As the most outstanding example of social entrepreneurship is a professor of Bangladesh’s Chittagong University *Muhammad Yunus*, who in 1976 launched a project to study ways to provide banking services to poor rural populations. Significant contribution to social development in the business have provided such scholars as *Roger L. Martin* and *Sally Osberg* (2007), who analyzed the concept of social entrepreneurship and social entrepreneurship in the world.

More and more in the world appear different types of social business. It is believed that social enterprises are the economic future, but in Latvia there are only few social entrepreneurs, and the concept of social entrepreneurship is still very new. Latvians (*A. Petersons, L. Pavare and A. Viksne*) have paid more attention to corporate social responsibility however corporate social responsibility is not identical to social

entrepreneurship. Companies, which are characterized by corporate social responsibility, focus on profits, and they engage in philanthropy, which will assist them to achieve profit maximization and market goals, while acting in good company. Social entrepreneurship as a priority put social mission rather than profit. Significant contribution to social entrepreneurship social studies gave the first Latvian business forum organizer, *T. Cvetkova*, as well as director of „Ideju partneru fonds” director *S. Sile*.

The **aim** of the research paper is to study the significance of social entrepreneurship in Latvia regions. The following **tasks** are advanced to achieve the set aim:

1. to study the essence and historical development of social entrepreneurship;
2. to analyze the significance of social entrepreneurship in regional economy;

**Research methods:** monographic descriptive method, the method of analysis and synthesis, statistical data analysis, logical, comparative analysis.

## 1. The historical development and essence of social entrepreneurship

Definition of the term „social entrepreneurship” must start with the word “**entrepreneurship**” because the word “social” modifies entrepreneurship. French economist *Jean-Baptiste Say* in the early 19th century described the **entrepreneur** as one who “shifts economic resources out of an area of lower and into an area of higher productivity and greater yield,” thereby expanding the literal translation from the French, “one who undertakes,” to encompass the concept of value creation. (Dees, 2001:1)

A century later, Austrian economist *Joseph Schumpeter* identified in the entrepreneur the force required to drive economic progress, absent which economies would become static, structurally immobilized, and subject to decay. (Schumpeter, 1975:82) According to this Schumpeter sees the entrepreneur as an agent of change within the larger economy. On the other hand, *Peter Drucker* sees entrepreneurs as canny and committed exploiters of change. According to Drucker, “the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” (Drucker, 1995:28)

It is possible to conclude that theorists universally associate entrepreneurship with opportunity. Entrepreneurs are believed to have an exceptional ability to see and seize upon new opportunities, the commitment and drive required to pursue them, and an unflinching willingness to bear the inherent risks. Opportunity can be understood as provision of a new solution, product, service, or process. According to this statement entrepreneurs are essential drivers of innovation and progress and they act as engines of growth, harnessing opportunity and innovation to fuel economic advancement. Social entrepreneurs act similarly, tapping inspiration and creativity, to seize opportunities that challenge and forever change established, but fundamentally inequitable systems. But in the same time entrepreneurship and social entrepreneurship cannot be understood equally. There are several components that distinguish social entrepreneurship from for-profit “relative”.

Firstly, the **difference** between those two notions can be ascribed to **motivation** of entrepreneur. Entrepreneurs are spurred on by money while social entrepreneurs are driven by altruism. But in the same time both the entrepreneur and the social entrepreneur are strongly motivated by the opportunity they identify and realization of their idea. (Martin and Osberg, 2007)

Secondly, the critical distinction between entrepreneurship and social entrepreneurship lies in the **value proposition** itself. Ventures created by social entrepreneurs can certainly generate income, and they can be organized as either not-for-profits or for-profits but still the priority of social entrepreneurship is the **social benefit**, what Duke University professor Greg Dees in his seminal work on the field characterizes as the pursuit of “mission-related impact.” (Dees, 2001:5)

In the different countries there are various **definitions for the term “social entrepreneurship”**. Experts from different countries and organizations actively discuss and still cannot agree on the best possible definition of social enterprise.

