

## THE POWER OF INFORMATION: A KEY COMPONENT FOR THE SUCCESSFUL PERFORMANCE OF LATVIAN SOCIAL ENTERPRISES

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**Abstract.** The purpose of the study is two-fold. First, the study aims to determine how informed consumers in Latvia are about social enterprises after a decade of discussion and activity within the field of social entrepreneurship which will later serve as a comparative reference base for following future developments and achievements in the field. Second, the study aims to investigate the relationship between the level of information consumers have about social enterprises and actual purchasing behavior of consumers in order to provide practical recommendations and suggestions for both social enterprise marketing specialists as well as government officials and organizations that support the field of social entrepreneurship in Latvia. Research methods applied: scientific publications analysis, legislative documents analysis, analysis of policy studies, as well as quantitative research method – survey of customers of social enterprise products and services. Many aspects are asked to evaluate in evaluation scale 1-10 to have opportunity for deeper analysis of views of respondents. Research results indicate that majority of consumers have average or below average information levels about social enterprises in Latvia which is still satisfactory given the young age of the field. Authors determine a statistically significant positive relationship between the informational level of consumers and their purchasing behavior which underscores the crucial importance of informative support needed by social enterprises. Authors also have determined the existence of an informational saturation point which indicates potentially higher economic returns from targeting consumers with rather low levels of information about social enterprises.

**Keywords:** *social entrepreneurship, consumer behavior, social enterprise, consumer information level.*

**JEL code:** I30; I38; K2

### Introduction

The popularity of social entrepreneurship has been steadily growing and increasingly gaining attention in Latvia as well. Praised for its potential to alleviate poverty, solve various social and economic problems and contribute to balanced and sustainable regional development, social entrepreneurship has earned support both from governments as well as consumers who find they are making a difference by purchasing from social enterprises. Given the young age of this field in Latvia, it is important to determine the informational reach achieved up to date which can subsequently be used monitor future development of the field. It is also important to investigate the relationships between consumer information levels and actual purchasing behavior to fine tune marketing and informational campaigns of social enterprises as well as those of organizations that provide support to the field. The tasks of research include analysis of the concept of social entrepreneurship and the development of the social entrepreneurship field in Latvia, to identify practical recommendations for social enterprises and support organizations in order to reach higher returns from the informational and marketing campaigns. In order to complete the tasks, Research methods applied: analysis of scientific publications and analysis of survey on social enterprise development aspects. Most of analyzed aspects were asked to evaluate in scale 1-10 to conduct deeper analysis of respondent's views. Survey data were analyzed using different statistical analysis methods: descriptive statistics: indicators of central tendency or location (arithmetic mean, mode, median), indicators of variability (range, standard deviation and standard error of mean), cross-tabulations, testing of statistical hypotheses with t-test and analysis of variance – ANOVA, as well as correlation analysis. The results of the study highlight the importance of information dissemination about social enterprises and indicate several

practical suggestions for social enterprise marketing specialists as well as organizations that informatively support social enterprises in Latvia.

### Literature Review

Social entrepreneurship is getting more and more importance in many countries and is well-known today as a global trend with an overwhelming capacity to bring about social change – social enterprises are creating new jobs, aiming to change the behavior within societies and creating noteworthy social impact (Nicholls, 2006). Social enterprises are also recognized as valuable agents on the road towards sustainable regional development due to their ability to combine their social mission with economic goals (Blagoycheva, 2019). Social enterprises are also successful at attracting investment capital from various financial institutions which confirms their potential as important players in the economy (Gonçalves, et.al, 2016). They are also praised for their unique ability to bring about innovative solutions to various problems (Monroe-White, 2018) as well as for relieving the welfare state of not only economic and social but also political “sins” (Baglioni, 2017). There is a trend, though, that among social entrepreneurs innovations brought about by application of technological solutions are more popular than provision of social services (Tkacz, 2016).

The source of social enterprise success is found in their local presence and knowledge of local community problems which, compared to the government or municipality, allows them to discover innovative solutions to pressing problems more effectively (Frank, 2016). European Union recognizes the capacity of social enterprises to resolve various social and economic problems and to promote sustainable and balanced regional development by providing various support programmes to social enterprises (Dobele, 2013, Lukjanska et. al, 2017) and is getting more and more support by the society in many countries including Latvia. The leader in terms of the number of social enterprises in European Union is United Kingdom with 70 000 social enterprises, contributing 30 billion EUR to government budget (Dobele, 2014). Factors that motivate Latvian consumers to purchase products and services from social enterprises in Latvia - the case of socially responsible consumption is on research agenda for researchers from Latvia (Casno, Šķiltere, Sloka, 2019-a) indicating important aspects on development of social entrepreneurship as well as information channels (Casno, Šķiltere, Sloka, 2019-b) and many other aspects.

