

# Key challenges for further development of social entrepreneurship in Croatia

## Ključni izazovi za daljnji razvoj društvenog poduzetništva u Hrvatskoj

### Abstract

The specific goal of this paper is to contribute to the discussion of key problems and necessary steps to be undertaken in the further development of social entrepreneurship in Croatia. Quantitative research was applied through a survey questionnaire, the sample included 526 respondents divided into several target groups: unemployed persons, members of social cooperatives, youth, farmers and employees of social enterprises. Findings regarding relevant constraints relate mainly to legal, financial and tax system constraints, constraints in the segment of education and capacity building, inefficient bureaucracy and administration, ineffective support from the part of local and regional policy makers and stakeholders, the lack of horizontal and vertical coordination and numerous other. Despite the limitations, the potential for further development of social entrepreneurship is based on the excellent examples of good practice realized so far, on the relevant achieved results from the part of civil society organizations as well as on the existing initial scientific research on the topic.

**Key words:** social entrepreneurship, regional development, social entrepreneurs, Croatia

**JEL classification:** O17

### Sažetak

Specifičan cilj ovog rada je pridonijeti raspravi o ključnim problemima i nužnim koracima koje je potrebno poduzeti u daljnjem razvoju društvenog poduzetništva u Hrvatskoj. Kvantitativno istraživanje provedeno je putem anketnog upitnika, a uzorak je obuhvatio 526 ispitanika podijeljenih u nekoliko ciljanih skupina: nezaposleni, članovi socijalnih zadruga, mladi, poljoprivrednici i zaposlenici društvenih poduzeća. Nalazi o ključnim ograničenjima uglavnom se odnose na ograničenja u zakonskom, financijskom i poreznom sustavu, ograničenja u segmentu obrazovanja i izgradnje kapaciteta, neučinkovitu birokraciju i administraciju, neučinkovitu podršku lokalnih i regionalnih donositelja odluka i dionika, nedostatak horizontalne i vertikalne koordinacije i brojne druge. Unatoč ograničenjima, potencijal za daljnji razvoj društvenog poduzetništva temelji se na dosadašnjim ostvarenim izvrsnim primjerima dobre prakse i relevantnim postignutim rezultatima organizacija civilnog društva kao i na postojećim znanstvenim istraživanjima na tu temu.

**Ključne riječi:** društveno poduzetništvo, regionalni razvoj, društveni poduzetnici, Hrvatska

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## 1. Introduction

In recent years, the interest for social entrepreneurship in the European Union has significantly increased from the part of both formal and informal actors, resulting with numerous debates, new legal frameworks, new forms of financial support, a growing number of social enterprises and number of employed in them, as well as a greater demand for services offered by social enterprises. At the same time, social enterprises face a number of challenges that to a certain extent hinder and even impede their development. In the European Union, social entrepreneurship has gained momentum as a result of numerous and increasingly complex problems such as general unemployment, uneven regional (urban/rural) development, population segregation, particularly in urban areas, low quality of life of marginalized groups and a number of other challenges (Šajfar and Strmota, 2020, Tišma et al., 2022). The recession and financial crisis that occurred in 2008 further emphasized that the economic model of liberal capitalism did not offer appropriate solutions for high unemployment and poverty rates as well as numerous other emerging development problems. Furthermore, the refugee crisis in 2015, but also the crisis resulting from the consequences of the COVID-19 pandemic revealed the importance of cooperation in creating and ensuring a higher quality of life and appropriate environmental conditions. The austerity measures that have emerged as the result of these crises have directly impacted different approaches to the financing of public services, i.e., have encouraged the development of more innovative and cost-effective approaches that build upon voluntary contributions to community development. Some authors believe that the strength of social enterprises lies in their recognition of social, environmental and economic problems, which they turn into opportunities by relying on their own ability for removing obstacles to social inclusion, through offering support to marginalized groups or mitigating undesired effects of certain economic activities (Smith and Stevens, 2010; Belz and Binder, 2017; Tišma et al., 2022).

Social entrepreneurship is highly represented in the research topics of many scientific and

research institutions. However, there is still a lack of systematic data collection on social entrepreneurship at the levels of both the Member States and the EU, which presents a further problem for decision-makers. Prompted by the need for a more systematic data collection that would benefit all management levels and key stakeholders in the further development of social entrepreneurship, the authors of this paper wish to contribute to the discussion on key problems and necessary steps to be undertaken in the further development of social entrepreneurship in Croatia. This paper discusses social entrepreneurship, just like Šimleša et al. (2016), as a contemporary global phenomenon, which aims at meeting needs of a social and environmental character and considers the actors of social entrepreneurship through their characteristics of pragmatism, innovation and orientation towards eliminating social inequalities. The specific goal of the empirical research carried out was to identify the key limitations that employees in social enterprises face in their daily work and to determine the key needs for the following five years.

In the initial part of the paper, the importance of considering current circumstances in the segment of social entrepreneurship is presented through the literature overview, followed by the elaboration of the methodology and the presentation of the results of the conducted empirical research on the social entrepreneurship sector in Croatia. Section five provides research results and discussions well as recommendations for further research. The last part of the paper features a policy guidelines for policy makers and key stakeholders engaged in the development of social entrepreneurship in Croatia.