The terms social entrepreneur and social entrepreneurship were first used in the 1960’s, 1970’s in the literature of social change. Widely distributed these terms became in the 80’s and 90’s of 20th century, driven by *Bill Drayton*, founder of “Ashoka: Innovator for the Public”, as well as others, such as *Charles Leadbeater*. In the 50’s – 90’s of 20th century the main promoter of social entrepreneurship was *Michael Young*, who has been called the “world’s most successful social entrepreneur” because in his performance is more than 60 new global social enterprises establishments, including several social business schools in Britain. Historically significant people, whose activity is classified as a social enterprise, is also a *Florence Nightingale* (the first nursing school founder), *Robert Owen* (founder of the cooperative movement) and

*Vinoba Bhave* (Indian ground movement's founder). Another good example is social entrepreneur *Bunker Roy*, who created the Barefoot College in rural communities in India to train illiterate and semiliterate men and women, whose lack of educational qualifications keeps them mired in poverty. Another example is *Ann Cotton*, who ensures an education for young girls in Africa whose families cannot afford school fees.

As early as 1996 *The Roberts Foundation Homeless Economic Development Fund* defined social enterprise as “a revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line.” <http://www.4lenses.org/setypology/DEFINITION - footnote2 3392898> (Emerson and Twersky, 1996:33). *NESsT*, on the other hand, uses the term social enterprise to refer to “the myriad of entrepreneurial or ‘self-financing’ methods used by nonprofit organizations to generate some of their own income in support of their mission.” Both definitions capture the social and financial characteristics of the social enterprise; however, The Roberts Foundation’s definition emphasizes social enterprise as a program approach, whereas *NESs*’s definition stresses it as a funding approach.

According to *BC centre for social entrepreneurship* definition social enterprises are revenue-generating businesses with a twist. Whether operated by a non-profit organization or by a for-profit company, a social enterprise has two goals: to achieve social, cultural, community economic or environmental outcomes; and, to earn revenue. On the surface, many social enterprises look and operate like traditional businesses. *Social Enterprise Coalition* by defining social enterprise also has stressed social and environmental purposes.

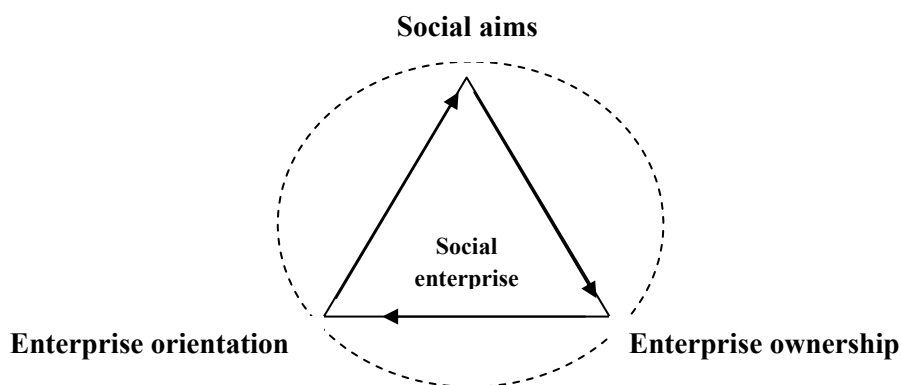
According to previous findings authors deduce that social enterprise has **3 main characteristics**:

*Firstly*, it has a **social purpose or purposes**. Social enterprises have social aims such as job creation, training or the provision of local services.

*Secondly*, it is achieving the social purpose by, at least in part, engaging in trade in the marketplace. It means they are **run as a regular business** just with social purpose. Organizations are directly involved in business activity, supplying goods or services to a market and **earning incomes** as a result. For many social enterprises, being sustainable - in every sense of the word - enables them to become more independent and to reduce any dependency on public grants. It also ensures they can continue to help provide a solution for a social or environmental problem.

