

APPROACHING THE CONCEPT OF SOCIAL ECONOMY IN THE CR THROUGH THE PRISM OF SOCIAL WORK - REALITY AND PERSPECTIVE

INTRODUCTION

One part of the current discourse of Czech social work is the issue of “marketisation” and the so-called “quasi-market” in the sphere of social services. Social economy, as a part of the national economy, represents an action field for further development of the social work profession. In a wider context, this topic relates to the search for identity of the social work profession in the postmodern society which imposes new requirements and challenges for social work.

From its very beginning, social work has been expected to provide protection against the social exclusion of clients and their re-integration into society. Employment is the important element in social integration. Castel suggests: *It is increasingly more illusory for social work with the new conditions aimed at integration of its clients into society. In the society in which we live, the fundamental prerequisite for permanent integration is a full-valued job, i.e. something which is actually missing and which cannot be provided by social work itself* (Castel 2010: 152). Social work now finds itself in a non-enviable situation as it can no longer rely on the integration that was once massively provided by the labour market and social insurance. The role of social work hitherto has been the fine-tuning of integration in individuals with various disabilities and disadvantages. Nowadays, social work is supposed to apply the same tools to cope with the integration of large groups of people who have been condemned by the labour market to live in uncertainty, while the welfare state has fewer resources to secure these people against the increasing job and life uncertainty (Keller 2010).

Unlike social work, the social economy endeavours to optimise the processes associated with increasing poverty, social exclusion, and the impact of a globalised market in becoming a legitimate part of the market as well as civil society through the activation and stimulation of citizens to self-help and community-service activities. The priority of the social economy is employment of socially excluded persons or those vulnerable to social exclu-

sion (Hunčová 2006). Persistent unemployment, the need for a reduction in the national budget deficit, and maintaining the deficit at low levels are all factors which cause difficulties for conventional social policy and social work. This raises the question to what extent the social economy can contribute to the solution to these problems and whether or not it can assume the role of the public authorities and institutions in certain areas of interest (Borzaga, Defourny 2001).

The objective of this document is to analyse the current status of the Czech social economy and social firms. Czech social economy has been gradually defined in its form and researched *from the bottom*. The initial point of the analysis is formed by the outputs of the project *Thematic network for the development of social economy in the Czech Republic*. The analysis also includes a description of the current state of social firms in terms of legislation and finances.

The conclusion presents several recommendations for the social policy actors in relation to the development of social enterprise in the Czech Republic.

THEORETICAL DEFINITION ON THE CONCEPT OF SOCIAL ECONOMY

The concept of social economy represents a modern solution to certain issues encountered by European countries at the turn of the 21st century. It concerns the provision of (primarily social) services at a local level and also the issue of integrating the people endangered by social exclusion in the labour markets. Last but not least, social economy also bears on the economical use and development of local resources during the implementation of local development programmes, including human, material and financial resources. The concept of the social economy draws on the assumption that the state can no longer fully satisfy or financially secure the social needs of its citizens and that even a purely commercial conception does not fit the needs of modern democratic society, particularly those concerning the availability of services and an assertion of public interest.

In the Czech environment, the concept of social economy is one of the discussed topics, primarily in the last decade. A part of the discussion also deals with the terminological definition of the key words. The very concept of social economy has become the topic for discussion within the TESSEA project¹.

¹ TESSEA stands for *Thematic network for social economy* which was introduced in the framework of the eponymous project No. CZ.1.04/5.1.01/12.00021, supported by the Human

The European concept of social economy, characteristics of the third sector, its subjects and theoretical approaches, have all become the basis for the definition of social economy in the Czech environment. The term “social economy” is most commonly defined on the basis of the subjects that fall within its framework. Based on the two approaches defined by the research company EMES, i.e. legal-institutional and normative approaches, social economy has been defined in the Czech Republic because this is the key concept for the European tradition of the third sector (Dohnalová 2011: 31). According to the research company EMES, social economy is synonymous with the third sector. *Social economy encompasses activities carried out by organizations of a cooperative kind, organisations and associations of mutual benefit, whose ethical base incorporates the following principles: the objective is service to members of the community, not the profit; independence of the managing structures, democratic decision-making process, priority of people and work (labour force) over capital and profit distribution* (Borzaga, Defourny 2001: 6).