## 2. Literature overview

The importance of considering social entrepreneurship becomes apparent from the very first insight into some of the definitions of this concept, and, as Dronjak (2019) emphasizes, particularly from the fact that it deals with the creation of economic and social value through balanced decisions, taking into account that resources are limited. An incredibly large number of definitions exist for social entrepreneurship, but it can be noted that most do not reflect

substantial differences. One of the definitions states that the term refers to the engagement of profit-oriented companies aimed at solving social, economic, environmental and other problems that have traditionally been the responsibility of government or non-profit organizations. Unlike traditional entrepreneurs, focused on discovering opportunities and grabbing value, social entrepreneurs are focused on creating both value and opportunity (Betts et al., 2018) and creating value for society based on innovative and socially sustainable ideas (Santos, 2009). Folwer (2000) also emphasizes community well-being in his definition in which he describes social entrepreneurship as a concept, i.e., as a process of creating competent economic structures and relationships between different institutions and organizations that provide and sustain social benefits. From the perspective of the European Commission (2015), social entrepreneurship performs acts in the interest of the local community (focusing on social and community goals and efforts in the field of environmental protection) and not in the interest of increasing profit. Social entrepreneurs are often innovative in terms of their products and services, as well as the relevant solutions they offer or the organizational and production methods they use.

Further, it should be noted that social entrepreneurs play a very relevant role when it comes to a range of services provided to persons with special needs, including their employment. These are largely socially marginalized persons, often completely excluded from the labour market, which, for example, is particularly the case in Croatia, where social inclusion does not receive the same attention as is the case in the more developed EU member states. As Šimleša et al. (2016) stated, the engagement of social entrepreneurs can contribute to achieving community integration, increased employment of marginalized groups, the creation of new products, and, in general, to the improvement of the quality of life.

Mair and Marti (2006) refer to the concept in terms of a branch of entrepreneurship that links the private and the social sectors and represents an innovative model of providing products and services that public institutions and bodies are unable to provide to society. In other words, by

way of using an entrepreneurial approach that facilitates the operation of organizations, social entrepreneurs are focused on solving certain social problems (Ođak Krsić and Šaravanja, 2015). Vuković et al. (2017) believe that social entrepreneurs identify the problem, recognise opportunities and develop socially useful entrepreneurial ventures with the aim of creating stability in a particular area. Furthermore, Shaw (2004) considers social entrepreneurship as work performed by community and volunteer organizations aiming to achieve social benefits. Drayton (2002) emphasizes that social entrepreneurship is not the same as social enterprise, the former being a broader concept that includes companies whose goal is not to make profit in their own interest but, rather, to achieve a social role, i.e., to invest the profit into future business ventures.

It is apparent that the concept of social entrepreneurship is increasingly gaining importance on the global level and is linked to a number of other research areas that relate to entrepreneurship, such as social policy, local and regional development, rural development, agricultural development, employment policy, environmental protection policy and an array of other areas, leading us to agree with the opinion that the concept lacks clear theoretical boundaries (Kedmenec and Strašek, 2017). Therefore, when studying social entrepreneurship and proposing guidelines for the strengthening and further development of this concept, it is important to consider other public policies that either limit or strengthen further development of social entrepreneurship (Arasti et al., 2013). In addition, regardless of the abundance of literature on social entrepreneurship, it should be noted that currently there is still a lack of empirical research on the effectiveness of social entrepreneurship, as its benefits and level of activity are not easily measured (Lepoutre et al., 2013, Granados et al., 2018).

Differences between countries are visible in the used tools, such as the establishment of specific management units entrusted with the promotion of social entrepreneurship at the national level, as has been the case in Luxembourg, Slovakia and the UK, or others established at the local level, as

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in Denmark and the Netherlands. Numerous laws have been adopted defining the operation area of social enterprises in European countries, such as in Belgium, Bulgaria, Denmark, Germany, Greece, France, Italy, Latvia, Luxembourg, Portugal, Romania, Slovakia, Slovenia, Spain and the United Kingdom. European countries that have adopted a national strategy on social entrepreneurship include Croatia, Denmark, France, Greece, Ireland, Latvia, Lithuania, Slovenia, Sweden and the United Kingdom. At the same time, recent Country Reports<sup>1</sup> highlight the short duration of, primarily national support for social entrepreneurship,<sup>2</sup> which, often, present during the drafting of a legislative or strategic document, appears to decrease over time, as was the case in Belgium, Croatia, Cyprus, Denmark and Romania. Regardless of the different interpretations of social entrepreneurship or the existence or non-existence of a legislative framework, it is clear that the importance of social entrepreneurship has been recognized in all EU Member States.

When observing the Croatian context, the concept of social entrepreneurship was first mentioned by Gojko Bežovan in 1996 in the *Journal of Sociology*, referring to "non-profit entrepreneurship" (Šimleša et al., 2016). As a new concept, social entrepreneurship appeared some 15 years ago, significantly later than in the more developed EU countries. The first social enterprises emerged from civil society organizations and were supported by foreign donors. Vidović and Rakin (2017), thus, refer to the first wave of the development of social entrepreneurship, within which only very modest support and institutional recognition of the concept was present, without being positioned among the top current policy issues. After this first wave, the second wave was more focused on social cooperatives as a new form of social entrepreneurship (Vidović and Rakin, 2017). For the current Croatian context, the elaborated Strategy

for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020 (Government of the Republic of Croatia, 2015), which represents the first institutional framework for the development of social entrepreneurship, is of great importance. The Strategy defines social entrepreneurship as "business based on the principles of social, environmental and economic sustainability, where profit is, wholly or in the major part, reinvested for community benefit" (Government of the Republic of Croatia, 2015: 7). As Šimleša et al. (2016) stated, the Strategy sees social entrepreneurship as a coupling of economy, marginalized groups in the labour market, creation of new products, preservation of resources, maintaining of the overall natural and cultural heritage, improvement of the quality of life and freedom of decision-making by way of doing business with the aim of creating social benefit. Petričević (2012) argues that the above-mentioned definition is holistic and integrated and emphasizes the key elements of sustainability that are not focused exclusively on profit but rather on people and nature as places for living and survival of those who create profit. Even though the adoption of the Strategy was a significant institutional achievement, its implementation proved to be very poor and complicated, followed by insufficient political will and awareness as to the importance of developing social entrepreneurship (Baturina, 2018; Vidović, 2019; Babić and Baturina, 2020).