In Europe as well as in North America the concept of social entrepreneurship, as it is understood today, can be traced back to the activities of non-profit organizations at the end of eighties or beginning of nineties of the 20th century (Defourny, 2010). In Europe the origins of social entrepreneurship are traced back to Italy where social cooperatives were formed in order to tackle the unemployment problems and which consequently inspired other European countries to follow a similar path (Defourny, 2010). In the United States, social enterprises originated as a response to reduced government support for non-profit organizations (Defourny, 2010). As noted by J.A. Kerlin, in Central and Eastern Europe social entrepreneurship originated in circumstances of post-communism era characterized by a weak government and civil society as well as rising unemployment rates (Kerlin, 2010).

Given that social enterprises have developed along different historical paths across various parts of the world, it is not surprising that today almost 40 different definitions of social entrepreneurship can be found in the scientific literature (Dacin, 2010). Researchers have not yet been able to find agreement about the conceptual borders or the social entrepreneurship concept (Dacin 2010; Young 2014, Priede Bergamini et al 2017, Goncalves et al 2016, Powell 2014, Defourny 2017). So far agreement has been reached only about the nature of the social enterprise – that social enterprises are organizations that operate in the private market combining their social mission with economic goals (Young, 2014). While the EMES International Research Network that studies the field of social entrepreneurship in Europe since 1996, stringently considers that social enterprises should be governed by democratic principles, limited with regards their rights to distribute profits and should be solely focused on their social mission, other schools of

research propose to look at the concept of social enterprise on a spectrum of various combinations of social mission and profit orientation or define social entrepreneurship by placing innovation in the core of the concept (Young, 2014). Young and Lecy (2014) have proposed to compare the concept of social enterprise to a metaphor of a zoo where different types of social enterprises with differences in their behavior can be found thus arguing for a more inclusive way of looking at the borders of the concept of social enterprise. Kerlin (2010) also has agreed to a more inclusive definition of a social enterprise by arguing that the specific character of social entrepreneurship, its traditions and the organizational form of the social enterprise will vary from country to country depending on how weak or strong is the civil society, involvement of the government, market economy and international aid.

In Latvia the concept of social entrepreneurship is known for only about a decade (Līcīte, 2018). Nevertheless, the roots of social entrepreneurship tradition in Latvia can be traced back to the middle of the 19<sup>th</sup> century which was the time when various associations and social movements were found in such spheres as education, culture, charity and promotion of national identity. Their activities laid the foundation for a new surge of social activity after the collapse of Soviet Union and transition to market economy (Līcīte, 2018) which, supported by various foundations and public organizations, served as the cornerstone for development of social entrepreneurship in Latvia (Līcīte, 2018). In 2014, under the influence of European Union social economy policies, Latvian government responded by beginning a discussion about development of the Law of Social Entrepreneurship.

The concept of social entrepreneurship was included in several strategically important documents developed by the Latvian government, thus acknowledging the many contributions *de facto* social entrepreneurship in Latvia provided towards overall welfare of society (Līcīte, 2018). In 2015 Social Entrepreneurship Association was established in Latvia to actively support *de facto* existing and new social enterprises as well as develop further partnerships among all the stakeholders of social entrepreneurship ecosystem (municipalities, educational institutions, Ministry of Welfare etc.) with the goal of promoting development of social entrepreneurship in Latvia (Līcīte, 2018). On the 1<sup>st</sup> of April, 2018, the Law of Social Enterprise came into force in Republic of Latvia (Saeima, 2017). Before that Cabinet of Ministers in 2014 has accepted Conception of social entrepreneurship introduction possibilities in Latvia (Ministru Kabinets, 2014). The Law of Social Enterprise (Saeima, 2017) stipulated that a social enterprise must take the organizational form of a limited liability company despite the heavy administrative burden associated with the fulfillment of this criterion as the legislators hoped that the profit earning characteristics would ensure the opportunity to solve social problems in a sustainable manner on a long term basis, opposed to the short term nature of project-based activities that often characterize the work of associations and foundations (Līcīte, 2018). Many *de facto* social enterprises, having evaluated the potential gains and potential risks that change of organization form might bring, decided not to pursue the official status of a social enterprise and continued to operate as *de facto* social enterprises. (Līcīte, 2018). Such a decision is fully validated by researcher Lāsma Līcīte, whose evaluation of support instruments available to social enterprises up until May 2018, confirm that, compared with commercial limited liability companies, there are no noteworthy tax support instruments available to social enterprises despite their invaluable role in promotion of social welfare of the Latvian society (Līcīte, 2018). Although local governments are allowed to support social enterprises, few examples of such mutually beneficial cooperation exist as local governments often are not able to perceive the positive outcomes generated by social enterprises (Līcīte, 2018) as well as where consumers get the information on products and services provided by social enterprises (Casno, Šķiltere, Sloka, 2019-a) as more and more people are willing to support such activities.