The research organization CIRIEC defines social economy as *a set of private, formally established companies with the autonomous power to make decisions and freedom of membership which have been established with the aim of fulfilling the needs of their members through the marketing and production of goods, and through the provision of services, insurance and financial services, where the decision-making process and any distribution of profit or surplus among the members is not directly related to the capital or fees paid by the individual members with a single voting right. Social economy also includes private and formally established companies with the autonomous power to make decisions and the freedom of membership which provide non-market services to the households and whose surplus (if any) cannot be reserved to the economic agents who create, control or finance them* (The European Economic and Social Committee 2007: 9).

Czech experts defines the term *social economy* as follows: *a set of activities performed by the subjects of social economy, the aim of which is to increase*

Resources and Employment Operational Programme. The project was implemented from June 2009 to November 2011 by Nová ekonomika, o.p.s. (New Economy, public service organization). This platform has joined together more than 230 members including individuals and corporations. The membership was quite diversified, from the social entrepreneurs, through students and scholars to those interested in this topic. TESSEA was about raising the public awareness and dissemination of information, communication with the policy makers at the national and regional levels. The result of the expert working groups (Definitions, Finances, Measurement, Education and Communication) is the study which contains a list of all the findings, declarations of viewpoints and recommendations for further development of social economy in the Czech Republic.

employment in the local conditions or to fulfil other needs and requirements of the community in the sphere of economic, social, cultural and environmental development (Bednářiková, Francová 2011: 14). This definition corresponds to both of the aforementioned European concepts.

Social economy in the Czech environment generally functions on the basis of the principles of volunteering, self governing, self financing and non-profit activity, which means there is no priority given to the activity carried out for profit. Social economy primarily draws on the initiative of the social responsibility of citizens. It contributes to a reduced dependence on public budgets, increases the employment rate of the people endangered by the labour market, and participates in the development of individual regions in both social and business aspects as it uses local and regional links and its social capital.

Hunčová distinguishes three views on social economy, namely: *in the narrowest context, it incorporates activities carried out by such subjects as authentic cooperatives, foundations and other mutually supportive associations or funds and unincorporated associations, in a broader contexts it includes the participative economy that is democratic for its social aspects, or any economic activity with a positive social externalities (including the firms which take care of their employees on the one hand and public benefit service providers or public-benefit corporations providing public/social services on the other hand). Social economy is particularly appreciated for its support of employment, social cohesion and sustainable development of regions. Social good in this type of economy is managed by the citizens who have assumed their own individuality and active responsibility for it* (Hunčová 2008: 226).

EXCURSION INTO THE HISTORY OF SOCIAL ECONOMY IN THE CZECH REPUBLIC

The roots of social economy in this country date back to the 19th century with self-help, voluntary, and welfare activities. The legalisation of the association movement was supported by the liberal Act on Freedom of Association of 1867. Since then, new economic subjects have been constantly established, primarily the production and consumer cooperatives.

After the Second World War, and with the newly emerged communist government in 1948, the tradition of social economy was interrupted. This put an end to trades, business, supportive associations, and cooperatives. Although the cooperatives existed, their role was somewhat shifted, they had no autonomy or the right to independent economic decisions, instead they were under government control, being an executive body fulfilling the tasks

imposed by the state, with no opportunity to pursue their business (Dohnalová et al. 2009: 30-31).

The period after 1989 saw attempts to restore the tradition of the cooperative movement from the first half of the 20th century. The then cooperatives needed to be transformed. In 1995, loan cooperatives – so called *savings banks* – started to emerge. Nevertheless, their business activities were unsuccessful; they lost trust among people and eventually went bankrupt (Bednářiková, Francová 2011: 9).

After the Velvet Revolution (1989), the civic sector started to develop. Legislative changes were gradually prepared to remove the previous long-lasting deformations. The first citizen associations and foundations were established. The specialised church facilities restored their activities, later on non-profit organizations and charitable funds came into existence.

In the prime of the civic sector, social economy has come to the fore. The Czech Republic began to acquaint itself with the concept of social economy and the practices of social firms abroad, primarily in the European Union. The topic has gained considerable attention since the beginning of the 21st century. The initial activities were predominantly related to the emergence of small-size companies and work groups, networks, pilot projects, discussions held among experts, etc.