*Thirdly*, many social enterprises are also characterized by their **social ownership**. They are autonomous organizations whose governance and ownership structures are normally based on participation by stakeholder groups (e.g. employees, users, clients, local community groups, social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community. Also company's profits are used for provision of charity organization objectives provision.

**Figure 1.** Characteristics of social enterprises.



*Source: made by the authors, 2010*

According to the previous findings authors define social enterprise as practical, innovative and sustainable business where mission is at the centre of business with income generation playing an important

supporting role. Social enterprise brings benefit to society in general, but particular attention is drawn to the company “marginalized” groups. By working in that way such businesses can solve particular social and economical problems.

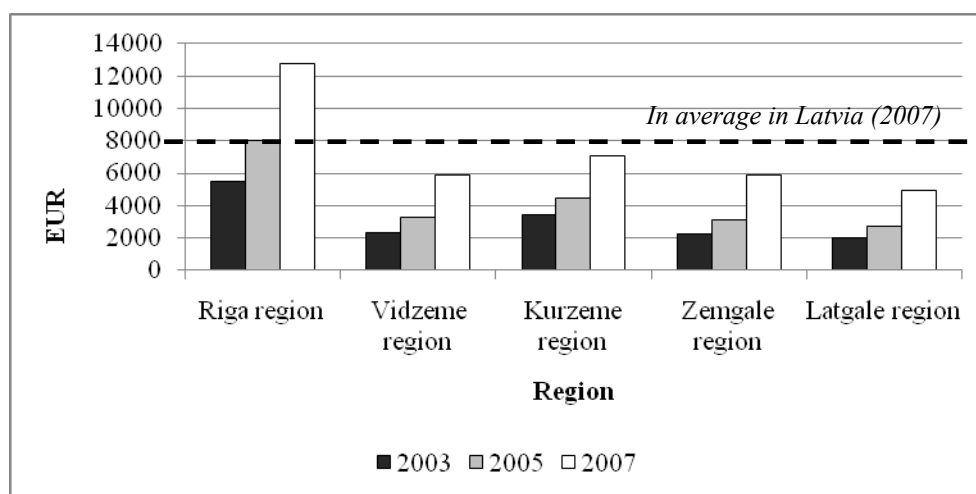
## 2. The functions and significance of social entrepreneurship in Latvia regions

For characterization of economical development in the country and regions as a key indicator is used GDP. At the time of paper preparation, calculations of GDP in regional aspect are available for the period until 2007, but for the country as a whole - by 2009. Therefore, GDP dynamics in the regions is viewed in comparison for the period from 2003 to 2007.

By comparing in Latvia generated GDP in 2009 there can be observed the drop. At the beginning of 2008 the economic growth rate declined, but in the second half came very rapid decline, which continued in 2009. GDP fall in 2008 was observed in six EU countries, but in Latvia it was the greatest (in EU average decline in GDP was 4.2%, in Latvia - 4.6%). Decline in economy was mainly in construction, trade and manufacturing, transport and communications sector.

To compare more objectively regional development according to economical value it is useful to estimate **GDP per 1 inhabitant**. According to this it can be concluded that in Riga region in 2007 GDP per 1 inhabitant was generated 12 786 EUR (it was nearly 1.4. times higher than the national average per 1 inhabitant). In Kurzeme region GDP per 1 inhabitant amounted to 7084 EUR, in Zemgale and Vidzeme region it was almost identical - the 5910 and 5895 EUR. Significantly lower GDP per 1 inhabitant is in Latgale - 2.6. times lower than in Riga region. Regional differences in Latvia in GDP per 1 inhabitant are one of the higher in EU Member States. Although the Latvian regions in analyzed period have been able to show growth, only Riga region was able to come closer to the EU average level.

