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# SOCIAL ENTREPRENEURSHIP IN THE CONTEXT OF ROMANIA'S EUROPEAN INTEGRATION

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## ABSTRACT

*The social sector or social economy is still at a developing stage and the concept of social entrepreneurship is just in the emergence phase in Romania. There is still a lot to do in this field, in order to create sustainability among the actors of the social economy or social sector.*

*The paper will attempt to emphasize the differences between entrepreneurship in NGO's and social entrepreneurship and clarify the two terms in relationship with the Romanian social sector and what needs to be taken into consideration for the future development of this sector in Romania, in the context of EU membership.*

**KEY WORDS:** *social entrepreneurship, non-profit organization, social enterprise, sustainability.*

## 1. INTRODUCTION

The importance to the European economy and society of co-operatives, mutual societies, associations, foundations and social enterprises (which together are sometimes referred to as the Social Economy) is now receiving greater recognition at Member State and European levels. Not only are they significant economic actors, they also play a key role in involving their members and European citizens more fully in Society. Social Economy enterprises are helping to meet the demands of a changing Europe. They are important sources of entrepreneurship and jobs in areas where traditional "investor driven" enterprise structures may not always be viable.<sup>1</sup>

In the context of EU integration, it is very important to look at the state of social economy in Romania. It is essential to distinguish between terms in order to look at the situation in our country.

**Entrepreneurship in non-governmental organizations** is the process of engaging in economical activities as well as having an entrepreneurial attitude towards the activity they develop as a non-profit.

**Social entrepreneurship** is the process of setting up a social enterprise, a distinct for-profit organization that would sustain financially a non-profit organization. Social enterprise is the result of social entrepreneurship. Social enterprises become the result of achieving sustainability as a non-profit organization in order to survive and solve social problems. Social entrepreneurial activities in the form of creating a social enterprise can be considered itself a measurement of performance, since it is the next step in the development stage of a non-profit / non-governmental organization.

## 2. Entrepreneurship in non-governmental organizations vs. social entrepreneurship

**Entrepreneurship is the process of starting a enterprise as a result of identifying an opportunity or a need.** Entrepreneurship is characterized by the process of creating new markets, creative use of resources and opportunities, innovation, the introduction of new technologies, new industries and new products and creation of

employment. A real engine of economical development, a strong entrepreneurial culture is at the basis of progress.

We can encounter entrepreneurial activities in more than the traditional for profit sector and the creation of small and medium size companies.

The idea of entrepreneurship in non-governmental organizations can be easily identified in the activities that NGO develop as a need to fulfill their social mission.

There are several aspects that make **a non-profit organization entrepreneurial**, that deliver certain forms of entrepreneurship in NGO's. First of all they exist as a private individual or collective initiative, with a mission, vision and aim that address a certain need, opportunity, for the good of the society. This means that either at the starting point of the organization or further on, a strategy and many of the times a business plan, to fulfill that mission. Activities need coordination, human resource management, good leadership, financial management and development of economical activities.

Non-profit organizations run projects and programs that need planning. These projects create **temporary organizations** within the NGO, who are partly independent, run by project managers. The NGO's devotes resources separately from the every day activities and create temporary structures within the mother organization. The planning, implementation and evaluation of a project implies entrepreneurial skills of the project management team, mainly because of the need to address in a creative manner the social need identified by the organizations, along with tools that help classic entrepreneurs run their businesses.

**Federations** are structures created by the joint venture of two or more non-profit organization. Federations are created by non-profit organizations that have resembling or identical missions, in order to achieve a greater impact. This association of non-profits creates a new structure and new initiatives that need to be managed in an entrepreneurial manner.

These examples are prove of the existence of an entrepreneurial attitude in non-profit organizations.

<b>Organization</b>	<b>Business</b>	<b>NGO</b>	<b>Public</b>
<b>Social Enterprise</b>	X	X	-
<b>Project based work</b>	X	X	X
<b>Federations</b>	X	X	X
<b>Cooperation / Protected units</b>	X	X	X
<b>Community Development Corporations</b>	X	X	X

### **Entrepreneurial, non-profit and public forms**

At the borderline of business and non-profit there is another type of organization that combines best the characteristics of both sectors, **social enterprises**. If the discussion about entrepreneurship in non-profit organizations brings to light the existence of entrepreneurial attitude in the activity of an NGO, social enterprises are a hybrid, of business and non-profit, created as a vehicle to create sustainability for and NGO.

