



International Comparative Social Enterprise Models

Social Enterprise in Croatia: Charting New Territories

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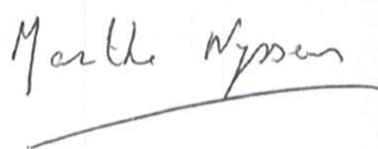
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INTRODUCTION

Social enterprises emerged in Croatia about a decade ago, but practices closely related to social entrepreneurship have existed in the country for a long time, although under other names—fully or partly correlated with the activities of civil initiatives, voluntary organizations, cooperatives, mutual societies or the social economy at large. The new terms of “social entrepreneurship” and “social enterprise” brought hybridity in the field and marked a new conceptual era. Until recently, however, a common understanding of the meaning behind these new concepts was not firmly established. The Strategy for Social Entrepreneurship Development, adopted in April 2015, introduced an official definition of social enterprise and provided several criteria for its identification.

Despite this recent advance, conceptual clarity and a broadly accepted understanding of the concept of social enterprise are still seriously lacking in the field. This observation shaped the overall purpose of this paper to “chart new territories” by analysing the context of social enterprises development in Croatia, and by proposing a working typology of social enterprises.

The first part of the paper deals with various notions and historical, contextual and conceptual issues that may contribute to the overall understanding of the social enterprise field in Croatia. A short overview of the concepts and terms that have a longer tradition and recognition will be presented; in so doing, we will also capture historical contexts and changes, some of them still present in contemporary society.

In the second part, we will propose a typology of social enterprise in Croatia that is based on the EMES approach. This attempt will take into account internal factors—such as the entrepreneur’s motivation for establishing and running a social enterprise and the enterprise’s social mission, field of activity and type of governance—but also external forces, such as public policies, financial incentives, etc. The proposed typology will enable comparative analysis across regions within the ICSEM project and will help to gain a better understanding of the field. In addition, it will serve as a basis for empirical verification in the quantitative part of the study.

In the final part of the paper, we will try to map and describe the main trajectories of the SE field’s institutional framework development: legal forms used by social enterprises, institutions and bodies involved, public policies and programmes, and main financial incentives. We will also provide an insight of how the existing institutional environment relates to the different social enterprise models. The main goal is to apprehend the extent to which existing institutional frameworks relate to and communicate with identified types of social enterprises.

PART A: UNDERSTANDING CONCEPTS AND CONTEXT

The terms “social entrepreneurship” and “social enterprise” emerged rather late in the Croatian discourse—around 2005. They are still not broadly recognized nor accepted, but a slight increase of public interest in these concepts could be observed after the Croatian accession to the European Union, in 2013, when several EU funding schemes became available for Croatian social entrepreneurs.

However, several other related terms and concepts—namely those of civil society, associations, cooperatives and, to a lesser extent, third sector or non-profit organizations—are much more deeply rooted in Croatian discourse. The development of social enterprises in Croatia rests on different traditions and practices that go far back in the past, as well as on different influences and conceptual approaches that have emerged recently. Nevertheless, specific historical circumstances resulted in ambivalent attitudes, or even animosity, towards the sector as a whole.

The origins of civil initiatives in Croatia can be traced back to the late 19th and early 20th century. Examples include brotherhoods and other mutualist organizations, often related to the activities of the Catholic Church, as well as foundations established by the noble families or church community with cultural, educational and social goals (Bežovan and Zrinščak 2007; Bežovan 2008). However, studies about the civil society of that period, which may provide deeper insights into the determinants of subsequent developments, are rare.

In the period after World War II, the political framework for the development of civil society was associated with the legacy of the one-party system, which dominated for half a century. The socialist regime was characterized by the repression of many freedoms. Similarly to what happened in other transition countries, during the socialist period, civil society in Croatia was characterized by the marginalization of the sector and a paternalistic role of the state. It is considered that this fact played a role in the delayed development of civil society, and that its impact can still be felt in the unwillingness of citizens to self-organize and take personal responsibility for solving their problems (Bežovan and Zrinščak 2007). However, from the late 1970s and early 1980s, some forms of civil initiatives emerged, mostly gathered around women, environmental and peace issues, by taking the function of “opposite” or “parallel” society (Jalušić, 2006).

The “re-discovery” of civil society and the third sector in Croatia coincided with the broader political and economic transformation of society in the early 1990s (Bežovan and Zrinščak 2007; Bežovan 2008). In the first half of the 1990s, the political and socio-cultural environment was quite unfavourable for civil society development (Deacon et al. 1994), primarily because the transition to a democratic society was accompanied by war; but the circumstances of the war and social crisis also led to the establishment of humanitarian organizations in the early 1990s. At the same time, other non-profit organizations were pushed aside. The development of civil society, particularly in the social area, was originally bound to displaced persons and refugee crisis; civil society provided help to these groups, with significant financial and technical support from a number of international humanitarian organizations (Bežovan 2008), which thus supported the development of the sector. Apart from neglect on the part of the political regime, an important reason for the slow development of the civil society sector was the low level of social capital and of willingness of citizens to associate and work together for the common interest (Štulhofer 1998).

In the first decade of the 1990s, the political climate was quite unfavourable for these organizations. Various restrictions were imposed on them, such as barriers when registering, and they were controlled by the state in many ways. Civil associations, especially those that operated in the field of human rights, democratization and development of civil society came under special scrutiny, as they were suspected for being foreign-funded organizations and therefore likely to act against the state (Bežovan and Zrinščak 2007; Bežovan 2008). The importance of civil society organizations was not recognized. After the transition, civil society evolved through a top-down process, which reinforced the culture of passivity.