**Figure 2.** GDP per 1 inhabitant in Latvia regions from 2003 to 2007 (EUR).

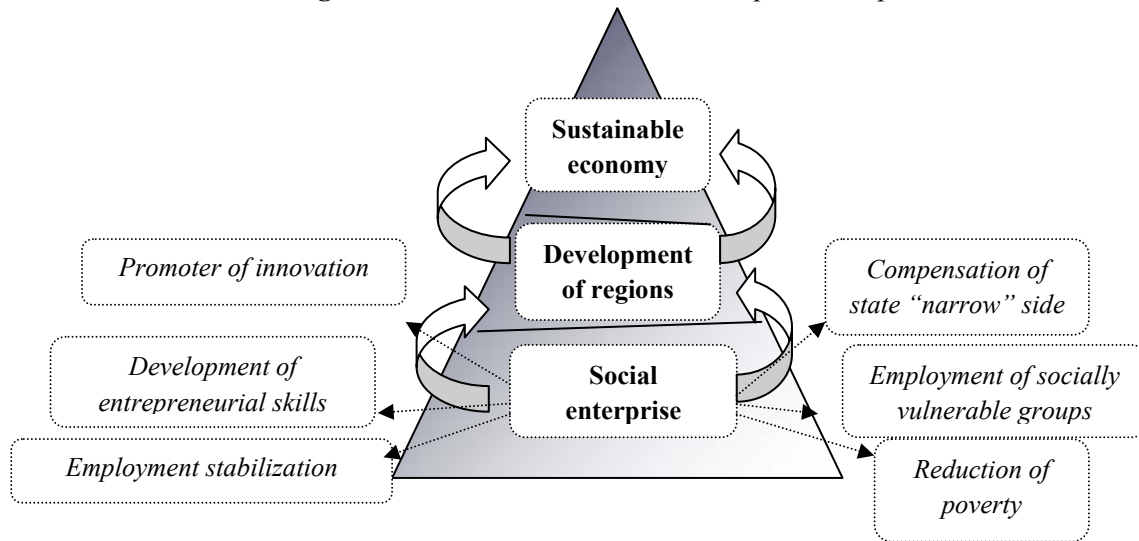


*Source: made by the authors according to the data of the Regional Development in Latvia 2009*

In order to promote economical growth and regional development, an essential priority should be turned to promotion of social economy because it is characterized by social, democratic and collective entrepreneurship, employment and by the regional development. The social economy provides up to 10 % of GDP and employment. Thus, it is important to emphasize the importance of social economy which is realized in social entrepreneurship.

Social entrepreneurship fulfils several significant functions in economy and society. According to the *European Parliament resolution of 19 February 2009 on Social Economy* the social economy represents 10 % of all European businesses, with 2 million undertakings or 6 % of total employment, and it is *primarily* a high potential to **create and maintain a stable level of employment** in the regions. The Annual Survey of Small Businesses in UK estimates that there are approximately 62 000 social enterprises in the UK contributing at least £24bn to the economy. Social enterprises are estimated to employ 800,000 people. (*State of social enterprise survey 2009*)

**Figure 3.** The Functions of social entrepreneurship in Business.



*Source: made by the authors, 2010*

According to the data of the *Central Statistical Bureau* from 2004 till 2008 employment rate in Latvia has increased 1.2 times and unemployment rate has decreased 1.4. times but in 2009 employment rate significantly decreased (for 7.4 %) and unemployment rate increased (for 9.4 %) because of economical crisis. Base on Government employment agency data nowadays the situation becomes better – on 30th June 2010 in Latvia unemployment rate was 15.6 %. But still it is very high. In the Latvia regions there are big differences in employment terms. In 2009 the decline of employment rate in Latvia was the higher in EU. Base on a fact that in capital situation is completely different than in other regions the authors in analysis process don't include Riga.