Considering that not all *de facto* social enterprises have obtained the official status of a social enterprise, there are no precise statistical data available to characterize the field of social entrepreneurship in Latvia, Social Enterprise Law is accepted in Latvia (Saeima, 2017) and it created more legislative acts to realise social entrepreneurship in Latvia.

“Social enterprises and their ecosystems in Europe. Updated country report: Latvia” highlights that overall there are about 200 social enterprises, most of them based in Riga, that operate in various fields of the B2B and B2C market with an annual turnover ranging from 2000 to 2 million EUR depending on the type of activity. Most social enterprises are characterized by local operations (Līcīte, 2018), have not yet reached the age of 10 years and employ 5 to 10 employees (Līcīte, 2018). According to the Register of social enterprises as of 26th of November, 2019, the official status of a social enterprise has been awarded to 79 organizations. Most of them (34%) are work integration social enterprises, 22% operate in the field of education. Social enterprises below the 20% share belong to such fields as healthcare, promotion of inclusive society, cultural diversity, environmental protection etc. Most of all officially registered social enterprises are located in Riga (61%) or the surrounding administrative territories (16%), 10% are based in Kurzeme, 8% in Vidzeme, 4% in Zemgale, leaving Latgale as the region with the least amount of social enterprises - only 1% (Register of Social Enterprises, 2019) but it is noticeable that social enterprises are becoming more and more important in Latvia.

### Research results and discussion

By means of a quantitative survey which was distributed and available online via social networks, a total of 329 responses from respondents were recorded, 224 of which were fully completed. Respondents, among other questions, were asked to indicate how well-informed they are about social enterprises in Latvia on a scale from 1 (not informed at all) to 10 (very well informed). Respondents, of whom majority (more than 80%) belonged to the age group 16-45, were mainly female (84% females, 16% males) and mostly held a higher education degree. Majority (73.4%) of respondents had purchased products or services from social enterprises in 2018. Main statistical indicators on respondent evaluations are presented in table 1.

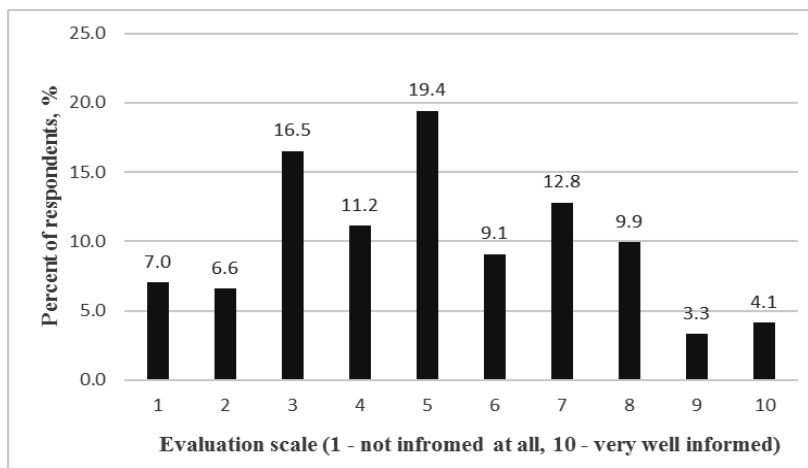
Table 1

#### Main statistical indicators of descriptive statistics on question “On what extent you are informed on social enterprises in Latvia?”

	Statistical indicators	Values
N	Valid	242
	Missing	87
Mean		5.06
Standard Error of Mean		0.152
Median		5
Mode		5
Standard Deviation		2.360
Range		9
Minimum		1
Maximum		10

Source: Authors' construction based on questionnaire developed by Kristīne Casno and survey conducted in 2019, n=329

Overall, a little over 60% of respondents indicated that their level of information about Latvian social enterprises is 5 or below, as reflected in Figure 1.