In 2002, the Czech Republic was the first post-communist country in Central and Eastern Europe to host the International Conference on the Expansion of Social Economy. Dohnalová states: *The Conference adopted the so-called »Prague Declaration« which – inter alia – claims: Although there had never been any precise legal definition of social economy, a consensus was reached in the form of three statements: a) social economy is not based on the capital but instead on the participative democracy; b) the objective of social economy is not profit but solidarity; c) social economy may considerably contribute to the successful integration of disadvantaged people in the society* (Dohnalová 2006: 120). This declaration supported the establishment of an adequate social framework for social economy in the Czech Republic and other Central and Eastern European countries.

CURRENT STATE OF THE DEVELOPMENT OF SOCIAL ECONOMY IN THE CZECH REPUBLIC

Social economy, as such, has not yet been defined in Czech legislation nor formally established. Partial changes were brought by the new Civil Code and the Act on Trade Companies and Corporations, both of these legal

norms were effective as of 1 January 2014, therefore their impacts will become evident in the future.

Social economy has been implemented in the form of social firms which operate in all industries. It is also supported by various institutions, e.g. the Government Council for Non-Governmental Non-Profit Organisations, which is a counselling, initiative, and coordinating body of the Czech government; and the Agency for Social Integration, which provides municipalities and towns with studies on local opportunities for social enterprise. The Charter of Social Enterprise and Employment of People with a Disability has been another supporting element of social economy. The Charter attempts to: *establish a platform for active and sustainable cooperation of the Charter with the legislative and executive authorities of the state in the sphere of social enterprise and the employment of people with a disability* (Deklarace Charty sociálního podnikání 2011: 1).

The TESSEA project by Nová ekonomika, o.p.s.² has also contributed to the support of social economy, namely through the Study of the social economy infrastructure in the Czech Republic (2009-2011) which describes the current situation of social economy in this country and provides recommendations for further development in this sphere. This is the first comprehensive study carried out in the Czech Republic. The activity of Nová ekonomika, o.p.s. – which was disbanded – has been resumed by the company P3 – People, Planet, Profit, o.p.s. The company provides training, counselling, consultations, awareness campaigns and administers a unique directory of social firms operating in the Czech Republic. Membership of the directory is voluntary. As of 31 March 2014 it includes 184 registered social firms.

Apart from private organisations supporting social economy, there are also several public institutions with a similar mission. For example, the Ministry of Labour and Social Affairs (MPSVČR), which in 2009 – based on international experience – set up the requirements for financial support of a non-investment nature channelled into the development of social economy in the framework of the Integrated Operational Programme (IOP), as well as options on investment support in the framework of the Human Resources and Employment Operational Programme (OP LZZ) financed by European structural funds (Plecháčková, Škantová 2010).

In addition to the ministries and regional and municipal authorities, social economy has been supported in several strategic documents. In general, it is one of the tools for the social integration of disadvantaged groups into the labour market. Last but not least, the Strategy for regional development

² For explanation, see above.

for the Czech Republic over the years 2014-2020, and released by the Ministry of Regional Development (MMR ČR), is of enormous importance in this context. Slowly but surely, social economy is developing in the Czech Republic. A supportive network is now in place, and what is important is to proceed and observe the current trends in development.

RESEARCH CARRIED OUT AMONG A HUNDRED CZECH SOCIAL ENTREPRENEURS

P3 – People, Planet, Profit o.p.s., in cooperation with the ProVida Foundation, carried out a questionnaire survey aimed at verification of data and the acquisition of information on the situation of social firms in the Czech Republic. Within the study, 100 interviews were held with the heads and managers of social firms operating in the Czech Republic. An integral part of the survey was the acquisition of data for the social firms directory, which is now available at www.ceske-socialni-podnikani.cz.

The survey succeeded in acquiring data from a hundred social firms, though the actual number of these companies is surely higher. It comes as a complete surprise that the majority of social firms deal with catering and food processing – 45% classified themselves in the *Catering and accommodation* and *Food production and sale* categories.