The European Union definition for **social enterprises** is the following: *“Social enterprises are part of the social economy sector. They constitute a collection of organizations that exist between the traditional private and public sectors. Although there is no universally accepted definition of a social enterprise, its key distinguishing characteristics are social and societal purpose combined with an entrepreneurial spirit of the private sector”*.<sup>1</sup> It is quite interesting to confuse the public sector with the social sector, since there are so many NGO active in providing social services without any support from the public sector. Our definition of the social enterprise definitely excludes the participation of the public administration as a shareholder in these types of activity.

What is new about the concept is the overlapping of the lines that define the business and the social sector. Compared to traditional non-profit organizations, social entrepreneurship includes activities that generate profit, like a bank for community development organizations that combine the elements specific to the business and non-

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profit sector (e.g. shelters that run professional conversion courses and offer jobs in that field). Social entrepreneurs create social value throughout a continuous process of innovation and bring to light new opportunities, but always putting the social benefit before the personal one<sup>2</sup>, or at least at the same level.

A comparison between the traditional concept of entrepreneurship and social entrepreneurship can be synthesized below

<b>Creates new markets</b>	<b>Creates new markets for social needs</b>
<b>Creates new jobs</b>	<b>Creates new jobs and social equity</b>
<b>Mobilizing resources</b>	<b>Mobilizing resources to address social issues</b>
<b>The introduction of new technologies, industries and products</b>	<b>Creates social capital</b>
<b>Addresses clients</b>	<b>Addresses beneficiaries and clients</b>

### **Social Enterprises – Types And Characteristics**

A basic definition of the social enterprise places it at the borderline of the business sector and non-profit, and it presents social enterprise as a hybrid. The change in the expectations of the non-profit organizations to achieve social impact at a large scale and at the same time to diversify the financing resources is considered to be at the roots of the appearance of such a hybrid, partly profit and partly non-profit. Social enterprises are situated at this point of overlapping between non-profit and for profit business sector. All social enterprises are for profit, or profit oriented enterprises, being a business, not a charity.

#### **Social enterprise classification**

There are several ways to classify social enterprises. One of them takes into consideration the mission and the level of embodying the social program into the business activity. As far as the mission is concerned, there are three types of social enterprises:<sup>3</sup>

##### **A. Mission - centered**

The social enterprise is created with the main purpose to promote the social mission, using a self-financing scheme. Examples of an organization of this kind are the ones that employ people with disabilities or micro financing institutions that focus on disadvantaged areas.

##### **B. Mission - related**

The social enterprise is associated to the NGO mission or to the social service. This type of organization is based on synergy, creating social value for programs and generating economical value in order to sustain financially the social programs and/or overhead expenses.

##### **C. Mission - unrelated**

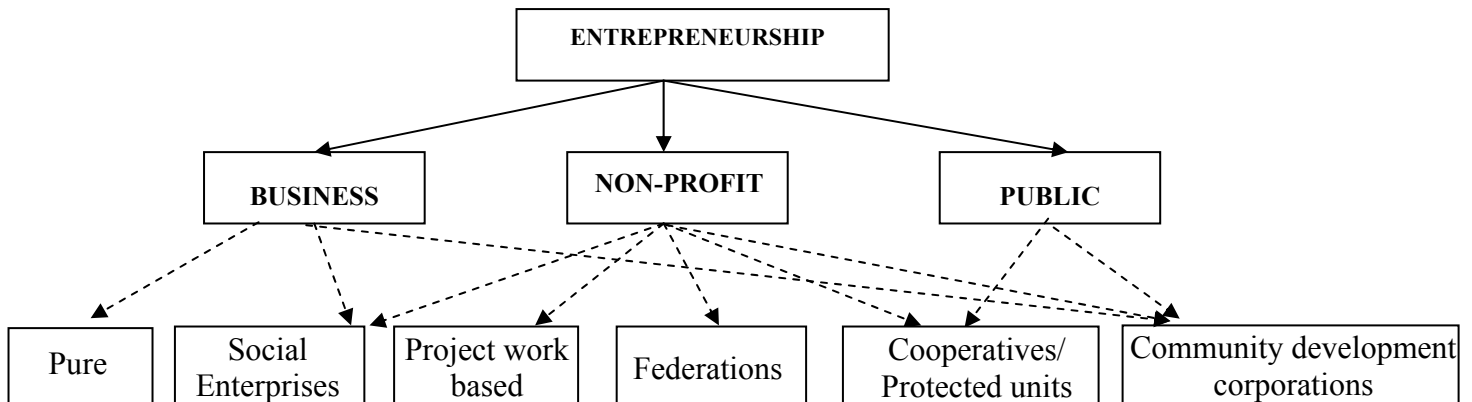
The social enterprise mission is not linked to the mission of the NGO, or it is meant to encourage a mission other than the one to generate income for the NGO's social programs and overhead costs. A social enterprise can function in an industry which is not linked to the sector in which the NGO operates; the potential profit is the only reason for setting up a for-profit organization, in order to cover the expenses of the nonprofit one, through donations, or sponsorship of their entire profit.