Experience has shown that less developed areas are more suitable for the development of social entrepreneurship compared to cities due to the more pronounced necessity for a social orientation of entrepreneurs in rural areas (Williams and Nadin, 2011). Perhaps this is the reason for the growing importance of social entrepreneurship in some less developed areas of the EU as well as for its importance for Croatian local and regional

1 For more detailed information about the individual Country Reports, see: [https://ec.europa.eu/social/main.jsp?advSearchKey=y=socentercountryreports&mode=advancedSubmit&catId=1307&doc\\_submit=&policyArea=0&policyAreaSub=0&country=0&year=0](https://ec.europa.eu/social/main.jsp?advSearchKey=y=socentercountryreports&mode=advancedSubmit&catId=1307&doc_submit=&policyArea=0&policyAreaSub=0&country=0&year=0).

2 Social entrepreneurship is officially mentioned for the first time in the year 2000 in the document Programme of Cooperation between the Government of the Republic of Croatia and the Non-Governmental, Non-Profit Sector in the Republic of Croatia, while the first strategic document that explicitly elaborated social entrepreneurship was the National Strategy for the Creation of an Enabling Environment for Civil Society Development 2006 - 2011.

development, and particularly for the development of local communities in its remote areas. As the availability of social services is scarce in the less developed rural areas, it is not surprising that some examples of best practices are found precisely in such areas in Croatia. One successful example of social entrepreneurship in a war-torn area is the pilot project of an inclusive farm in Hrastovica, a small village near Petrinja, which is funded by the European Social Fund (ESF). A partnership is formed by the civil-society organization (CSO)<sup>3</sup> Zeleno zlato - Society for Social Ecology, which promotes sustainable development, empowers vulnerable groups and develops civil society at the local community level, and the CSO of Persons with Disabilities of the Sisak-Moslavina County, a non-profit organization whose mission is to contribute to the participation of children with developmental disorders and people with disabilities in all segments of society.

The experience from EU countries in the segment of promoting SE can serve as the basis for further improvements of the Croatian legal and strategic framework. On the example of Scotland, we see that it is advisable to introduce entrepreneurship in school/university curricula with the aim of inspiring the youth for proactive involvement in the local community on the basis of having a secure job which is of benefit to the society. For example, precisely educational programs of high quality as well as initiatives targeting the raising of overall awareness on SE as a reliable job contributed to building the collective awareness on the importance of SE in England.

The development of a consistent and functional ecosystem of support on all government levels for those employed or seeking employment is necessary and an example in this regard is the City council of Dublin, by way of which the City Committee for SE ensures its support to social entrepreneurship and innovations through different modes of support such as education, tutorship, awarding, ensuring of

necessary resources and promotion of SE.

Exponential growth in the number of social enterprises is possible by way of ensuring tax reliefs as well as reliefs for public procurement, by increasing all forms of financial and other support, awarding (Ireland) of those whose results serve as examples of proactive actors in the local community and similar. SE growth can also be triggered by way of investments into education with the goal of increasing specific knowledge of all included actors, entrepreneurs as well as those in charge of supporting their development.

Along with the needs for more effective use of EU funding (funds and programmes for employment and social innovations /EaSI/), it is also necessary to ensure a package of support initiatives to SE as was the practice in France, Germany, The Netherlands and Austria.

Furthermore, Scotland influences the transformation of family members and the local community and can serve as an example of initiatives focused on the strengthening of visibility of SE.

The integration of social economy into the foundations of the Croatian economy would open the possibilities for branding the Croatian model of SE as one of the relevant modes of doing business. Prior to this it would be advisable to continue with the strengthening of visibility and SE by way of incubators and accelerators as well as to foster self-organization capabilities and networking as was the case in countries such as Austria, Estonia and Greece.

Furthermore, the Irish government demonstrated its commitment towards SE development by way of implementing several key principles as defined by the national strategic framework. First, the partnership of formal and informal actors is a key prerequisite for programme implementation, a factor which still remains to be developed in Croatia. Second, independence and cooperation of actors based on trust is a further important

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<sup>3</sup> Vidović and Baturina (2021) indicate that terms such as „civil-society organisation“, „non-governmental organisation and similar, are more common than „social entrepreneurship“. With further development of the SE sector, including the intensification of the EU accession process and particularly following the elaborated Strategy for Social Entrepreneurship Development (adopted in 2015), the term social entrepreneurship became more consistent with the definition proposed by the EC in its „Social Business Initiative“ (EC, 2011.)

principle which is often seen in Croatia on a declarative basis. Third, the coherence i.e., the synergy of the normative and strategic framework as well as other policy initiatives in the provision of support to SE is relevant. Last, in order to achieve effectiveness – the basis for SE development must be grounded on transparency and a result-oriented approach, an issue which asks for more intensive and committed orientation on the national as well as local level in Croatia.

It is also necessary to introduce systemic and timely interim evaluations as was the case in Scotland, which would, among other, contribute to achieving both effectiveness as well as efficiency of the implementation of the Strategy.