The highest employment rates are observed in Pieriga and Kurzeme region, while the lowest employment rate is in Latgale and Vidzeme region, which indicates on unequal regional development. Labor resources mainly are concentrated in the capital and Pieriga region while from countryside a lot of people are emigrating. Also significant reason is high unemployment rate in Latgale, Zemgale and Vidzeme region which forces people to leave those regions for job seeking. In those regions are few medium and large sized industrial enterprises which provide workplaces. Thus the development of social enterprises could become an important basis for employment because residents can become self-employed or establish small or medium sized enterprises. In that way could be decreased burden of contributions for unemployed persons. In 2009 the government paid 170.7 million lats (~243.9 million EUR) in contributions for unemployed persons. Thus social entrepreneurship could facilitate employment and decrease social and economical problems in Latvia regions, particularly in Vidzeme and Latgale.

**Table I.** Unemployment rate and employment level in Latvia regions from 2003 to 2009 (%).

Regions of Latvia	Indicators	2003.	2005.	2007.	2009.	Increase rate (2009./2003.), %
<i>Riga region</i>	Employment level	66.6	69.2	73.3	64.5	-3.2
	Unemployment rate	8.2	5.8	4.6	13.8	68.3
<i>Pieriga region</i>	Employment level	64.3	65.3	69.6	62.5	-2.8
	Unemployment rate	5.8	5.6	3.7	11.4	96.6
<i>Vidzemes region</i>	Employment level	59.7	62.5	63.4	57.9	-3.0
	Unemployment rate	6.1	5.8	4.6	13.8	126.2
<i>Kurzemes region</i>	Employment level	60.8	62.0	68.9	60.3	-0.8
	Unemployment rate	6.5	7.6	4.0	10.7	64.6
<i>Zemgales region</i>	Employment level	60.9	61.1	65.5	58.8	-3.4
	Unemployment rate	6.7	4.1	4.7	14.4	114.9
<i>Latgale region</i>	Employment level	52.1	53.0	62.2	57.1	9.6
	Unemployment rate	9.7	7.9	5.5	12.2	25.8

*Source: made by the authors according to the data of the Central Statistical Bureau, 2010*

Secondly, social enterprises can significantly raise the social status for persons with disabilities. The social economy is a major social innovation capacity by supporting individuals who have difficulties to solve their social problems, such as for professional and private life, gender equality, and life quality in family as well as opportunities to care for children, elderly and persons with disabilities. Social economic value corresponds exactly to the common EU values. Thus authors deduce that social enterprises **create jobs and provide support to socially vulnerable groups**, for example, the disabled, pre-staff or mothers at home caring for children who cannot work full time. By analyzing abandonment reasons of job seekers with working experience authors deduce that women as second most common reason have mentioned personal or family circumstances (18.6%). This is about two times more frequently mentioned reason than among men. This suggests that for women it is not easy to reconcile family and personal life with the work life, which is often a reason for leaving a job.

Important social group which is affected by the problems of employment are *elderly people* (with elderly population is indicated population from 55 – 64 years). In 2009 in Latvia employment rate between 15 – 64 years old people was 60.9%, while the elderly population employment rate reached only 53.2%. In 2007 and 2008 employment rate was higher (respectively 57.7% and 59.4%) because of the positive economic situation in the country. Older people employment rate was significantly reduced by the amendment to the “*Law on State pensions and state benefits for the period from 2009 till 2012 year*”. This Law didn’t support the working age population and pensioner participation in the labor market, but included a substantial reduction in pay for working pensioners, thus contributing to their forced leaving from the labor market. According to the Law (16.06.2009.) retired workers who had decided to terminate the employment relationship, received a 70% lower pension.

A similar situation in numbers is also observed in Lithuania, where the employment rate of older population is even lower, namely 51.6% in 2009, but higher in Estonia - 60.4%.