We have identified two types of mission unrelated social enterprises

- ⇒ First, the NGO owns over 50 % of the shares of the enterprise
- ⇒ Second, the NGO owns less than 50% (In the case of less than 50 % up to 30 % in the share of the enterprise, as a significant minor share holder. Eventually it should be mandatory for the shareholder to give out the dividends to the NGO according to the percentage of their share ownership)

Entrepreneurship is present also in another sector of society, the public sector. There are a few examples of joint structures that are present under the category of non-profit: the **co-operative unites for people with**

**disabilities and protected units.** These organizations are a type of joint-venture between NGO's and local administration, and sometimes businesses, NGO's and local administration. Their main characteristic is that the mission they address is strongly social and because many of the times it is an important social issue for the local community, the public sector needs to become involved, at least in the early stage of work. Another form of entrepreneurship in public sector is Community Development Corporations, very active in USA as an organizational entity aimed towards local development of a specific community, in which are partners businesses, NGO's and local authorities.



### Forms of entrepreneurship

#### 3. Social economy in Romania

At the time of the EU accession as a member with full membership, the civil society sector was considered a consolidated one and therefore there had been strong withdrawal of international financing from Romania. This leaves the civil sector with the mission of developing self-sustainability schemes in order to pursue their social mission.

The social sector in Romania is composed of associations, foundations, federations. There is no legal definition of a social enterprise. The non-profit NGO's definition is the closest to the one of the social enterprise. Even if there is a strong social aim to their activity, the reason why they do not fit the full description is the accessory character of economical activities that NGO's do. They are allowed to set up commercial companies, with the aim of supporting their activity, but there is not a legally clear framework for this.

There are several **forms of enterprises** which comply, more or less, with the three necessary characteristics for considering them social enterprises (social aim purpose, entrepreneurial spirit and non-profit distribution). In our opinion, social oriented non-profit associations, foundations and federations are the organizations that best fit the definition. There are also two other types of enterprises: first, co-operative units for people with disabilities and, second, protected units. The first category does not respect the non-profit principle because is for profit oriented and no social mission. The characteristic is that minimum 30% of employees have to be people with disabilities. The second type, protected units, can be either for profit or non-profit oriented, and are under the protection (funding by) of the local authorities or state agencies in some cases.

The **income** of the associations, foundations and federations is coming from dividends of the commercial companies they establish, from direct economical activities, donations and, excepting the foundations, from members contributions. The financing from public national funds increased too. In the context of a not so healthy civil society, the financial independence of the NGO's is becoming a problem.

Social entrepreneurship and the social economy sector are just beginning to take shape in Romania. Because NGO's have the most important role in providing social services (72 % of the providers of social services registered in Romania are NGO's), the representatives of these organizations are lobbying for financial

independence. This is why; most of the non-profit organizations could also generate profit to finance their activities, mostly because the need for such services on the market is really high. According to the executive director of FDSC Romania, Ionuț Sibian, in Romania there are approximately 45.000 non-profit organizations out of which less than half are active<sup>4</sup>.