Besides that, the early stages of privatization and growth of small- and medium-size enterprises were marked by corruption and cronyism, which resulted in a deeply rooted animosity towards entrepreneurship and entrepreneurs (Štulhofer 2004; see also Vidović 2012). This unfavourable environment for civil society initiatives is one of the factors that account for the fact that social entrepreneurship and social enterprises entered policy and the practical agenda rather late.

In Croatia, terms such as civil society organizations, non-governmental organizations (NGOs) or non-profit organizations are more common than those of social entrepreneurship or social enterprises; they also have a longer tradition in the country. The term “non-governmental organization” was dominant during the 1990s; after 2000, it was gradually replaced by the terms “civil society” and “civil society organization”. However, the term of NGO is still often used, especially in the media and public.¹ After 2000, when institutional and legal frameworks became more favourable, the concept of “civil society” became widely used, in particular in governmental discourse. The concept of civil society organization includes several legal forms: associations, foundations and social welfare institutions.² As for the concept of third sector, it is virtually unknown in Croatia, not only among the public, but also among academics and professionals.³ The concept of social economy was rarely used until recently. It has been gaining ground in the last decade, but is still only randomly used in public and/or policy discourse, mostly as a synonym for social entrepreneurship and/or social enterprise. So far, the term social economy has not become “embedded” in the Croatian context, despite its long historical usage and role in continental European tradition. The concepts of social entrepreneurship and social enterprise have been more intensively promoted; this is linked to the influence exerted by English-speaking countries through the donor-driven practices of foreign organizations.

The discourse on social entrepreneurship and social enterprises emerged around 2005, when the concept was “imported” from abroad, i.e. introduced by international organizations and donors (Vidović 2012). These organizations, mainly English-speaking actors, promoted the income-generating approach for non-profit organizations to achieve sustainability; in this perspective, social entrepreneurship was considered a very important strategy. The first social enterprises in Croatia emerged from such approach, and they were mainly organized as organizations embodying a “symbiosis” between non-profit organizations and the subsidiary companies they had established. It should be noted that, according to a study conducted by Comolli et al. (2007), a very small share of civil society organizations were operating as social enterprises at that time. They operated mostly in the areas of environment, social services, education and research, and community development.

With the further development of the sector, in particular with the intensification of the EU accession process, the understanding of social entrepreneurship in Croatia evolved and became closer to the EU approach. It has recently become officially articulated in the national

¹ The usage of the term “nongovernmental organization” can be related to the so-called “opposition civil society”, which was characteristic of the 1990s, when the relationship between the state and CSOs was characterized by distrust and even hostility.

² In the public discourse, civil society organizations usually include associations, whereas public benefit corporations—to which social welfare institutions belong—are not perceived as being part of civil society.

³ The third sector is not referred to in academic writings. It is only marginally present in papers on civil society, when defining the concepts, where it is used almost interchangeably with the concepts of civil society, non-profit sector, etc.

Strategy for Social Entrepreneurship Development (adopted in April 2015), which is largely consistent with the definition proposed by the European Commission in the “Social Business Initiative” (European Commission 2011). The Strategy defines social enterprise as a “business activity based on principles of social, environmental and economic sustainability where gained profit/surplus is entirely or partly reinvested for community wellbeing” (Government of the Republic of Croatia 2015).

The understanding of social entrepreneurship and social enterprise varies among stakeholders involved in the sector. It was largely debated whether it should be named “*socijalno*” or “*društveno*”, since both terms mean “social” in Croatian. However, both also have some unpleasant connotations for different social groups: “*društveno*” evokes the collectivism imposed during the socialist regime, while “*socijalno*” evokes poverty, low income and social assistance. Although the first documents, strategies and research studies used the term “*socijalno*”, a majority of actors and activists in SE sector lobbied for the term “*društveno*”, arguing that it may be applied to a broader spectrum of activities and areas, such as ecological initiatives. However, the academic and research community tends to use the term “*socijalno*” more often, mostly following in this the terminology of other related concepts and traditions, like social policy, but also in reference to the terminology used in other countries of similar linguistic traditions. In the Strategy for Social Entrepreneurship Development, it was decided to use “*društveno*” as the primary term. However, colloquially, both terms are used as equivalents.

The terms social entrepreneurship, social enterprise and social entrepreneur are often used interchangeably; this is also the case in the Strategy. This is probably due to the fact that different traditions and influences shaped these concepts—international donors, EU institutions, academic community—and that there is still no clear understanding of this area. For several years, there was no official definition or legal recognition of social enterprises, nor a specific legal framework regulating their activities. That caused a lack of overall recognition and visibility of these organizations. Moreover, this situation resulted in the coexistence of multiple approaches and understandings of social entrepreneurship and social enterprises, with definitions ranging from “self-financing activities of civil society organizations” or “entrepreneurship for the poor” to “employment of disabled persons or other marginalized social groups” (Vidović 2012). Today, social entrepreneurship as a concept becomes better recognized, not only among civil society organizations and social entrepreneurs, but also among public authorities and academic researchers.

In Croatia, there is no specific legal form for social enterprises. However, a number of legal forms may be used by social enterprises; these organizations most often register as cooperatives, associations, or limited liability companies (subsidiary companies of associations). Eligible forms also include foundations, sheltered workshops and private social welfare institutions, but those are either rare (foundations and sheltered workshops) or even not perceived as social enterprises (social welfare institutions). Private social welfare institutions are often important providers of social services in local communities (for example, care for the elderly or childcare), but co-production practices (i.e. greater involvement of the service users or of their family members in service delivery) are often underdeveloped in these organizations (Matančević 2014), which also tend to have undemocratic forms of governance (Vidović 2012).