### 3. Methodology

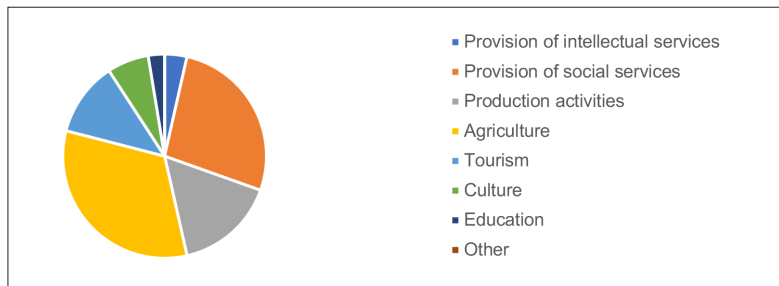
The results presented in this paper were obtained through research conducted within the project "Through Dialogue Towards the Croatian Network for Social Entrepreneurship", which aims to strengthen the capacity of civil society organisations (CSOs) for cooperation with the following target groups: civil society organizations (50), social partners (30 entrepreneurs and 4 unions), the Croatian Employment Service (CES) (10), centres for social welfare (10), regional and local self-government units (20) and scientific organizations (5). The aim of the project activities and its results is to contribute to the development of social entrepreneurship and to establish the Croatian Network for Social Entrepreneurship as a tool for permanent dialogue through the study of public opinion and social needs, as well as through scientific research and the development of guidelines and analysis of the social impact and structural dialogue of all stakeholders and decision makers. The project implementation period is from 31 October 2020 to 31 October 2023, and the research whose results are presented in this paper was conducted in the period from February to August 2021. Out of the total of 550 disseminated questionnaires, 526 were returned, and the target group of the survey were: unemployed persons, employees of project partners, members of social cooperatives, youth, farmers and employees of social enterprises. The analysis utilized the sample database provided by the Centre for

Rural Development. The database is divided into two social entrepreneurs' sections; the Section 1 refers to the already established social enterprises, whereas the Section 2 refers to the new social entrepreneurs and enterprises that are planning to start-up or transfer their business towards socio-entrepreneurial principles. Additionally, the sampling included various veterans' associations from Croatia, as well as the project partners' employees: LAG Cetinska krajina, Association of Juvenile Volunteers of the Homeland War, Centre for Sustainable Development, Association of Croatian Veterans Treated for PTSD in the Republic of Croatia, LAG Međimurski doli i bregi, LAG Vinodol, LAG Posavina, LAG Izvor, Croatian Association of Counties, Social Cooperative Humana Nova Čakovec, LAG Papuk, Croatian Employment Service - Regional Office Split, LAG Laura, UDD - Association for Democratic Society, Veterans Social and Labor Cooperative Dalmatia Ruralis, LAG Brač, LAG More 249, Association of Unemployed Croatian Homeland War Veterans, LAG Krka. During the research the samples were not selected based on a specific criterion. Instead, the participants from the whole territory of Croatia were invited to voluntary research participation. The survey covered basic questions regarding the scope of activities of social enterprises in Croatia, with the specific goal of identifying the key constraints that employees in social enterprises faced in their daily work as well as their main needs in the period of the forthcoming five years. Before filling out the questionnaire, all participants were informed in detail as to the purpose of the research and received precise instructions on how to complete the questionnaire. Participation in the research was voluntary. The answers to the questions were given in such a way that the participant had to choose between multiple offered answers by selecting one or more answers at a time (closed-ended questions), while some questions were posed as open-ended questions requiring the participant to insert their own answer in their own words.

### 4. Empirical evidence

The first part of this chapter presents the results of a survey conducted in Croatia on a sample of 526 respondents, i.e., social entrepreneurs, with the aim of presenting the activities of social entrepreneurs

**Figure 1** Sectors of activity of social entrepreneurs in Croatia



**Source:** Field survey (2021).

in Croatia, including the sector of their activities, the number of employees, the source of funding and their key constraints and needs.

If we consider the structure of Croatian social enterprises according to the number of employees, it is obvious that smaller enterprises dominate. Out of a total of 526 respondents of this survey, 255 operate in social enterprises with a total of 3 to 5 employees (48.48%), 132 work in enterprises with a maximum of two employees (25.10%), 101 of them work in enterprises with five to seven employees (19.20%), while only 38 respondents work in social enterprises with 7 or more employees (7.22%). This confirms that only very few social enterprises exhibit any significant employment.

Comparing data on the number of employees in Croatian social enterprises with data on the number of employees in other European countries, no significant differences can be found, i.e., most social enterprises at the European level are also micro and small enterprises. The only exceptions are Italy, France, Spain and the UK, which have fairly large social enterprises with a larger number of employees (European Commission, 2020).

Furthermore, if we consider the period of operation of social enterprises in the Republic of Croatia, out of a total of 526 respondents, 197 (37.45%) have been active for the past 10 or more years, 164 (31.18%) has been operating for the past 2 to 5 years, 142 (27%) have been operating for the past 5 to 10 years, while 23 (4.27%) have been operating for less than one year, it is possible to assume

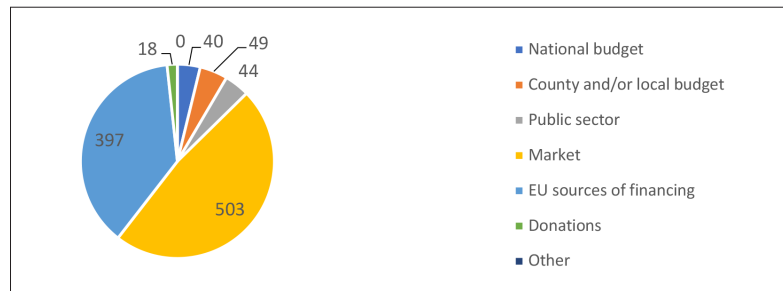
that years 2020 and 2021 were not favorable for starting social enterprises as the socio-economic environment was among those affected by the COVID-19 pandemic, i.e. the pandemic, among other, also appears to have had negative consequences on the segment of social entrepreneurship.