The main areas of activity of the non-profit organizations are social services, health, culture, sports, environmental protection, business, human rights, education, philanthropy, international cooperation and religion (The catalogue of associations and foundations, edited by FDSC Romania). Most of the non-profit organizations in Romania have benefited from financial support of foreign organizations.

At the moment, **in Romania we are discussing only about entrepreneurship in non-profit organizations and not about social entrepreneurship**. In Romania, the concept is not well known and there is no legislation for this activity, in order to allow social enterprises to work, yet.

In the present conditions, where NGO's depend strongly on sources from outside the organization, it is essential to focus on creating a scheme that would create financial sustainability. This can be achieved by the set up of social enterprises, in the conditions of a legal framework that encourages this.

Changes after EU accession are taking place: aid agencies are retiring; sources of financing are diminishing, high expectation for huge financing from EU funds, improving legislation for sponsorship. Because the status of EU membership implies a high enough level of development, of both the economy and civil society, starting 2007 foreign aid agencies withdrew their financing from Romania and has left room for individual efforts of the actors of the civil society as well as of the European Commission. The financial support for non-profit will take the shape of finance from the structural funds and other programs that pursue the development of the social sector. Until the accession of those funds as many non-profit are left without financing sources. This created a gap that encourages NGO's to find alternatives and the creation of a social enterprise is a viable one. Also, the EU policy regarding governmental local administration aid is very restrictive, so there is need for self-sustenance and strategic management from the non-profit part in order to pursue social missions.

In order to be able to benefit from the structural funds provided by the EU, there is also a number of criteria that non-profits have to fulfill in order to be eligible. This is due to the bigger impact that the projects run by NGO's have to achieve and the need to address social problems in a more organized and structured manner. It is the drive to become sustainable and less and less dependent on state aid or individual donors. In this regard, the EU supports the concept of social enterprises as a way to achieve self-sustainability, having as examples different member states which have successfully implemented this concept in order to create sustainable social change. Such countries are U.K., Italy, Cyprus or Lithuania.

#### 4. Proposals for Romania

One of the purposes of this paper was to look at where Romania is as far as the social sector and identify how it can improve the situation. In our opinion, the not so widely spread concept of **social enterprise** is a tool that could help non-profit organizations reach a higher level of independence and achieve better social impact. In this regard, we are proposing a definition that will suit the Romanian society and might encourage the creation of social enterprises. Our proposal is the following: *A social enterprise is a for-profit organization, created by one or several non-profit organizations in order to financially sustain the parent organization in achieving its social goal. The non-profit organization should own at least 50 % of the shares and should have private individuals as shareholders, as well as other for profit entities like businesses, with the exemption of the public sector. The social mission of the NGO can be included in the mission of the social enterprise; however it should not be mandatory. The dividends from a financial year should be received by the parent NGO in order to sustain its own activity or, if the parent NGO decides, the profits could be invested in the social enterprise for growth purposes that will generate future income for the main shareholder, the non-profit organization.*

This definition could be considered a first step towards encouraging the creation of social enterprises. There should also be support from the central and local administration as far as fiscal facilities and easy access to consultancy services.

The first legal proposal concerns the tax on dividends that exists in Romania. If social enterprise could be exempted from the 16 % tax on dividends when it concerns the dividends that belong to the non-profit, it could benefit the parent organization and encourage future activity of the social enterprise. All the other taxes paid by any business do not need to become fiscal advantages for social enterprises, since we consider that being a hybrid

of business and non-profit, the social enterprise should bring its contribution to the economical development and national income.

## References:

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<sup>1</sup> <http://ec.europa.eu/enterprise/entrepreneurship/coop/index.htm>

<sup>2</sup> [http://ec.europa.eu/enterprise/entrepreneurship/coop/social-cmaf\\_agenda/social-enterprises.htm](http://ec.europa.eu/enterprise/entrepreneurship/coop/social-cmaf_agenda/social-enterprises.htm)

<sup>3</sup> Nicolae Bibu, Loredana Orhei, Entrepreneurship in nongovernmental organizations in Romania – achieving performance through social enterprise, XXXXX

<sup>4</sup> Gabriel Botezatu, *ONG-urile vor sa devina intreprinderi sociale*, [www.curierulnational.ro](http://www.curierulnational.ro)