More than two years after the Ministry of Labour and Pension System initiated its creation, the national Strategy for Social Entrepreneurship Development was finally adopted. Not only did that Strategy brought an official definition of social enterprise; it also enabled the development

of an institutional and financial framework. The registration of social enterprises or social entrepreneurs will be based on nine criteria. Social enterprises and social entrepreneurs fulfilling these criteria will enter the official Register, which is a condition to apply for financial supports and grants. The criteria to be fulfilled to be recognized as a social enterprise include the obligation to ensure that at least 25% of the income is generated through economic activities; 75% of the profit or surplus must be re-invested in the enterprise's social purpose. In addition, criteria prescribe that social enterprise should "achieve balanced social, environmental and economic goals", have a "favourable impact on the environment" and "contribute to the development of the local community and society at large".

But many of those criteria⁴ are formulated as broad requirements rather than as clear indicators, and we may assume that they will be difficult to assess and monitor, especially as regards the requirements related to measuring impact.

Furthermore, it is hard to predict how this "bureaucratic" register will fit with a phenomenon that has already developed its own norms. This register will provide the frame for a state-driven sector development, while such development was hitherto mainly driven by civil society. Since official data and mapping are lacking, our typology is based on established and recognized practices, as well as on findings of existing and current research and analysis.

PART B: IDENTIFICATION OF SOCIAL ENTERPRISE (SE) MODELS

The overall lack of data determined our methodological approach. Our development of a typology of social enterprise follows the inductive qualitative approach; it takes into account many years of observations, participation, data collection and interviews carried out in the field by the present paper's two authors. Social enterprise is the unit of analysis. However, since social enterprise in Croatia is a conceptual form rather than a legal form, our analysis includes a variety of organizations and other entities in which social entrepreneurship occurs. As a main approach in identifying social enterprises, we used the EMES conceptualization, which recognizes three main dimensions in SE: a social mission, the entrepreneurial nature of the activities and a participatory governance structure (Defourny and Nyssens 2012).

⁴ The nine criteria are the following: (1) Social enterprises achieve a balanced set of social, environmental and economic goals; (2) Social enterprises are engaged in the production of goods and/or the delivery of services or are generating revenues on the market; they have a favourable impact on the environment and contribute to the development of the local community and society at large; (3) Social enterprises create new value and ensure their own financial sustainability in such a way that, three years after the establishment of the business, at least 25% of the income is planned to be or is realized by its entrepreneurial activities; (4) Social enterprises invest at least 75% of their profit/surplus in the development of their activities and the achievement of their primary business objective; (5) Social enterprises are characterized by voluntary and open membership and a high degree of business autonomy; (6) The Republic of Croatia, a local and territorial (regional) self-government or a public authority may not be the sole founder of a social enterprise; (7) Social enterprises are characterized by a participatory decision-making process (involvement of stakeholders in transparent and accountable management), or the decision making is not exclusively related to the ownership or membership structure but includes other stakeholders: employees, members, consumers, and other relevant organizations; (8) Social enterprises monitor and evaluate their social, economic and environmental impact, and they use the results of this evaluation for future planning; (9) If a social enterprise terminates its activities, the assets must be transferred to the ownership of another social enterprise with the same or similar goals.

As already mentioned, social entrepreneurship and social enterprises in Croatia are in an early stage of development. The SE sector is marked by significant fluctuation, caused by many factors, but mostly by an unsupportive institutional and financial environment. Many social enterprises are short-lived because they do not succeed in achieving financial sustainability. On the other side, at the core of the SE sector, some social enterprises persist and grow despite an unsupportive surrounding; they are broadly recognized as successful SE stories. Due to the dynamic nature of this nascent sector and given the limited number of SE actors, this study includes both old and acknowledged social enterprises and newly established social enterprises, and even enterprises that terminated their activities.

The typology offered here is the first attempt to identify and classify existing SE models in Croatia. The intention was to recognize how various models are shaped by internal factors—such as the social mission, the field of activity or the type of governance—but also by external driving forces—such as public policies, socio-cultural factors, dynamics of the sector, etc. Based on an inductive approach and interpretivism, categories were identified according to observed similarities or patterns. The motivation or the reason behind the decision to establish and run a social enterprise was identified as a key dimension in distinguishing models of SE. In other words, it appeared that social enterprises were largely shaped by what their establishers perceived as important to achieve. This significantly influences many other aspects of SEs, making them vary in terms of governance, types of legal forms chosen to operate, external possibilities for financial support and funding, etc.

Our tentative typology proposes to distinguish three SE models, namely: social enterprise driven by employment (or “people-driven” SEs), social enterprise driven by financial sustainability (or “income-driven” SEs) and social enterprises driven by innovative solutions (or “innovation-driven” SEs).

The typology presented here is based on an exploratory and intuitive approach, and it is the result of many years of collecting data and information about the SE sector. It should be understood as a preliminary mapping and classification. As for every typology, the main purpose is to reduce the complexity of the phenomena. It should be kept in mind that the proposed models are just “ideal types” or abstract constructs. In practice, the boundaries of the various models are fluid and flexible, and particular social enterprises regularly demonstrate features of various models; indeed, by their hybrid nature, social enterprises tend to pursue and achieve different goals (social, economic, and environmental goals).

This typology intends to offer “building blocks” for further theoretical conceptualization of social entrepreneurship and social enterprise in the Croatian context. The long-term goal is to provide a reliable mapping of SEs in Croatia that may be of use for academics and policy makers, but also for other stakeholders. Gaps in information regarding some of the dimensions and indicators will be filled in the next phase of the ICSEM project, by carrying out data collection through surveys⁵ and by assessing how the collected data fit (or do not fit) into this typology.