Most of the social firms pursue their business in the service sector, with trading company being the most frequent legal form. The main reason for establishing these companies is social motivation. The overwhelming majority of these companies, i.e. 90%, employ disadvantaged persons, primarily people with various disabilities. These firms are usually small-sized companies with up to 15 employees, 10 of whom are disadvantaged, and with an average annual turnover of more than CZK 3.6 million. More than a half of their income comes from their own operations. Nearly 2/3 of social firms plan their future development, yet they need to arrange for adequate financial resources to this end. 66% of firms are in need of further resources, 54% of firms have reached the break-even point³. 38 firms have designed their own long-term financial plan. 30 firms showed a profit in 2011.

³ The point which defines the volume of production a company needs to produce in order to reach the balance between making either a profit or a loss. It is a situation where the overall revenue and cost or expenses are equal, i.e. there is no net loss or gain. To determine this point, it is necessary to know the overall cost or expenses, unit variable expenses and the price of products. Once the break-even point is exceeded, a company becomes profit-making, if a company falls short of the point, it is loss-making.

Based on the results of the survey, it can be stated that there is specific sector of social enterprise in the Czech Republic, which continually grows and needs to be taken into account in the future.

P3 – People, Planet, Profit, o.p.s. brings forth and furthers new and innovative approaches to business with a positive effect on society, it supports social and socially beneficial enterprising, provides consulting, organises seminars and workshops, and implements specialised topic-aimed projects.

SOCIAL ENTERPRISE VALUE AND QUALITY MEASUREMENT

In the area of social enterprise, the measurement of value and quality is difficult. In the Czech environment, there is no specific tool to handle this task. A social enterprise has several options to measure its value and quality, but these tools are all typical of other sectors. The use of these tools must bear in mind that the business and social areas need to be measured comprehensively. What is hardest to measure is the social benefit. Great Britain, for instance, is well ahead in comparison with the Czech Republic. Britons have succeeded in developing a specialised tool tailored for social enterprise, known as “Star Social Firm”. In the future, it is advisable to draw inspiration from this model. In the Czech environment, one can imagine a norm based on the Star Social Firm (in the sphere of social enterprise) combined with ISO 9001 (profit-making sector) and quality standards in social services (non-profit sector).

The Star Social Firm is a quality standard which is a follow-up to the aforementioned Social Enterprise Criteria. According to the document Star Social Firm Quality Standard, this standard confirms quality in the sphere of business, products and service, not in the very work site. Its origins go back to 2005 when it was adopted as a further step to an increased quality in the field of social enterprise. One of its objectives is to gain the trust of those interested and to contribute to the increased competitiveness of a social firm by demonstrating its proficiency not only internally but also externally, i.e. to the customers and partners. For instance, suppliers may treat a social enterprise with contempt and the enterprise is forced to prove its stability and sustainability as a consequence. (Star Social Firm Quality Standard, General Information and Guidance 2009: 1).

The criteria to be fulfilled by a social firm in order to be awarded the Star Social Firm (SSF) brand – 8 criteria inspired by the criteria for social enterprise.

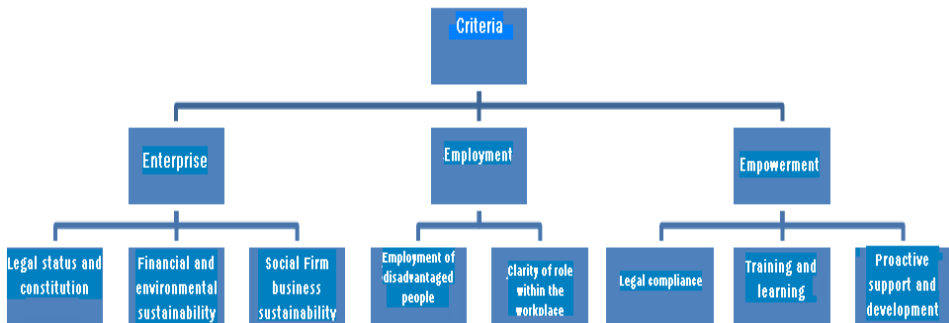


Chart 1. Areas using the Star Social Firm criteria

Source: Star Social Firm Quality Standard (2009, edited by the author).

