

The sustainability of social enterprises¹

Adriana Neguț

Research Institute for Quality of Life, Romanian Academy

adriana.negut@iccv.ro

Abstract

During recent years we have witnessed a growing interest in Romania for social economy, as a result of the increasing interest of EU towards the field and the financing lines as SOP HRD 2007-2013, and as well for developing a legal framework on social economy. In Romania, many of the social economy organizations are dependent on these sources of funding, which is a major obstacle to long term sustainability of the sector. In this context, the paper aims to analyse the strategies of social enterprises established under the Priority Axis 6 of SOP HRD to ensure sustainability, on the assumption that once the funding ends they face significant risks and adopt different strategies in order to develop. The sustainability of social enterprises will be explored from three perspectives: (1) financial, seeking to identify the strategies of social enterprises to attract new funding, (2) in terms of consistency of the social enterprise with its initial objectives and principles and (3) from the point of view of the social enterprises' impact on vulnerable groups and the community. The analysis will be based on data from sociological researches on social economy entities in Romania, carried out between 2009 and 2014.

Keywords: Sustainability, Social economy, Social enterprise

Introduction

The interest for social economy has increased over the past few years, both in terms of research and public policy initiatives. The concept of social economy is subject of a growing number of recent publications and is increasingly present in public debates. In Western Europe the support for the social economy comes mainly from government and the European Union. EU is a major player in research on the social economy and it was the factor that boosted the interest for the field in Romania through funding. The social economy has enjoyed high visibility within the Sectoral Operational Programme Human Resources Development 2007-2013, in particular through Priority Axis 6, Major intervention areas 6.1., "Developing social economy", and 6.2. "Improving the access and participation of vulnerable groups on the labour market". In terms of submitted projects under the priority axes of SOPHRD, the priority axis 6 "Promoting the social inclusion" has met the highest level of interest from beneficiaries, with 2619 projects submitted until December 31, 2012 (25.23% of total), followed by the priority axis 5 "Promoting active employment measures", with 2373 projects, representing 22.86% of the total. During 2012 applications were launched only under priority axis 6 and were submitted 149 projects (RAI, 2012).

Many of the social economy organizations are dependent of external funding sources, such as SOP HRD, and this is a major obstacle to long term sustainability of the enterprises and even for the development of the sector. According to a study conducted in 2013 by Cult Market Research, and ordered by Petrom, the most important problems faced by NGOs in Romania include the lack of funds (74%), the lack of interest from state institutions (36%) and delayed European funding (34%). The same study shows that social entrepreneurship is the main solution identified by the surveyed organizations (88%) for development and self-support.

The researches dedicated to social economy gained momentum in recent years and focused on issues such as awareness of the concept (studies from early phases of EU funding), the characteristics of social economy organizations and their history, the challenges they face, the directions of development or legislative issues. Within SOP HRD projects 11 social economy structures were established in 2009, 73 in 2010, 144 in 2011 and 261 in 2012 (RAI 2012). According to the Annual Implementation Report (RAI) 2012, the number of established social economy structures and the number of jobs they've created are success indicators of the program. Thus, it is said that in 2012 were recorded "significant achievements" for these input indicators: the number of established social economy structures increased about 1.81 times

¹ This paper is made and published under the aegis of the Research Institute for Quality of Life, Romanian Academy as a part of a programme co-funded by the European Union within the Sectoral Operational Programme Human Resources Development through the project for Pluri and interdisciplinary in doctoral and post-doctoral programmes. Project Code: POSDRU/159/1.5/S/141086.

and the number of jobs created by these structures increased approximately 17.09 times, the latter exceeding the envisaged target for 2012.

Without denying the relevance of these indicators and their rises, the project aims to highlight the value of a different approach, focused on the development of these newly created structures and on how these achievements, numerically quantified in the evaluation reports, can be found at community level in the changes experienced by target groups and other community members and in the strategies the social enterprises adopt in order to achieve their social purpose.