Significant social problem is also unemployment of *disabled people*. In Latvia last 15 years there have been no significant changes in employment terms for disabled people. In 1995 there were 4109 workers with disabilities in the country and almost twice more (7895) of unemployed people with disabilities. After the latest available data of *Central Statistical Bureau* authors conclude that there are no significant quantitative changes. In 2008, there were 7313 disabled unemployed people. The problem includes the launch of public attitudes towards disabled people, as well as the government has not arranged a business environment that could motivate entrepreneurs to employ disabled people. Establishment of social enterprises is important for employment of socially vulnerable groups. In Latvia there are several such companies - the *Business Opportunities Fund* and the *Short-term employment agency* that offers job opportunities for people with disabilities, *Mammu!* - employing mothers handicraft development, *Tac-Osona Work Center*, where most of the workers are people with intellectual disabilities and other disabilities, *ziedot.lv* - social enterprise that provides a variety of services, *the Red Cross*, *Salvation Army* and the *Idea Partners Fund* charity shops etc. But as *Tatjana Cvetkova* (the organizer of first social Latvian business forum, held on November 6, 2009)

notes, then many social entrepreneurs themselves do not know that they exist, because they have not heard of social entrepreneurship as a term. According to E.Žagare research (2009) only 37 % of Latvia residents have heard a term ‘social entrepreneurship’ and have some understanding about it.

Thirdly, social entrepreneurship promotes **development of entrepreneurial skills**. According to the *Global Entrepreneurship Monitor 2009* study Latvian business environment is poor comparing with other countries base on such business environment indicators: the ability to see business opportunities and expertise in setting up in business. According to the authors' study (2009), 69% of respondents noted that they have a lack of entrepreneurial skills and knowledge. But the entrepreneurship is the basis for job creation, and competitive, sustainable regional development.

By analyzing the number of companies in Latvia regions, authors conclude that in Vidzeme is the highest number of economically active enterprises per 1000 inhabitants. However, in this region in accordance with the previous analysis there has been one of the lowest employment levels in the country. This is explained by the high pre-retirement-age population and pensioners. In Latgale, Vidzeme and Kurzeme regions is the highest average age of population in Latvia. In Latvia the average age of the population in 2009 was 40.7 but in Latgale and Vidzeme region it was even higher (41.4 and 40.3 years). At the beginning of 2010 the number of pensioners in Latgale region is 1.6 times higher than the number of children, in Vidzeme and Riga region - 1.5 times, Kurzeme region - 1.4 times. A similar situation was observed also 5 years before – in 2005.

**Table II.** Number of economically active enterprises in Latvia regions from 2004 – 2008.

Region		2004.	2005.	2006.	2007.	2008.	Increase rate (2008./2004.), %
<i>Riga region</i>	Number of enterprises per 1000 inhabitants	52	56	61	68	69	32.7
	<i>Enterprises in total</i>	38 080	40 573	44 445	48 569	49 724	30.6
<i>Pieriga region</i>	Number of enterprises per 1000 inhabitants	34	41	45	49	49	44.1
	<i>Enterprises in total</i>	12 513	14 976	16 647	18 319	18 509	47.9
<i>Vidzemes region</i>	Number of enterprises per 1000 inhabitants	55	54	57	60	59	7.3
	<i>Enterprises in total</i>	13 508	13 069	13 808	14 450	14 046	4.0
<i>Kurzemes region</i>	Number of enterprises per 1000 inhabitants	39	43	50	55	53	35.9
	<i>Enterprises in total</i>	12 271	13 401	15 496	16 723	16 163	31.7
<i>Zemgales region</i>	Number of enterprises per 1000 inhabitants	39	44	47	50	47	20.5
	<i>Enterprises in total</i>	11 371	12 689	13 410	14 224	13 419	18.0
<i>Latgale region</i>	Number of enterprises per 1000 inhabitants	38	40	44	48	48	26.3
	<i>Enterprises in total</i>	13 891	14 485	15 724	16 699	16 576	19.3
<i>In latvia</i>	Number of enterprises per 1000 inhabitants	44	47	52	57	57	29.5

*Source: made by the authors according to the data of the Central Statistical Bureau 2010*

In accordance with the global practice of social enterprises it is possible to argue, that social enterprises are **active in different sectors** (eg health and social care, education, energy, transportation and recycling). Social enterprise can be successful in any field. In this way, development of social entrepreneurship promotes business development in the region.