Assessment follows the same pattern as that used in the Czech environment for the assessment of standard quality compliance in the social services. A specially trained inspector assesses compliance with the preset criteria and whether the social enterprise provides true, complete and up-to-date information. The difference is that the inspector in social services comes upon the decision by the MPSV, whereas in the SSF the assessment is requested by the organisation itself. Another difference is in the way the company itself perceives the assessment. In the sphere of social services, the assessment is understood as an unavoidable evil that is inherent in the subsidies provided. However, I believe that the SSF application in the Czech environment would rather mean the orientation towards improvement and business development, maintenance of a high standard and generally acquisition of more financial resources, better strategic position for negotiation with the public sector and the awareness of where we are and what we want to (and can) achieve.

By acquiring the Star Social Firm certificate, a company demonstrates its proficiency and its direct link to the criteria of social firms which requires that a social firm should be recognised – also by an independent institution – as a prudent employer and businessman. In the Czech environment, it would be helpful to have a similar standard (norm) as the one developed in Great Britain by Social Firms UK, the member organisation for the support of social firms. Its Czech counterpart, which would take responsibility for creation of the SSF, may be the company P3 – People, Planet, Profit that carries out various activities aimed at the development of social economy. In the legislative proposal for an amendment to the Act on Employment in the Czech Republic, the term “social firm” is replaced with “socially beneficial employer”.

FINANCING SOCIAL ENTERPRISES

Financial issues are always of paramount importance for the successful functioning of any firm. This is particularly true of social firms, especially those run by a non-governmental organisation irrespective of its legal form. In these cases the problem is about limited access to and availability of the financial resources. This could be the obstacle to the development of social enterprise and the particular developmental stage of the firm is often of no importance.

At the beginning of its existence, a company needs large investments and it often depends on public resources. One of the practical manuals (*Survival Manual for a Social Entrepreneur*) states that a proportion of their own resources from the company's business operations will increase as a function of time and the company should be able to provide for its everyday operation by itself. Nevertheless, if the demand for the social firm's product is insufficient, it can happen that the firm would become dependent on public resources and thereby become unstable. As a result, the enterprise can be perceived as more vulnerable and prone to changes in the method of public financing and public policy priorities. It will not be prepared to use the currently available financial tools (Dolina et al. 2010: 49).

Muhammed Yunus suggests it is not enough to be sensible of human suffering and to have an idea to resolve this problem once for all, but it is also necessary to secure your social enterprise financially. Even the best idea cannot live without sufficient financial resources. Raising the funds and financial resources is perceived by Yunus as the major obstacle to establishing and developing the social companies. Yet, he also emphasises that with a little bit of creativity, invention, and lots of patience a social entrepreneur may achieve their goal. (Yunus 2010: 111).

At present, governmental support is diminishing gradually, and non-profit organisations realise the necessity to secure finances from their own resources. Social enterprise is one of the paths to reach these resources. The companies are also stimulated by the fact that in the next programme period of the European Union it would be necessary to participate in the financing of the projects which have so far been covered at 100%. All the authors confirm the necessity of financial resources for the proper functioning of any organization. It is logical that any company would collapse without the resources.

The key concept for social enterprise is the so-called multi-source financing. According to the *Survival Manual for a Social Entrepreneur* (Dolina et al. 2010: 27-28) this kind of financing allows a social firm to fulfil its social as

well as economic objectives. The reason is that it has access to various financial resources which are out of reach for a common entrepreneurial subject.

With regards to the financing of social firms, the type of operation the company wishes to finance must be taken in account. Marek Jetmar divides financing into two categories: operation – and investment-centred. Each of these two categories is usually financed differently, or from different resources (Jetmar 2010: 4).

The objective of operation-centred financing is to ensure the manufacturing activity of a social firm (these primarily include the financing of claims, stock, liquidity or cash-flow management). To this end, the company's income is used as well as short-term loans provided by banks. The objective of investment-centred financing is to start up the company, its potential expansion, development or to improve the quality of its services or products.

Financing of any social firm is multi-resource. Social firms may combine resources from subsidies and grants with purely commercial funds, supported by resources from active employment policy programmes or specific financial tools, such as franchising or loans. To make the list of resources complete, volunteering and tax relief must be mentioned.

MAJOR BARRIERS TO THE DEVELOPMENT OF SOCIAL FIRMS IN THE CZECH REPUBLIC

A comparison of the development of social enterprise in the Czech Republic with that of, for example, Great Britain reveals enormous differences. The reason is in the traditional political system and the East-West division of Europe. While social firms were supported in Western Europe, the Eastern Bloc paid no attention to this issue. This situation gives rise to a large number of obstacles that still need to be tackled.