Source: Authors' construction based on questionnaire developed by Kristīne Casno and survey conducted in 2019, n=329

**Fig.1. Distribution of Respondents by Evaluations on Level of Information about Social Entrepreneurship in Latvia in 2019**

The arithmetic mean and mode indicators were 5.06 and 5.00 respectively. While overall, such results, given the relatively young age of social entrepreneurship field in Latvia, can be evaluated as satisfactory, there is enough room for improvement. Overall, more women than men (32% compared to 20%) have indicated scores of 7 and above with regards their information level about social enterprises. On the other hand, more males rather than females (57% compared 39% respectively) have selected scores of 4 and below with regards their information level about social enterprises, which indicates that overall, women tend to be more informed about Latvian social enterprises than men.

Looking at the responses with regards to the degree respondents feel informed about social enterprises across particular age groups, the age group 46-55 appears to be informed the most. In this age group there is the largest share of high scores of 8 and above (40%) and the smallest share of low scores of 4 and below (25%). The second most informed age group is 36 -45 years where 30% of respondents have indicated scores of 8 and above and 41% of respondents have indicated scores of 4 and below. Age groups of 16-25 and 26-35 are very similar with regards their shares of high (8 and above) and low (4 and below) scores. With regards the educational level of respondents, overall, the respondents with the highest shares of high scores (8 and above) hold either a Masters (32% of high scores) or a Bachelors degree (30% of high scores). The least informed about social enterprises in Latvia are respondents with secondary school education – they have the lowest shares of high scores of 8 and above and the largest shares of low scores of 4 and below. With regards the place of residence of respondents, the best informed about social enterprises in Latvia are the respondents who live in the administrative territories surrounding Riga (largest share of high scores of 8 and above (38%) and second smallest share of low scores of 4 and below (32%)). Respondents from Vidzeme are the second best informed group about social enterprises in Latvia (32% of high scores and the largest share of low scores – 46%), closely followed by respondents from Kurzeme with 31% of high scores and 38% of low scores. It is surprising that respondents from Riga, judging by the share of high scores (comparatively only 28%), are the second least informed group of respondents, leaving only respondents in Zemgale behind with 26% of high scores. It is not possible to make any conclusions with regards to how informed the respondents from Latgale are about social enterprises since only 1 respondent indicated Latgale as the place of residence.

Next step for empirical data analysis was-to investigate if the informational level of respondents also translates into purchasing from Latvian social enterprises which is both an indicator of the effectiveness of marketing efforts of social enterprises as well as the effectiveness of the work carried out in the public sphere by Social Entrepreneurship

Association. Authors determined a statistically significant correlational relationship, as indicated in table 2 below, between the informational level indicated by respondents and their respective purchasing habits.

Table 2

**Correlation analysis results (informative level of respondents and the number of purchases made in 2018)**

		To what extent are you informed about the social enterprises in Latvia?	How many times did you purchase social enterprise products or services in 2018?
To what extent are you informed about the social enterprises in Latvia?	Pearson Correlation	1	0.240**
	Sig. (2-tailed)		0.003
	N	151	151
How many times did you purchase social enterprise products or services in 2018?	Pearson Correlation	0.240**	1
	Sig. (2-tailed)	0.003	
	N	151	151

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Authors' construction based on questionnaire developed by Kristīne Casno and survey conducted in 2019, n=329, evaluation scale 1-10, where 1 – not informed at all, 10 – very well informed)

Such results indicate that on average the more informed the respondents are, the more often they tend to purchase products or services from social enterprises which underscores the crucial role of marketing in ensuring sustainable operations of social enterprises.

Further analysis - to compare in detail the purchasing habits of respondents with information level about social enterprises of 6 and above with those of respondents with information level about social enterprises of 8 and across various age groups, as summarized in Tables 3 and 4 below to see if there were any age groups that were particularly responsive to more information about social enterprises in terms of more frequent purchases (age groups of above 55 years were not investigated as only 2 respondents indicated that they belonged to those groups).

Table 3

**Crosstabulation (respondents' with information level of 6 and above age groups and respective purchasing habits in 2018)**

Times on done purchase of social enterprise products or services in 2018	Age groups										Total
	16 - 25	%	26 - 35	%	36 - 45	%	46 - 55	%	56 - 65		
1 - 4	2	33	13	48	15	63	6	55	1	37	
5 - 8	1	17	7	26	3	13	2	18	0	13	
9 - 12	1	17	2	7	4	17	3	27	0	10	
13 +	2	33	5	19	2	8	0	0	0	9	
Total	6		27		24		11		1	69	

Source: Authors' construction based on questionnaire developed by Kristīne Casno and survey conducted in 2019, n=329, evaluation scale 1-10, where 1 – not informed at all, 10 – very well informed)

As indicated by crosstabulation of Table 2, respondents of all age groups with information level of 6 and above purchased products or services from social enterprises mostly 1 to 4 times in 2018, the largest share belonging to age group of 36-45. The respondents from age group 46-55 at this informational level are most active with regards to shopping 9-12 times a year (27%), respondents from age group are most active with regards to shopping more than 13 times a year (33%), but the leader with regards to shopping 5-8 times a year is the age group of 26-35 years (26%).