Social enterprises have developed in response to growing social problems, such as unemployment or inefficient public policies since the late 70's, when they were not yet known under this name. NESsT defines social enterprises as "businesses created to promote a social purpose in a financially sustainable manner" (Varga, 2012). Most discourses on sustainability are focused on financial aspects and define a social enterprise as sustainable when it is no longer dependent on grant funding. But sustainability is not confined only to the financial dimension, especially for social enterprises for which the social impact is essential.

The importance of sustainability was highlighted by Jutta Steinruck, member of European Parliament (MEP) and rapporteur of the EU on the Employment and Social Innovation Program in a debate held in February 2014. Steinruck emphasized that evaluations should not be exclusively based on quantitative criteria: for example, in the employment field it is not important only the number of jobs created, but also the durability and the quality of those jobs (Social Platform, 2014).

With regard to ESF funding, Varga (2012) identified a number of negative consequences thereof: increasing reliance on funding, the availability only for large and powerful organizations, the predominance of short-term thinking, the focus on administrative goals rather than on generating social impact, as well as long-term negative effects on strengthening the social economy sector due to inappropriate selection of applicants. The recommendations made by NESsT to EU policies in this area include the direct support for social enterprises, instead of subsidizing the program costs and beneficiaries, and long term incentives in order to develop sustainable social enterprises.

Within the SOP HRD, the evaluation of project applications is performed in two steps: checking the eligibility of the applicant and the eligibility of the project. Regarding the project, the technical evaluation is based on four main criteria: relevance – to which is given a maximum of 30 points out of 100, methodology (maximum 25 points), sustainability (maximum 15 points) and cost-effectiveness (maximum 30 points). Within the applicant's guide, the sustainability is defined as "the clear presentation of how to continue the project or its effects after the end of funding; the presentation of current or future measures to ensure that the progress and benefits for target groups will be guaranteed in the future" (POSDRU, 2013). The sub-criteria related to sustainability are: transferability, integrated approach, financial sustainability and institutional sustainability. The transferability refers to how the activities and results of the project can be transferred to other target groups and other sectors. The integrated approach refers to ways of incorporating the results and experience gained in the project within the organization's strategies or those of partners or other local, regional or national strategies or policies. The financial sustainability focuses on the sources of funding necessary for continuing the project or its results after the grant ends and the institutional sustainability describes the operating modes of the structures created by the project upon the completion of funding.

The authors of MFE report 2013 have identified a number of projects for vulnerable groups that have potential to be called best practices regarding mainstreaming equal opportunities principle. For the selection of the best practices the authors have used the following set of criteria: innovativeness, external and internal consistency, efficiency, effectiveness, involvement in partnerships, transferability and sustainability. The latter was defined, according to the applicant's guide, as "the detailed analysis of how the results will be sustained after the grant" (MFE, 2013: 225). The main ways of ensuring sustainability of the identified projects were the allocation of resources to continue the activity from public authorities (local or county level councils) or private companies and partnerships with various organizations. Given the risks associated with the dependence on grants and the definition of the economic sustainability, we can state that the allocation of resources by local authorities is not an effective strategy for long-term sustainability of the organization, due to high instability.

This paper is part of a larger research project that aims to analyse the sustainability of social enterprises established under SOP HRD based on the assumption that with the end of funding they will face significant risks and will adopt different strategies for development. One of the main objectives of the project is to identify the strategies that social enterprises apply to ensure business continuity and to generate social impact. The sustainability of the social enterprises will be analysed from three perspectives: (1) financial, seeking to identify the strategies of the social enterprises to attract new funding; (2) in terms of consistency of the social enterprise with its initial objectives and principles and (3) from the point of view of the impact that social enterprises have on vulnerable groups and the community. This paper presents an early

stage of the above mentioned project and it focuses on analyzing the perceptions of the social economy organization representatives on sustainability and future of the domain. The paper aims to point out the importance of the social enterprises' sustainability in terms of efficiency in funding allocation and in the context of the scarcity of nationwide analysis on the topic.