The most considerable obstacle, in comparison with Great Britain, is the lack of financial assets and the inadequate composition of financial resources. Czech social firms, compared with their Western European counterparts, still greatly depend on subsidies, which reduces their re-distribution role. They are not independent and their development is substantially retarded by this fact. They suffer from insufficient resources to cover their investment or promotion, and often lack a professional approach to business issues and any support in the course of preparing their business plan.

Another significant obstacle is inadequate legislation which fails to reflect the specific features of social enterprise. The British Companies Act established a legislative framework for a new form of companies that is applicable

to and useful for the needs of social enterprise. In addition, there are evident and strong attempts of lobbyists and intervention by the government. In the Czech Republic there is no suitable form of support which would contribute to the development of social firms.

Another considerable barrier in the Czech Republic is the legacy of the communist era, when society had a negative attitude towards cooperatives and the same attitude surviving until today. This also relates to an unshakable belief in the power of the free market and trust in the almighty welfare state which must take care of its citizens, therefore not needing any alternative institutes. Czech society, in general, rejects anything that does not toe the line.

The obstacle to development is a poor awareness of the general public when it comes to the existence of social firms, the differences between social economy and other sectors, and a poor understanding of specific options and added value of social enterprise (Metz 2002: 28). Apart from the general public, the community of experts and public administration is badly informed as well, which complicates the efforts of social firms to bid for government procurement contracts. The Czech Republic also lacks the systematic education of social entrepreneurs and persons who wish to be involved in social enterprise, comprehensive support and counselling which would specialise in the development of social firms throughout their lifetime.

CONCLUSION

In spite of a series of obstacles that hinder the development of social firms in the Czech Republic, there are still conditions for the establishing and functioning of these companies. Whether these conditions are suitable for social firms remains an open question. The organisations themselves strive to change the public's views and to convince the public of their disinterested efforts to involve the disadvantaged persons in the working process and thereby to the development of local communities.

At the national level, future trends will include: concentration on the support of social firms with multi-resource financing due to depletable and limited current resources, support of social firm management in the sphere of a professional career, and provision of start-up capital in the form of loans at favourable conditions, guarantees, etc.

For newly established companies, the following needs are to be provided: improved capital accessibility, tax allowances, such as reduced statutory tax payments, advantageous conditions for public tendering, primarily at the local level, support of newly created job opportunities for people disadvan-

taged by the labour market, establishment of social firms on the community/municipality's initiative, improved environment for social entrepreneurs, and financing of a new social firm before its actual establishment (Jetmar 2012: 36-37).

Social enterprise has not yet been incorporated into Czech legislation to such an extent that would allow improving the disadvantaged position of employers who offer jobs to any of the targeted groups. Certain progress may be seen in the introduction of the new Civil Code, effective 1 January 2014, whose act on corporations explicitly mentions the so-called *social cooperative* which is allowed to conduct business without major restrictions; unlike non-governmental non-profit organisations, the operation of which is subject to various restrictions.

Social work, primarily at the community level, has the potential to be involved in activities leading to the gradual furtherance of all of the aforementioned measures that are necessary for the development of social economy in the Czech Republic. The prerequisite is the proper education of social workers in the economic field in order to proactively prepare them for involvement in all of the processes and activities which would improve the current state of affairs.

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Summary

One part of the current discourse of Czech social work is the issue of marketisation and the so-called quasi-market in the sphere of social services. Social economy, as a part of the national economy, represents an action field for further development of the social work profession. In a wider context, this topic relates to the search for identity of the social work profession in the postmodern society which imposes new requirements and challenges for social work. From its very beginning, social work has been expected to provide protection against the social exclusion of clients and their re-integration into society. Employment is the important element in social integration. The objective of this document is to analyse the current status of the Czech social economy and social firms. Czech social economy has been gradually defined in its form and researched from the bottom. The initial point of the analysis is formed by the outputs of the project Thematic network for the development of social economy in the Czech Republic. The analysis also includes a description of the current state of social firms in terms of legislation and finances. The conclusion presents several recommendations for the social policy actors in relation to the development of social enterprise in the Czech Republic.

Key words: social economy, social service, social work