Comparing the above results with a smaller selection of respondents but with a higher information level (8 and above), as indicated in Table 3 below, the Authors find that the trend of the dominant purchase frequency of 1-4 times per year continues and even tends to increase a little, except for age group 16-25.

Table 4

**Crosstabulation (respondents' with information level of 8 and above age groups and respective purchasing habits in 2018)**

Times on done purchase of social enterprise products or services in 2018	Age groups										Total
	16 - 25	%	26 - 35	%	36 - 45	%	46 - 55	%	56 - 65		
1 - 4	1	25	7	54	5	63	4	57	1	18	
5 - 8	1	25	2	15	1	13	2	29	0	6	
9 - 12	1	25	1	8	1	13	1	14	0	4	
13 +	1	25	3	23	1	13	0	0	0	5	
Total	4		13		8		7		1	33	

Source: Authors' construction based on questionnaire developed by Kristīne Casno and survey conducted in 2019, n=329, evaluation scale 1-10, where 1 – not informed at all, 10 – very well informed)

Comparing the percentual shares of respondents across the different purchasing frequencies between both selections of respondents, it is evident that within the age group 46-55, as the informational level increases, the share of respondents who purchased products or services 5-8 times a year increases, but the share of respondents who purchased products or services 9-12 times a year decreases, almost balancing each other out. Within the age group of 36-45, comparing both selections of respondents, a similar situation is observed with the increase of informational level where the share of respondents who purchased products or services 9-12 a year decreases but the share of respondents who did the same more than 13 times a year increases, also balancing each other out. A similar trend is observed in the remaining two age groups which may indicate that while on average better informed respondents make purchases more often, the effects of an increased informational level (e.g. from 6 to 8) are rather minimal indicating that the informational level may have reached its saturation point. Thus it may be concluded that for optimal returns on investment it may be potentially more effective to work towards targeting the consumer groups who are informed the least (e.g. age groups of 16-25 and 26-35) rather than focusing on consumers who are rather well informed about social enterprises and their products or services.

**Conclusions, proposals, recommendations**

Although majority of respondents indicate their level of information about social enterprises in Latvia as average or below average, Authors conclude that such results as satisfactory, given that the concept of social entrepreneurship has been visible in the public sphere only for about a decade and also given the limited ability of social enterprises to invest in marketing and the fact that the concept has been actively popularized by the Social Entrepreneurship Association only since its foundation in 2015. The statistically significant positive correlational relationship between the informative level of respondents and their purchasing frequency, indicates that informational support for social enterprises from Ministry of Welfare and Social Entrepreneurship Association is critical and it is of utmost importance that support is provided to social enterprises in the future as well. The more informed consumers are about social enterprises, the more frequent are their purchases, which is important for sustainability of social enterprises since in Latvia the market is comparatively small.

The responsibility for dissemination of information, however, does not lie solely in the hands of government or Social Entrepreneurship Association. Social enterprises themselves should also understand the importance of informing consumers and strive to engage in and improve their marketing activities. While it is important to

communicate with and inform potential and existing consumers, research indicates that informing consumers who are already well-informed may not generate the expected returns because of a potential information saturation point. Thus it would be more advantageous for social enterprises to target consumer groups who have the least knowledge and information about social enterprises.

Research shows that women are better informed about social enterprises, which corresponds with their caring nature. An innovative approach would be to target male audience, which, although might be more challenging, could be rewarding since the purchasing power of men is generally larger. With regards age groups, ages 16-25 and 26-35 tend to be the least informed and thus should be specifically targeted by social enterprises. The same applies to consumers with secondary education. Research indicates that consumers in Riga and Zemgale are comparatively least informed about social enterprises which suggests potential high returns from further expanding the knowledge and information about social enterprises there.

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The paper was supported by the NATIONAL RESEARCH PROGRAMME “LATVIAN HERITAGE AND FUTURE CHALLENGES FOR THE SUSTAINABILITY OF THE STATE” project “CHALLENGES FOR THE LATVIAN STATE AND SOCIETY AND THE SOLUTIONS IN INTERNATIONAL CONTEXT (INTERFRAME-LV)”