Preliminary analysis

To achieve the research objectives of the project and to provide a thorough analysis of the topic a mix of qualitative and quantitative methods will be used. This paper however presents the first phases of the project, namely the literature review and secondary data analysis. The analysis was carried out on databases from researches on the supply of social economy conducted between 2010 and 2013 at regional or national level. The first research was carried out by the Research Institute for Quality of Life in 2010-2011 within the project "Integrat – Resources for socially excluded Women and Roma groups"¹ that had a major research component dedicated to the supply of social economy. Within this research a questionnaire was applied to representatives of NGOs, cooperatives and mutual associations from two development regions of Romania: Bucharest-Ifov and South East. The questionnaires were differentiated by organization type but had a similar structure with items on the activities carried out by the organization, budget, sources of funding, human resources etc.

The second research was carried out in 2013 within the project "Inclusive-Active-Efficient"² which also had a component focused on the social economy organizations. Within this research one questionnaire was applied to all organizations, regardless of their specific and it aimed at identifying the perceptions on social economy and having at the same time an important section dedicated to the description of the organizations and its activities. The paper also presents qualitative data, collected within this research through interviews and focus-groups with representatives of social economy organizations and experts in social economy field.

Based on the secondary analysis of data, we've identified the perceptions of the representatives of the social economy organizations about the sustainability and future of the field. Secondly, it was examined the financial sustainability component through an analysis regarding the organization's budget. Data analysis shows that non-reimbursable funding and other sources of funding (sponsorship, subsidies from public authorities, other funders etc.) play an important role in the budget of an NGO: in 2010 in Bucharest-Ifov region, economic activities of the NGO represented 31% of its budget compared to 19% in South East, resources from other funders 36% versus 16%, and sponsorship 60% versus 54%. The grants constituted a larger percentage of the budget of an NGO in Bucharest-Ifov region than in the South East (42% compared to 18%), the organizations in the first region having a higher capacity to access funding. Accordingly, the NGOs from South East region relied more on subsidies from the authorities than those in Bucharest-Ifov (30% compared to 24% in Bucharest-Ifov). Data from the same research shows that the NGOs were supported to a greater extent by the public authorities or international institutions against mutual associations and cooperatives. The most frequent forms of support were non-reimbursable funding, grants, free consulting and reductions or exemptions from taxes (Integrat). Other analysis also shows that the NGOs are the most active organizations in accessing funding opportunities: from 113 social economy projects financed by SOP HRD in the first three years of funding, 67 had NGOs as beneficiaries, 40 public institutions, one trade union and five companies (Lambru& Petrescu, 2012).

The NGO representatives interviewed within "Inclusive-Active-Efficient" research have placed the diversification of funding among the most important issues for the activity of social economy organizations (48.9%), but after creating jobs (62.2%), meeting the needs of the beneficiaries (56.9%), and involving the community (53.7%). The perceptions of the respondents from the same research project regarding the sustainability of social enterprises are rather pessimistic. The respondents have identified a series of negative effects of non-reimbursable funding, mainly from their direct experience, including the lack of overall vision on the development of social economy. According to the respondents, the work on projects and the focus on indicators are important obstacles to sustainability, as demonstrated by the limited results achieved with large amounts of money. One NGO representative stated that once "the project ends, the social economy ends as well because it's not sustainable" and another one pointed out that "so much money is being wasted with no result". The problem is not entirely related with the specific of project based activity, but also with the fact that once the project ends the activities cannot be continued, often because of the lack of resources: "When you invest in something you can

¹ http://www.integrat.org.ro/Integrat-english_language/

² <http://inclusivactiv.ro/en/>

see the changes and at some point there are no funding lines or there is no room or the state considers that is not important anymore...that's how it gets destroyed the work of years in a moment" (NGO representative).

Discussion

As previously stated, the sustainability of the social enterprises is not confined only to the financial dimension since the social impact plays a crucial role. For a social enterprise, the two components, the financial and the social one, are interconnected. The financial sustainability is understood as identifying and attracting various sources of funding and it is the factor that allows the generation of adequate resources in order to meet the development needs of the organization and the investment in its social goals. On the other hand, fulfilling a social goal is not sufficient to long-term sustainability of the organization, so we can talk about a vicious circle in which the organization's capacity to attract funding is linked to its potential for self-support and development.