Fourthly, social entrepreneurship is an important for **compensating countries „narrow places”**. According to world experience, often there are functions which government is unable to do and those functions have been “returned” to social entrepreneurs. Social entrepreneurship is characterized by ethical values and responsibilities, for example about social and economical opportunities of the local community because the primary objective of social enterprise is not a making of profit, but social and / or environmental purpose, such as: job creation, training, education, local services such as environmental conservancy, etc.

*Fifthly*, social entrepreneurs create **social innovation** and change in various areas, including education, health, environment and business development. Social entrepreneurs have to be innovative because they have to invent new approaches and to create sustainable solutions to change society for the better, to solve their social and economical problems.

*Sixthly*, social entrepreneurship **reduces poverty risk**. In Latvia is very high poverty risk and it varies between different population groups. According to the data of Central Statistical Bureau in 2008 there is tendency that from declining level of economical activity and increasing unemployment rate more likely suffer young people. The poverty risk between persons aged from 18 to 24 has increase by 3 percentage points and reached 19%. It is record during last five years. By promoting social entrepreneurship the poverty risk could be decreased because the aim of social enterprise is to solve social and economical problems in society.

According to the previous findings authors deduce that social entrepreneurship is essential for **sustainable regional development** – for improvement of employment (especially of socially vulnerable groups), entrepreneurial activity and entrepreneurial skills, as well as for differential service provision in regions. In the social economy enterprises are generally small and medium enterprises (SMEs) and human resources are seen as the most important business resource.

In Latvia social entrepreneurship has to face several hurdles. According the Netherlands social entrepreneur and economist *Marcello Palace* view, a big obstacle is “**architecture of capitalism**”, where the main setting is profit-making - too large share of business run on profits, and concerted action by the public purposes are negligible. The development of the social enterprises in Latvia is significantly restricted also by the fact that social entrepreneurship is not legally recognized as a business way, there is the stigma of public institutions and civil society and the NGOs that set up social enterprises, as well as to the forms with a social purpose.

To promote the social development of entrepreneurship, first of all it is necessary to introduce tax relief for social enterprises to compete with other companies because they typically deal with social problems, which theoretically includes the State responsibility, moreover, they can quickly respond to social problems. Also important is informing the public about the importance of such companies.

It is also vital that funds of social enterprises are mainly invested in growth; investments are being invested in new projects and service development, but capital investment - in equipment or buildings that helps for development. According to previous findings authors deduce that development of social entrepreneurship is a fundamental prerequisite for sustainable economic promotion.

## **Conclusion**

Until now in Latvia there have been made few attempts to define social entrepreneurship and to evaluate its significance in regional development. The term ‘social entrepreneurship’ isn’t well known. More over social entrepreneurs even don’t know about such term and government haven’t look deeper to importance of social entrepreneurship and benefits it could bring. This paper has sought to fill that gap. According to authors viewpoint social entrepreneurship is a practical, innovative and sustainable business approach that brings benefit to society in general, but particular attention is drawn to the “marginalized” groups of society. Social entrepreneurship promotes employment and helps in solving social and economical problems in the regions because in the centre of social enterprise is social mission not profit generation.

In Latvia regions there are big differences in development level – in unemployment rates, economical activity and poverty risk. While in Riga region in 2007 GDP per 1 inhabitant was nearly 1.4. times higher than the national average per 1 inhabitant then in Kurzeme, Zemgale and Vidzeme region GDP per 1 inhabitant was twice less. The development differences in regions also influence the population age. In Latvia there is high agedness risk and in Latgale and Vidzeme it is strongly marked. All those factors influence unequal development in regions. Thus it is necessary to promote social entrepreneurship which could be seen as a solution. To encourage this process it is important to inform society about the significance of social enterprises, as well as to improve legal, economical and social environment for social entrepreneurship.



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