When observing the sector of activity of social enterprises in Croatia (Figure 1), it can be seen that their representation is highest in the agricultural sector, i.e., from the total of 526 respondents, 138 (26.24%) operate in this area. This is followed by the social services sector with 114 respondents (21.67%), 68 respondents (12.93%) in production activities, the tourism sector with 50 respondents (9.51%), the cultural sector with 28 (5.32%) social enterprises, the field of intellectual services with 15 respondents (2.85%), and the field of education with the smallest number of social enterprises, 11 of them (2.09%).

When comparing the situation in the Republic of Croatia with that in the European countries, it is evident that the areas of activity of social enterprises substantially differ. The European Commission's mapping of the EU's social entrepreneurship ecosystems (2020) identified the following areas: social and economic integration of excluded groups, social services of general interest, public services such as public transport and the maintenance of public spaces, strengthening of democracy and participation, environmental activities as well as the demonstration of solidarity with developing countries. The most represented area in the EU is the integration into the labour

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**Figure 2** Sources of financing the work of social enterprises



Source: Field survey (2021).

market and provision of social welfare services. For example, in Germany, Austria and the Scandinavian countries, those with a strong tradition of social welfare and a higher level of meeting the social needs of the population, social enterprises achieve remarkable results based on innovative solutions in the development of social services, while in Italy, Greece, Portugal, Spain, Poland and Ireland, social enterprises fill in the gaps in the social welfare activities that public bodies are unable to perform (Vojvodić and Šimić Banović, 2019).

When sources of financing social enterprises in Croatia are considered, it can be observed that they vary (Figure 2). However, research confirms that market financing is dominant. Namely, out of the 526 respondents, 503 (95.63%) state that they are employed in social enterprises that are primarily market-financed, followed by 397 (75.48%) who specify EU sources of funding<sup>4</sup>, 49 (9.32%) are financed through county and/or local budgets, 44 (8.37%) by the public sector, and 18 (3.42%) through donations.

The data from field research confirms that, albeit being market financed, most of the respondents have part of their income financed by some form of government financing as well as the fact that

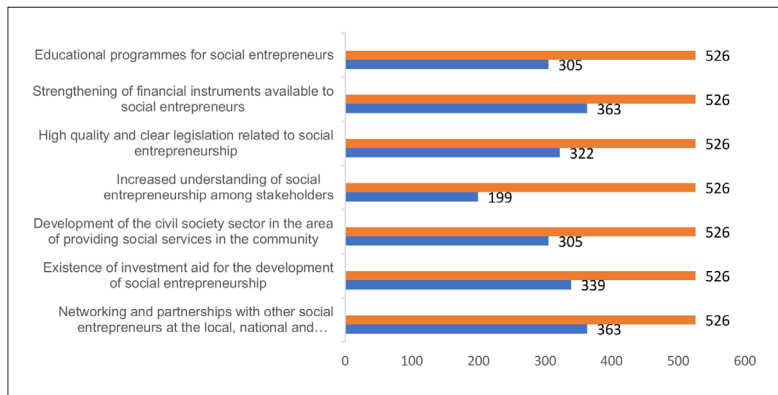
EU sources of funding are becoming all the more relevant for the majority of social enterprises, including civil-society organizations. Due to the still undeveloped SE sector, these forms of financing are still relevant for social entrepreneurs and most of them are actually too dependent on EU and public financing. County and local level governments, for example, plan in their budgets resources for supporting social entrepreneurs, along with civil-society organizations, often in the form of education and training, equipment, premises and similar.

When observing EU member states, the sources of financing of social enterprises appear to be somewhat more complex than other sources of financing at the European level. Given that social enterprises aim to encourage positive social change and that they can distribute profits only to a limited extent, they are not attractive to investors, regardless of whether they are individuals or financial institutions which seek significant financial returns (European Commission, 2020). The focus of the provided services on the social/general interest and the types of beneficiaries for whom these services are designated add further to this complexity, often resulting with insufficiently

<sup>4</sup> When considering public funds, the goal of "promoting social economy and social entrepreneurship" has been transferred to the European Regional Development Fund and the European Social Fund. However, there is still no European budgetary policy which deals specifically with the social economy, to which, after all, the 2017 Madrid Declaration referred. Yet, the LEADER initiative/programme, as well as international congresses and international networks as tools for strengthening the coordination of civil society within the framework of the European social economy, proved to be relevant measures with significant results.



**Figure 3** Key needs of social enterprises for their further work over a period of five years



Source: Field survey (2021).

accurate and predictable financial needs. The main problem in the area of financing is the lack of full-scale support programmes for the establishment of social enterprises.

Concerning the needs of social enterprises in Croatia, according to the results of the conducted questionnaire, respondents highlighted several key needs for their further work for the period of the following five years (Figure 3).

The most significant need, highlighted by 363 or 69.01% of the respondents, is the strengthening of financial instruments available to social entrepreneurs, such as loans, socially responsible investment and the like. Further highlighted needs are stronger visibility, networking and partnerships with other social entrepreneurs at the local, national and international levels. A high percentage of respondents, 64.45% or 339 out of the 526, stressed the need for investment aid for the development of social entrepreneurship. The importance of establishing higher quality and clear legislation related to social entrepreneurship was also emphasized by a large number of respondents, 322 of them or 61.22%. Furthermore, 305 respondents (57.98%) point to the necessity of establishing educational programmes for social entrepreneurs and strengthening the development of civil society organizations in the area of providing social services in the community.

The last, but not least important need related to the increased understanding, i.e., an increased level of knowledge and awareness as to the importance, purpose, problems and needs of social entrepreneurship among stakeholders, as indicated by 199 respondents (37.83%).