⁵ The survey will be carried out in the next phase of the project. There are no official estimates of the number of social enterprises in Croatia. As of 2013, there were 40 self-identified social enterprises in the country registered in the SLAP (Association for Creative Development) database. More recent studies (Institute Ivo Pilar 2015) identified around 100 social enterprises. The official register, whose creation was proposed by the Strategy, should be established during the year 2016.

What follows is a description of each of the three types with its main characteristics, accompanied by a short review of selected social enterprises that are emblematic of each type.

1. Social enterprises driven by employment (“people-driven” SEs)

The main driving force behind this type of SE is the intention to create jobs and to ensure employment for primarily vulnerable people, who have only limited access to the labour market. Those include persons with disabilities, (older) women, ethnic minority groups, long unemployed persons, and young and under-experienced workers. The economic activity, i.e. the production of goods or delivery of services, is organized around this goal. In other words, the economic activity is often chosen to suit the human and technical capacities of the vulnerable group(s).

Very often, the employment-related aspect of the project is accompanied by important social and/or environmental aspects. However, this is not an absolute rule. This “people-driven” type partly overlaps with what is known as work-integration social enterprises (Borzaga et al. 2008) to the extent that the main objective of these social enterprises is the work integration of people experiencing serious difficulties in the labour market.⁶ The intention is also to integrate and re-socialize those persons by giving them a work experience or by encouraging them to create permanent self-financed jobs. The most important social impact of this SE type is thus related to job creation, employment and social inclusion.

The most common legal and organizational form for this type of SE is the cooperative. Most cooperatives in this group are established as social cooperatives or worker cooperatives, even though the Law on cooperatives (OG 34/11) enables, but does not specifically prescribe regulations for these types. However, some social enterprises of this type were established under other legal forms, such as limited liability companies (subsidiary or spin-off companies established by associations).

Several examples of this type of SE may be identified in the current landscape of Croatian social enterprises. Initiated by a NGO, ACT, from Čakovec, the social cooperative *Humana Nova* was established in 2011 as a social enterprise that primarily employs people with disabilities and other socially excluded people. They produce and sell high-quality and innovative textile products, made of ecological and recyclable materials, for the domestic and overseas markets. They employ 14 persons (13 women and one man; four of the employees are people with disabilities, two are members of national minority groups, three are elderly women and all of them were long-term unemployed). The women cooperative *Lika*, in Gospić, was established as part of the follow-up of the project entitled “Together towards employment and social inclusion”, launched by NGO *Cenzura* from Split. The cooperative is engaged in the production and sale of original and traditional souvenirs from the area of Lika. Members of the cooperative are women in rural and war-affected areas of Lika; the cooperative aims at their personal, social and economic empowerment through their engagement in the production and sale of their handicrafts. The social entrepreneurship cooperative *Ruke*, in Bilje, grew from the project idea of the NGO *Baranja*, aimed at preventing violence against women. The economic activities are organized for women victims of domestic violence and other hardly employable women from Baranja. Entrepreneurial activities include growing seasonal vegetables and providing care for the elderly in the local community. *Hedona (Križevci) Ltd* is a company founded in 2013 by the Križevci Association for the Disabled. It was

⁶ Or people who are at risk of being excluded from the labour market and from society.

first established as a cooperative, but then changed its legal form to that of a limited liability company (Ltd). Its core business is the production of chocolate and chocolate pralines. Most of the employees are disabled persons. All profits are reinvested in the development of employees' competencies, in the improvement of employees' satisfaction and in the creation of new jobs. The social cooperative *Herona*, in Karlovac, was an initiative of the women association Korak. It was established in 2008. The main idea was to employ long-term unemployed women, victims of violence, or single mothers. The cooperative offered several services for local households, such as cleaning and ironing, and child and elderly care. However, *Herona* faced financial instability, as it was unable to compete with the "grey economy" that dominates in the sector of household services. Finally, it ended up in bankruptcy and does not exist anymore.

2. Social enterprises driven by financial sustainability ("income-driven" SEs)

This type of SE is driven by the need to establish an economic activity in order to generate income. However, the income here is not based on the "lust for profit", but on the desire to ensure the sustainability of the existing social mission of the (parental) non-profit association. Therefore, social enterprises of this type usually emerge in already established civil society organizations having lost the majority of their (donor-based) financial sources. In order to keep pursuing their social objectives, associations of this type decide to develop economic activities. The products and services they produce and/or deliver are usually very closely related to their social mission.

Social enterprises of this type often come from the "old" and developed part of the civil sector, where the social-entrepreneurial initiatives arise from the need to generate extra income for the social mission, which is still the main focus of the organization. This type is partly related to the so-called "earned-income" school of thought (Defourny and Nyssens 2012), which claims that social entrepreneurship emerges as a strategy implemented by non-profit organizations to generate revenue to pursue their social objectives. The economic activities of this type of SE are not just their marginal activities; on the contrary, they are often highly integrated in the NGOs' activities. Apart from ensuring sustainability, two of the most important impacts or outcomes of this form of social enterprise are the development of the so-called "SE market" and the increased visibility of SE sector. The question of market development is particularly noteworthy, to the extent that the recognition of SE services and products is still an issue in Croatia. The awareness of social entrepreneurship and social enterprises indeed remains very low among the general public. Citizens do not recognize social enterprises, and they do not know why they should prioritize SE products and services.

Because of the specific limitations that non-profits face in performing economic activities (see Vidović 2012, 2013), the most common legal and organizational form for this type of SE is a somewhat hybrid form, combining a non-profit association and its subsidiary commercial company, which in most cases takes the form of a limited liability company (Ltd.). SEs of this type do not generate much employment.