Several studies, including our preliminary analysis, have shown that the NGOs are the most active organizations in accessing funding opportunities, which allows them to achieve the social goals and develop in a sustainable manner. But the NGOs activity takes place mainly in urban areas, rather rich, so we can assume that a consistent volume of funding goes to such communities, and not to those in need, who have the lowest capacity to access funding and implement local development projects or to promote the social economy. Thus, the allocation of funds rather deepens development gaps, instead of reducing them. In this context and given the fact that the financial factor is not the only determinant but plays a major role, the sustainability of the social enterprises becomes a sensitive issue.

Taking into account that labour integration of vulnerable groups is the most commonly stated aim of the social enterprises and one of the most important aspects of a social enterprise according to the respondents, elements regarding creating jobs in the community will be pursued in the following phase of the research, along with an analysis of the dynamic of these jobs since the establishment of the organization in order to determine their quality and durability. Another aspect that the future phases of the project will take into account is the analysis of how the studied enterprises comply over time the defining principles of a social enterprise (entrepreneurial dimension, social purpose, limited distribution of profit, the involvement of stakeholders at community level etc.). In this approach we start from the premises that, after the end of funding, some social enterprises will resort to compromises or turn into businesses in an attempt to generate revenue and survive.

References

- [1] Defourny, J. (2010). Concept and realities of social enterprise: a European perspective, in Fayolle, A., Matlay, H. (eds.), *Handbook of Research on Social Entrepreneurship* (pp. 57–87), Cheltenham, UK, Edward Elgar Publishing.
- [2] Lambru, M. & Petrescu, C. (2012). Trends and Challenges for Social Enterprises in Romania, *International Review of Social Research*, 2 (2), 163–182.
- [3] Monzón Campos, J.L., Chaves Ávila, R. (2012). *The Social Economy in the European Union*, CIRIEC.
- [4] Schorr, J. 2006. *Social Enterprise 2.0: Moving toward a sustainable model*. Stanford Social Innovation Review. Online: http://www.senscot.net/view_art.php?viewid=5021
- [5] Stănescu, S. M., Căce, S. & Alexandrescu, F., (eds.) (2011). *Între oportunități și riscuri: oferta de economie socială în regiunile de dezvoltare București-Ilfov și Sud-Est*, București: Editura Expert.
- [6] Stevenson, S. 2011. *Sustainability in Social Enterprise*. University of Plymouth. Online <http://uplace.org.uk:8080/dspace/handle/10293/1223>
- [7] Varga, E. 2012. *EU funding for social enterprise: a mixed blessing? NESsT's position and experience in CEE*. Social Enterprise Day, Zagreb, May 31, 2012. Online <http://www.nesst.org/wp-content/uploads/2012/06/Social-Enterprise-Day-Croatia-2012-Presentation-on-Funding-Eva-Varga-NESsT.pdf>
- [8] *** European Union. 2012. *Financing Social Impact. Funding social innovation in Europe – mapping the way forward*.

- [9] *** MMFPSPV, AMPOSDRU. 2012. Programul Operațional Sectorial Dezvoltarea Resurselor Umane 2007-2013. Raportul anual de implementare 2012 (RAI 2012).
- [10] *** Ministerul Fondurilor Europene. 2013. Evaluarea modului în care prevederile din domeniul oportunităților egale au fost transpuse în cadrul aferent Instrumentelor Structurale din România. Raport Final de Evaluare. Martie 2013.
- [11] *** POSDRU. 2013. Ghidul solicitantului – Condiții specifice. Axa prioritară 6, DMI 6.1 „Dezvoltarea economiei sociale”. Document pentru consultare, august 2013.
- [12] *** Petrom. 2013. Comunicat de presă: Lipsa de fonduri – cea mai importantă nevoie pentru 74% din ONG-urile din România. Online <http://www.altreileasector.ro/wp-content/uploads/informarea-Petrom.pdf>
- [13] *** Social Platform. How can the EU support meaningful and sustainable social innovations?, 18 Februarie 2014, Online <http://www.socialplatform.org/news/how-can-the-eu-support-meaningful-and-sustainable-social-innovations/>