When observing the European context, it can be noted that the needs of social enterprises are similar to those in Croatia. In its report on Social Enterprises and their Ecosystem in Europe (2020), the EC emphasizes the need for a coherent and comprehensive legislative framework, better access to financial resources and stronger support through, for example, tax incentives. Furthermore, in Slovenia and Romania the need for stronger cooperation between social enterprises as well as the need for access to incubators, providing them with additional opportunities for education and counselling was emphasized. The need for stronger networking, particularly at the regional level, is present in Cyprus, Malta, Poland, Slovakia and Slovenia. The needs for raising public awareness as to the importance of social entrepreneurship, as well as for closer cooperation and a stronger information flow aimed at raising the level of knowledge about social entrepreneurship, have also been identified in the Czech Republic, Finland, Hungary, Luxembourg, Romania, Slovakia and Slovenia. Addressing these needs, both at the

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national and the European levels, would facilitate the work of social enterprises and enhance their further development.

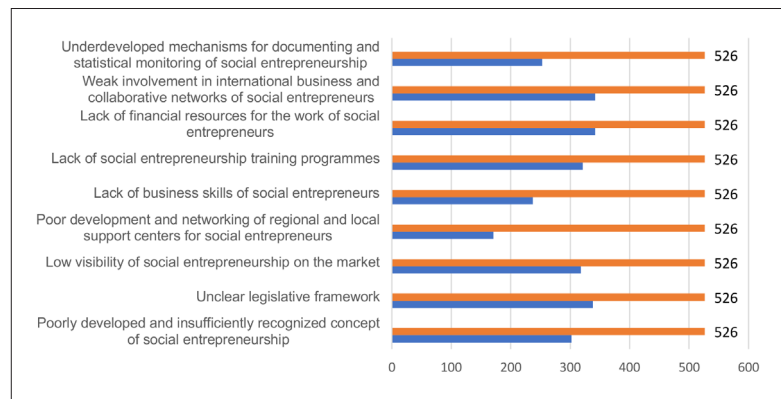
If we look at the constraints which Croatian social enterprises face in their daily work, they are numerous (Figure 4).

The most significant constraints relate to insufficient financial resources for the work of social entrepreneurs and their weak involvement in international business and cooperation networks of social entrepreneurs, such as clusters or collaborative platforms (342 respondents or 65.02%). A significant obstacle to their further work also lies in the unclear legislative framework, as indicated by 338 respondents, or 64.26%. A large number of respondents, 321 or 61.03%, stressed the lack of training programmes for social entrepreneurship, and 318 respondents (60.46%) emphasized the low visibility of social entrepreneurship. The insufficiently recognized importance of the concept of social entrepreneurship is a further limiting factor, as pointed out by 302 respondents (57.41%). Furthermore, underdeveloped mechanisms for documenting and statistical monitoring of social entrepreneurship were highlighted, limiting the work of 253 respondents (48.10%). Also, a further obstacle in their work is the lack of business skills of social entrepreneurs, as stated by 237

respondents or 45.06%. Finally, poor development and networking of regional and local support centres for social entrepreneurs was indicated as a significant obstacle by 171 respondents (32.51%).

It might appear that we have some overlapping when observing the indicated needs, presented in Figure 3, and the daily constraints, presented herewith, as is partly the case when considering issues such as the necessary financial instruments, clear legislation, training programmes and insufficiently recognized importance of the concept itself. However, the distinction is visible in a number of highlighted both needs as well as most pressing daily constraints. Issues which were highlighted by the respondents as both main needs and the daily constraints are the most pressing and relevant issues which ask for immediate policy response and they need to be addressed from the part of both regional as well as national government levels in the forthcoming short-term period. On the other hand, additionally pointed out constraints for daily work, such as weak involvement in international business and cooperation networks, undeveloped mechanisms for documenting and statistical monitoring of social entrepreneurship, lack of business skills and poorly developed networking of regional and local support centres, albeit not been identified as main needs, are nevertheless constraints which require to be addressed in the middle and longer term period with the aim of

Figure 4 Constraints in the daily work of social entrepreneurs in Croatia



Source: Field survey (2021).

contributing to the development of the overall ecosystem of social entrepreneurship in Croatia.

Sarri and Trichopoulou (2017) classify them into two groups, i.e., external and internal factors. The authors indicate a number of external factors. They stress the insufficient understanding and recognition of the importance of the concept of social entrepreneurship. The Scottish educational programme is an example of a positive step forward in raising public awareness with the aim of educating the youth as to the importance of social entrepreneurship. Such approaches consequently contribute to the increase of the number of social enterprises, the discovering of new forms of financing, to encouraging the further development of social entrepreneurship as well as to the better understanding of the concept from the part of formal actors, the public, investors as well as the beneficiaries.

Furthermore, the authors highlight the lack of regulatory and support policies. In countries such as Austria, France, Germany, the Netherlands and the UK, which have established an effective system of institutional support for social entrepreneurship, the implementation of comprehensive support programmes functions significantly better.

The next external factor refers to the barriers to accessing financial instruments and the lack of business development and support services. In numerous European countries, a limited administrative and policy capacity necessary for the creation and implementation of measures for further development of social enterprises, is apparent.

The authors also recognize the difficulties in accessing the market. The EU public procurement rules (2014/24/EU) are important in setting the criteria for the best price-quality ratio when evaluating tenders, with additional possibilities offered by this directive to those business entities which focus on the integration of persons with disabilities as well as those which provide social, health and cultural services. In many European countries, public procurement represents a key factor for the expansion of market opportunities as well as the development of social enterprises. However, in some countries the implementation of public procurement is unsatisfactory, which

indicates a need for more flexible and socially oriented public procurement practices.