Several examples of this type may be identified in the current SE sector. The association *Roda*, in Zagreb, is a civil society organization interested in promoting and protecting the rights of parents and children. *Roda* successfully operates as a social enterprise and promotes social entrepreneurship through a project of production, sale and promotion of cloth diapers. These are produced in a sheltered workshop at the Vocational School (a workshop employing people

with disabilities) in Varaždin. After managing the social entrepreneurship project as a part of the non-profit association for many years, in 2012, Roda decided to establish a subsidiary under the form of a limited liability company, *Rodin let*. In 2012, they received the “Best Social Enterprise” award, established by the Social Enterprise Forum (SEFOR)⁷ in cooperation with the Ministry of Labour and Pension System. The profit or surplus is reinvested in the association’s projects and funds the provision of free-of-charge services. Other examples are *ACT Konto* and *ACT Printlab* (Ltd.), in Čakovec; they were established by the non-profit association Autonomous Center ACT. The ACT Printlab venture is a graphic and web design studio, specialized in working with the non-profit sector. ACT Konto provides tax consulting, bookkeeping and accounting services for non-profit organizations. Both subsidiary companies reinvest their surplus into the activities of their parent association, or provide grants for other local non-profits. *Alfa Albona* is a youth non-profit association in Labin. Besides its regular youth-oriented programs, the association’s main social entrepreneurial initiative was to convert a former dormitory building into the SE centre Labin and a youth hostel. Income is generated by the accommodation services and the renting of conference facilities. The association *Sunce*, in Split, is oriented towards environmental protection and nature conservation. After one year of incubating in a NESsT⁸ training incubator, Sunce started its social entrepreneurship activities by delivering educational services within the program “Green excursions -Workshops in nature”.

3. Social enterprises driven by innovative solutions (“innovation-driven” SEs)

Social entrepreneurship may be seen as a form of innovation *per se*. However, here we focus on a specific type of social enterprise that is primarily driven by the idea to offer a new solution for a recognized social or environmental problem. The motivation lies specifically in applying an innovative solution to a need that is not met by the social system. Very often, individual experts or educated persons who “know how” initiate a very innovative project, which then grows up into a social enterprise. The innovation can take many different forms, from providing an innovative community service to developing high-tech facilities for vulnerable or deprived social groups. This SE model tends to develop innovative products, services or models, usually applicable at a larger scale.

This type of social enterprise tends to be highly innovative, with a good potential to scale up, or even to transfer their know-how regionally or worldwide. However, as recent studies showed (Brandsen 2014; Bežovan et al. 2013a, 2013b), this potential often remains unexploited:⁹ according to findings, most social innovations remain local. They usually do not last long, and rarely became broadly transferred.

Despite that fact, the most important social impact or outcome of this SE type lies in the social innovation they implement. Social innovations are recognized as new ideas—products, services and models that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. Those kinds of innovations are not only good for society but also enhance society’s capacity to act (BEPA 2010).

⁷ Informal network established in 2010.

⁸ See <http://www.nesst.org/>, accessed on June 16, 2015.

⁹ For details, see WILCO Project, available at: <http://www.wilcoproject.eu/>, accessed on June 16, 2015.

The most common legal and organizational forms for this type are the commercial company (mostly limited liability company, or ltd.) and hybrid forms combining a non-profit association and its subsidiary or spin-off company. These initiatives often tend to emerge outside the established civil society sector or to be initiated by individuals. Therefore, to some extent, they might follow less democratic models of governance than the two previous types.

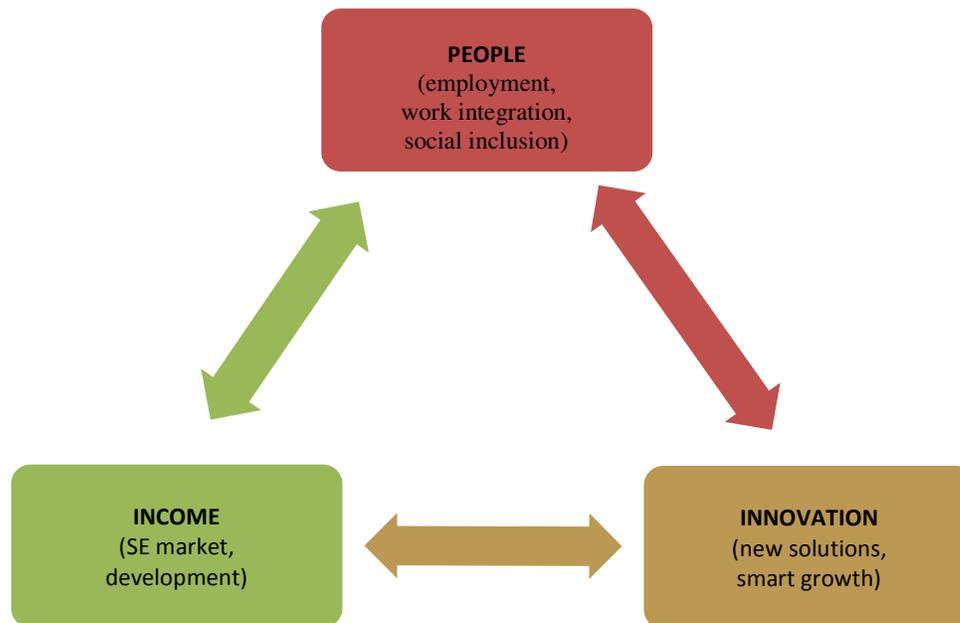
Only few examples of this type can easily be identified in Croatia. *E-glas*, in Rijeka, is a spin-off company (LLC) established by the University Centre of the Faculty of Engineering at the University of Rijeka. *E-glas* produces advanced hi-tech systems for voice-operated home devices, intended primarily for people with severe physical disabilities. Their intention is to develop efficient facilities to make everyday life easier for people living in difficult circumstances due to physical disability, age or illness. *UZOR* or the *Association for the Sustainable Development of Croatia* (which is currently registered as an association, with a plan to establish a LLC), in Križevci, developed a social entrepreneurship project entitled “Cargo bike for sustainable communities”—a free-of-charge system of waste paper collection in the local community. The service is organized as a door-to-door service, which uses cargo bicycles (thus reducing greenhouse gas emissions) to collect paper waste and deliver it to a buyer. The project employs long-term unemployed and/or other marginalized social groups. The *Cooperative for Ethical Finance* (which is currently registered as a cooperative, with a plan to establish a shareholder company) is an initiative whose goal is to found the first ethical bank in Croatia, which will provide financial services and products mostly tailored for social economy organizations and social enterprises. The basic principles behind the bank, such as transparent business and solidarity, were inspired by existing experiences of ethical banking in other European countries. However, the initiative also developed additional services and products (software) to act as a connector and advisor in local communities. The bank should start operating by autumn 2016, if it obtains the licence from the Croatian National Bank.

As already mentioned, the three models of social enterprise in Croatia identified in this classification should be understood only as ideal-types, created to provide researchers with a “compass” to locate themselves in the complex hybrid sector of social enterprises. The main indicators identified in the EMES approach are present in all three models recognized in this study. In each of these three types, the social mission and the economic activity are equally important. The participatory nature is also one of the key aspects, although its forms and level of importance vary. Besides the primary goal that drives it, each social enterprise usually incorporates other goals as well, which are expressed in different ways, depending on the specificities of each organization—it tends to offer products and services that address social needs, it aims to protect the environment, it employs vulnerable or deprived people, and, by using existing resources in a new way, its solution are socially innovative in the local context.

In addition, the different driving forces described above tend to interact within SEs in a way that may often stimulate their further development. For example, in the case of *Roda*, the employment of vulnerable social groups was not the primary mission. However, when the organization decided to produce cloth diapers, they preferred to hire unemployed rural women or to cooperate with a sheltered workshop for disabled persons. For *Humana Nova*, providing jobs and regular income for marginalized groups was the main driver, but they managed to invent an innovative production cycle, recycling second-hand textile to design and produce new clothing products.

These models would thus be more accurately represented under the form of a cycle, or even of a spiral, since their main features are in continuous interconnection, as figure 1 illustrates.

Figure 1: Types of social enterprises in mutual interconnection



Interconnections between the different SE models may also imply that social enterprises have a hybrid nature—a characteristic that is already recognized as a specificity of these organizations. Social enterprises tend to combine different—almost contrary—types of organization, governance mechanisms, sources of funding, and forms of actions (Evers 2005; Brandsen 2008). Hybridity as a general operating principle of social enterprises in Croatia is very typical, mostly due to the limitations of the institutional and financial framework. Social enterprises tend to make up for these disadvantages by implementing creative combinations.

PART C: INSTITUTIONAL TRAJECTORIES

The institutional framework for social entrepreneurship and social enterprises in Croatia is still in an early stage of development. There is currently no specific law defining or regulating social enterprise and social entrepreneurship.

Different entities may operate as social enterprises—associations, cooperatives, companies, foundations, sheltered workshops and private social welfare institutions. Most typically, SEs are hybrid organizations, such as a non-profit organization with a trading arm, or a limited liability company as a subsidiary entity. Therefore, social enterprises are regulated (directly or indirectly) through several acts, depending on the legal forms under which they operate. Legislation that may be relevant for social enterprises include the Act on Associations, the Act on Cooperatives, the Company Act, the Act on Foundations, the Act on Social Welfare Institution, the Act on Vocational Rehabilitation and Employment of Disabled Persons, the Act on Public Procurement and the Act on the Promotion of Small Business Development.

We will give here a brief overview of the legal and institutional development for associations and cooperatives, the two most common and/or typical legal forms in the SE sector, and explain how the institutional, legal and fiscal frameworks shaped the current state of the SE sector. This may help to understand the main institutional trajectories and how they relate to the three main models we identified in Part B.

The principle of freedom of citizens' association in the socialist period was governed by the Act on Social Organizations and Civil Associations. The latest version of this law was adopted in 1990. It served as a regulatory frame for the creation, registration and operation of associations until 1997, when the new Act on Associations was adopted. However, despite the need for enabling civil society in a new democracy, this Act was seriously criticized for being too restrictive. After the regime change in 2000 and the decision of the Constitutional Court to repeal more than a dozen of articles, a new Act on Associations brought favourable changes for a stronger development of civil society, more in line with European standards. New changes were introduced quite recently, in 2014, with a new Act on Associations and the Act on Financial Operations and Accounting for Non-Profit Organizations. The majority of changes are focused on regulating more strictly the economic activities of associations, primarily by compelling them to enter the Tax Register and by making the accounting requirements more complex. This might result in a greater burden for organizations, especially for smaller ones.

The institutional framework for the civil society sector has been quite well developed since 2000. The National Foundation for Civil Society Development and the Government Office for Cooperation with NGOs are the main institutional actors; they play the main role in developing cooperation and in providing funding for civil society organizations. Both institutions, in a very limited way, promote social entrepreneurship, primarily as a model that civil society organizations may apply in creating sustainable financial resources for their activities.