Another noted external factor relates to the lack of a mechanism for measuring social impact and the economic environment in times of crisis. One of the reasons for the existence of this problem lies in the lack of a systematic collection of data on social enterprises at the EU level, as well as on the national level. The development of a mechanism for measuring the social impact of social enterprises would contribute to a higher level of transparency, accountability as well as to a greater interest in social entrepreneurship from the part of both the investors as well as the general public.

Internal factors that hinder the work of social enterprises are: the lack of sustainable business models; strong dependence on support from the public sector; the lack of entrepreneurial spirit; the lack of professional qualifications and management skills. The results of the conducted analysis of social enterprises and their ecosystems in Europe (EC, 2020) indicate the lack of internal capacity as one of the main obstacles for the development of social enterprises.

Based on the comparison of the Croatian and the European context, it is possible to conclude that social entrepreneurs in Croatia are faced with very similar circumstances, problems and constraints in their further development. Precisely for this reason, it is important to consider the approaches, measures and activities implemented in European countries and to strengthen the networking and cooperation of Croatian social entrepreneurs with those from abroad. The transfer of experiences and knowledge is an important way of overcoming their own development constraints.

## 5. Results and discussion

The conducted research was focused on identified development constraints and needs as the result of circumstances faced by existing social entrepreneurs, including civil society organizations and cooperatives, as a relevant form of social enterprises. A number of those identified problems reflect and further underline the results obtained from the previously presented field research.

The legal environment is singled out as one of the key constraints, as these companies are not

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recognized as separate legal bodies and problems arise due to existing ambiguities arising from legal inconsistencies (Bežovan et al., 2016b; Baturina 2018).

As was the case with the results obtained from the field research, among the emphasized constraints Croatian researchers also highlighted the lack of education, which is recognized both within regular university programmes and in programmes of specialist studies and lifelong learning studies. A number of Croatian authors consider that support for young social entrepreneurs should be achieved through university teaching, i.e., through higher education institutions (Zrnić and Širola, 2014; Odak Krasić and Šaravanja, 2015).

When referring to insufficient education, as well as the overall low awareness of the importance of social entrepreneurship, networking and cooperation of social entrepreneurs on more complex joint projects, it is necessary to mention the constraints related to social innovations, in the absence of which it is impossible to discuss further development of social entrepreneurship. In this regard, a relevant question is whether the Strategy for Social Entrepreneurship Development 2015 even creates a basis for and encourages social innovation in Croatia at all. The circumstance that the potential of social innovation often remains untapped (Vidović and Baturina, 2021), is supported by the fact that in Croatia only a few social enterprises operate in the field of social innovation (E-glas, Rijeka; UZOR, Križevci; OmoLab, Split). Bežovan et al. (2016a) indicate some of the reasons for this, stating that the exchange of good practices is not sufficiently recognized as a policy instrument, and they attribute this constraint to excessive centralization and bureaucratization.

Some authors see a further serious limitation in the insufficient financial resources that would enable social enterprises to start and develop their business, and Odak Krasić and Šaravanja (2015) point out that "financial institutions do not distinguish social entrepreneurship from other types of entrepreneurship and therefore do not have specifically tailored financial products and services for social enterprises".

Based on the research study of the project

"Through Dialogue to the Croatian Network for Social Entrepreneurship", a number of other key weaknesses which point to the key constraints for further development of social enterprises are specified. Among the more relevant ones, not indicated previously by the survey respondents, were the legal uncertainties within the existing legislation, the non-stimulative tax system for the development of social entrepreneurship as well as the extreme dependence of social entrepreneurs on public financing. This research study also pointed to weaknesses such as negligent support for social entrepreneurs at lower government levels as well as from a part of regional development agencies and other support institutions, which resulted, among other, in an overall low level of adherence to a participatory approach in the implementation of the policy at all levels. On the whole, relational capital was very poorly developed. Among the more pressing weaknesses indicated were also the small number of Croatian experts engaged in research on social entrepreneurship, the insufficient capacity of social entrepreneurs for preparing and implementing EU projects, and the low level of specific skills of social entrepreneurs, as well as key actors and stakeholders, for dealing with social entrepreneurship issues.

On the whole, the quality of governance of the sector is visibly questionable, as specifically observed by Baturina (2018), who remarks that the development of social entrepreneurship is largely managed by the state, while in the public administration there is a lack of awareness of social entrepreneurship as well as a pronounced lack of both horizontal and vertical coordination.

Partly related to the above mentioned, and not a less important constraint which needs to be highlighted is the fact that the crucially relevant, integrated approach to the implementation of the social entrepreneurship policy in Croatia is still not visible. This is one of the key limitations, as social entrepreneurship relies heavily on the entrepreneurship development policy, social policy, regional development policy, employment policy, environmental policy, agricultural and cultural policies, tourism and more. In this way, synergy and complementarity are prevented, i.e.,

the cross-sectoral strengthening influence<sup>5</sup> in the implementation of measures from various interconnected development policies. For example, the findings of one study confirmed that respondents believed that social entrepreneurship should have a positive impact primarily on employment, and that the greatest potential for sectoral development existed in the sector of culture and the preservation of technical and cultural heritage (Šimunković et al., 2018). In the absence of observing social entrepreneurship from such an integrated, multisectoral perspective, a major opportunity for reaping a maximum of benefits for socio-economic development based on strengthening social entrepreneurship is not taken advantage of.

As observed, the views expressed by Croatian experts in the field of social entrepreneurship basically fully complement the list of key problems and needs identified by the survey respondents.