During the 1990s, cooperatives did not develop, due to the prevailing perception that they were connected with the socialist regime heritage. The Cooperative Act adopted in 1995 did not particularly stimulate the development of the cooperative sector. Legislative changes introduced in 2011 and then in 2014 (such as a change in the required number of funders, from 3 to 7) resulted in a decrease in the number of cooperatives and a somewhat better defined structure of the sector. The latest Act on Cooperatives enabled the creation of different types of cooperatives—*inter alia* social cooperatives, which may operate in a non-profit way. However, apart from their name, nothing distinguishes social cooperatives from other types: they are not officially registered as such, nor regulated differently. The Croatian Centre for Cooperative Entrepreneurship, a governmental body mainly focused on the representation of the cooperative sector's interests, was established according to the new Act of 2014, and succeeded the Croatian Cooperatives Alliance.

The fiscal framework is not particularly stimulating for the SE sector. There are no specific tax incentives or tax deductions for social enterprises. After 2000 and the change of regime, some tax benefits were introduced, particularly tax reductions for donations to non-profits. Since the recent adoption of the new Act on Association, associations are obliged to enter the Tax Register when they carry out any type of economic activity. In addition, associations now have to pay the Value Added Tax if their annual income from economic activities reaches 230,000 Kuna (around 30,000 euros). Some tax incentives are also applicable for different types of commercial companies, such as the reduction of income tax when profit is reinvested into the

organization's activities. As far as tax reductions are concerned, cooperatives are discriminated against since they cannot benefit from this rule.

The development of the policy context towards the national Strategy for Social Entrepreneurship Development was long and slow. The national Strategy for the Creation of an Enabling Environment for Civil Society Development (2006–2011) first introduced the term social entrepreneurship. However, not much of what this strategy proposed was implemented. The *Joint Memorandum on Social Inclusion of the Republic of Croatia*, published in 2007, was one of the first documents that opened more space for social entrepreneurship and social enterprises, primarily by promoting the deinstitutionalization of social services and the involvement of non-state actors.¹⁰ The document established a framework for the use of resources from the IPA (Instrument for Pre-Accession Assistance), which served as one of the financial sources for several social enterprises. The Strategy for the Creation of an Enabling Environment for Civil Society Development that was adopted for the period 2012–2016 went further on the way to recognizing that social entrepreneurship and social economy can play an important role in creating a sustainable civil society, which in turn can contribute to social and economic development.

A more structured and coordinated approach to the SE sector development started with the adoption of the Strategy for Social Entrepreneurship Development in April 2015. This Strategy proposes four main areas as priorities for the SE sector development, namely: developing a legislative and institutional framework; establishing financial mechanisms for the efficient operation of social enterprises; promoting the importance and role of social entrepreneurship and social enterprises through formal and informal education; and ensuring the visibility of the role and the possibilities of social enterprise and informing the general public about issues related to social entrepreneurship and social enterprises. The Strategy intends to provide a framework for channelling the resources from available EU funds, such as the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Employment and Social Innovation (EaSI). Availability of those funding opportunities somewhat increased interest for social entrepreneurship in Croatia, which is seen in the gradual expansion of SE actors and events promoting SE.

There is hope that EU funding will help to overcome the shortage of funds and resources available for social enterprises, especially for start-ups and investment projects. Indeed, very little publicly funded support specially tailored for social enterprises currently exists. As for the social investment market, it is still in its infancy in Croatia: financial institutions do not recognize the specificities of social enterprises compared to traditional businesses, so there are still no specially designed financial products and services for social enterprises (Kadunc et al. 2014). New ways of funding, such as social (impact) bonds or crowd funding, remain underdeveloped, and the Ethical Bank, initiated a year ago, is still not in operation.

For many years, and until recently, no official governmental body was exclusively responsible for the development of social entrepreneurship or for the regulation of social enterprises. Different governmental bodies and institutions were regulating the operation of specific legal entities—the Ministry of Labour and Pension System, the Ministry of Entrepreneurship and Crafts, the Ministry of Social Policy and Youth, the Government Office for Cooperation with NGOs and the National Foundation for Civil Society Development. The Cluster for eco-social innovation and development (CEDRA) and the Social Entrepreneurship Forum (SEFOR) were the main intermediary actors for several years, making up for the lack of institutional support.

¹⁰ In particular those focused on addressing poverty and social exclusion.

SEFOR is not active any longer, but the majority of its members—be they individual or organizations—have remained active through CEDRA, so the actual number of active actors advocating for SEs has remained pretty stable over time. Besides being engaged in the promotion of social entrepreneurship and in advocacy for the development of supportive mechanisms, those networks delivered many workshops, trainings, education and consulting to social enterprises.

After the Strategy for Social Entrepreneurship Development was adopted, the Department for social entrepreneurship¹¹ was established as a central unit for the SE sector, in charge of the registration of social enterprises and the promotion of the sector. The Office was founded within the Ministry of Labour and Pension System, since this Ministry coordinated the process of the Strategy development. Although the Strategy for Social Entrepreneurship Development surely gave a significant impetus to social enterprises, it is still too early to analyse its real impact.

The development of the institutional and policy framework for the SE sector during last decade reflected the main features of each SE type identified in this study.

“People-driven” SEs can benefit from several programs and schemes supporting employment. Since 2008, the Instrument for Pre-Accession Assistance (IPA) IV Human Resources Development has provided funds to support the social inclusion and work integration of social groups with difficult access to the labour market. The employment and work integration of specific vulnerable groups are promoted in particular in several strategies: the Strategy for Combating Poverty and Social Exclusion in Croatia 2014-2020; the Entrepreneurship Development Strategy 2013-2020, and the Strategy for Women's Entrepreneurship in Croatia 2014-2020. The Act on the Vocational Rehabilitation and Employment of People with Disabilities (OG 157/13) prescribes quotas for employing persons with disabilities. In addition, this Act regulates specific forms of social enterprise, such as sheltered workshops and work centres, which are specifically designed to employ people with disabilities. The National Strategy for the creation of an enabling environment for civil society development (2006-2011) advocated for the recognition of civil society organizations as providers of public services in the fields of social welfare, health and education. The Strategy for Combating Poverty and Social Exclusion in Croatia (2014-2020) emphasizes social entrepreneurship as a strategic activity for creating jobs and employment for vulnerable groups. The Strategy for Social Entrepreneurship Development stimulates the employment of marginalized groups in social enterprises through non-refundable grants. Finally, the EU program on Employment and Social Innovation (EaSI) is also focused on supporting employment in the SE sector.

The evolution of the institutional framework within which SEs operate also reflected the development of “income-driven” SEs. More than in other legal forms in which the generation of revenue is inherent, in non-profit organizations, income generation was promoted as one of the strategies to achieve financial sustainability. Income generation through social entrepreneurship is emphasized in both Strategies for the Creation of an Enabling Environment for Civil Society Development, and income generation through economic activities became an almost “regular” mode of operation for non-profit associations. As a result, more rigid regulation of those activities was introduced in the last amendments of the related laws. For example, the Act on Financial and Accounting Operations of Non-profit Organizations, adopted in 2014, specified some rules that regulate the economic activities of

¹¹ The official name of this office is the “Department for the preparation and implementation of projects in the field of social entrepreneurship”.

non-profit associations, including the obligation to register economic activities within the official Register of NPOs, the introduction of limits on the amount of income generated through economic activities, etc.

Finally, the development of institutions and policies framing the activities of “*innovation-driven*” SEs is more recent. Indeed, although innovations have long been considered as a substantial part of entrepreneurship and a generator of economic development and growth, it is only recently that social innovation as a concept became more popular in the public discourse and was integrated in various strategies. At the end of 2014 the Strategy for innovation encouragement in Croatia 2014-2020 was adopted, with the purpose of increasing innovation and the competitiveness of the Croatian economy, which ranks 80th (out of 148 countries) in terms of level of innovation (Ministry of Economy 2014). The Strategy primarily proposes to set up a supportive legal and fiscal framework and to encourage cooperation between business and academia. Other strategies also target innovation through some measures; for example, one of the measures of the National Strategy for the creation of an enabling environment for civil society development (2012-2016) is to analyse and map existing practices of social innovation in the civil society sector, as well as to support civil society organizations in the development of social innovation. The majority of organizations concerned by this measure are social enterprises. The Strategy for Social Entrepreneurship Development prescribes measures to support both innovative financial instruments for social enterprises and social innovations in the SE sector. The most important institutions dealing with innovation are the Ministry of Economy, in charge of the implementation of the Strategy for innovation encouragement; the Ministry of Entrepreneurship and Crafts, which is in charge of developing a policy framework for social innovation development; and HAMAG-BICRO, which operates as a government agency for small enterprises, innovations and investment, and is thus in charge *inter alia* of social enterprises and their innovative activities. The EU program on Employment and Social Innovation (EaSI), which mainly supports the development of social innovations, recently became available for Croatia. But, although social innovations were included in some strategies, there are still very few concrete programs and support mechanisms stimulating their development. According to some studies, the main barriers to social innovation are the huge centralization which characterizes Croatian society, over-regulation and concentration of power in the hands of established elites and networks (Bežovan et al. 2013a, 2013b). However, the SE sector may have a potential to transfer the debate on social innovations into new spaces and among social groups in search for innovative solutions to social challenges.

CONCLUSIONS AND FUTURE WORK

The main intention of this paper was to propose a preliminary typology of social enterprises in Croatia based on a current state of the art and empirical observations and analysis. The primary dimension used in defining a typology was the driving motivation for establishing and running the social enterprise; this indicator was recognized as significant in choosing the legal form, shaping the overall activities and deciding on available funding. The paper also shortly outlined the institutional trajectories around each type of social enterprise.

Based on an inductive interpretative approach, we managed to identify three distinctive types of social enterprises. For the first type, “*people-driven*” social enterprises, job creation for vulnerable or marginalized groups is the main purpose. These SEs are often established and organized as cooperatives. The second type corresponds to “*income-driven*” social enterprises, which are commonly established by NGOs aiming to generate income for their social

program. Their products and services are usually closely related to their social mission, and they often use the commercial company, established by the parental NGO, as a legal form. “*Innovation-driven*” SEs are recognized as a third model of social enterprise, usually initiated on the basis of an highly innovative idea on how to address some problem. The most common legal and organizational form for this type is that of a spin-off company, or some hybrid form combining a non-profit organization and a subsidiary commercial company.

This typology should be seen as a working tool that makes it easier to understand the variety of initiatives, entities and intentions appearing in a complex social enterprise sector. Those three models we identified are pure ideal types, though. In reality, each social enterprise integrates all three aspects in different ways—they all tend to generate some income for addressing social problem, they are all keen to employ and integrate vulnerable groups, and they are all usually innovative in some way, combining existing resources to produce new value.

Future work should use the proposed typology to go deeper into the analysis of the specificities of each SE model and of their interconnectedness to/within institutional development. The findings of the quantitative study, based on the standardized ICSEM questionnaire, will enable us to examine the patterns we identified, but also to find whether there are other indicators that differ between these models.

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- Company Act, OG 152/11, 111/12
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