## 6. Conclusion

Although social entrepreneurship in Croatia is not sufficiently developed, the possibility of its contribution to overcoming social, economic and other development problems is to a certain extent recognized, as confirmed by the existence of the elaborated Strategy for the Development of Social Entrepreneurship in the Republic of Croatia 2015. In circumstances in which the public sector is not able to provide services of high quality in all segments of social and related services, the opportunities for the further development of social entrepreneurship are even more pronounced. Furthermore, unfavourable circumstances in the society did not lessen the citizens' expectations. New solutions/approaches/models of sustainable development of society are being sought, and the pressure to find the best solutions for raising the quality of life in the local community is all the more necessary. In order to reach the best solutions, it is primarily necessary to consider the key constraints and needs for the further development of social entrepreneurship. The conducted field research highlighted the fact that most social entrepreneurs

are engaged in the agricultural sector, followed by those involved in the provision of social services, those in manufacturing, tourism and culture. Given the importance of the sector of agriculture and rural development for the socio-economic development in Croatia, this circumstance further emphasizes the need for a parallel consideration of measures and activities implemented in a series of related, mutually interconnected policies if synergy, i.e., optimal development is sought. If the needs of social entrepreneurs are observed, the findings of the field research confirm that they are more complex and numerous compared to those in EU member states. Among the key ones it is necessary to emphasize the strengthening of available financial instruments and of investment support available to social entrepreneurs, as well as networking and partnerships with other social entrepreneurs. A significant number of respondents underscored the importance of establishing quality and clear legislation, the need of developing educational programmes for social entrepreneurs, a stronger development of the civil society sector in the segment of providing social services in the community, as well as the need of raising awareness and knowledge as to the importance and needs of social entrepreneurs among key stakeholders. Looking at the findings regarding relevant constraints, we see highlighted those which relate to insufficient financial resources for operation, a poor involvement of social entrepreneurs in international business and cooperation networks, but also undeveloped mechanisms of statistical monitoring of social entrepreneurship. Related to the presented survey results, it is not surprising that an extremely small number of social enterprises exhibit any significant employment. This fact reflects well the situation in this sector, which is linked to a number of previously mentioned problems, ranging from insufficient awareness of its importance to poor education, low support for social entrepreneurship, and insufficient regulatory measures and other non-supporting circumstances, such as financial mechanisms and the like. In addition to all these unfavorable factors, as particularly emphasized by the respondents, the

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<sup>5</sup> The insufficient cross-sectoral cooperation is also analysed by Perić and Dalić (2014), Odak Krasić and Šaravanja (2015) and a number of others.

research results confirm that the COVID-19 pandemic had negative consequences on the segment of social entrepreneurship, and it is expected that this circumstance will also be reflected in lower employment rates in the coming period. When adding to this list additional problems and needs as highlighted in the previous chapter, among which were additional legal, financial and tax system constraints, constraints in the segment of education and capacity building, inefficient bureaucracy and administration, as well as ineffective support by local and regional policy makers and stakeholders, a lack of horizontal and vertical coordination and numerous others, it is clear that there is an immense scope for improvement. Despite the visible and even very pronounced previously mentioned limitations for the further development of social entrepreneurship, the potential for future development is visible, based on excellent examples of good practice realized so far, albeit unfavourable circumstances. The potential is certainly seen when considering the experience of supporting the sector of social entrepreneurship in EU member states, but it needs to be stressed that a learning process and sharing of knowledge and experience are possible based on the initial examples of good practice as seen in Croatia, a fact which is currently insufficiently recognized. The further development of the sector needs to be considered in relation to the basic development guidelines of the key national strategic development document, the National Development Strategy of the Republic of Croatia until 2030, as well as in relation to other sectoral strategic documents at the national level, which relate to public policies relevant from the point of view of social entrepreneurship. Further activities and measures aimed at strengthening social entrepreneurship will also need to reflect the problems and needs as defined by the County Development Plans until 2027 which have recently been elaborated or are in the process of being finalized in the course of 2022. Highlighting the needs for strengthening social entrepreneurship within these strategies is certainly a first, essential step in order to start encouraging more strongly the development of the sector at the county level. However, in order to reduce the current constraints and make use of the visible development potential,

it is necessary, among other, to alleviate the highlighted constraints related to the insufficiently developed capacity as well as the strengthening of awareness of the relevance and contribution of social entrepreneurship to socio-economic development on the local and regional level. Furthermore, with the aim of making the most of the existing development potential, based on inputs from the conducted research results and as underlined by numerous authors so far, the low level of visibility of the sector remains among one of the further challenges for all involved, including the key actors at all government levels. One of the reasons for the poor use of the potential is the previously mentioned lack of understanding of the importance of the integrated development approach. In the absence of a horizontal consideration of the development of social entrepreneurship, i.e., the consideration of its development also within other related relevant public policies, the existing potential will not be effectively exploited. The importance of the complementarity of different policy measures is even more emphasized if we take into account the fact that the least developed rural areas are abandoned primarily by highly educated young people. Thus, just one in a series of examples of interrelated public policies is that of regional development, demography, employment and social entrepreneurship. Social entrepreneurship has a great potential for keeping the population in the assisted areas through the employment of young people in the social entrepreneurship segment, which requires a horizontal coordination of measures from the above-mentioned relevant development policies. In order to foster such coordination, it is necessary to embark on the removal of the immanent and still present "silos" between the ministries dealing with related policies and to strengthen the knowledge on integrated sustainable development approaches of all those involved (Tosics, 2011; Maleković et al., 2018). Such reinforcing and supportive action in the framework of different related public policies can strengthen the potential for further development of social entrepreneurship. In order to realize the mentioned potential based on the integrated sustainable development approach, it is necessary to establish the needed trust and

continuous cooperation between social entrepreneurs and the local community as well as to ensure support on the part of local and regional actors and stakeholders (Bateman and Maleković, 2003; Dronjak, 2019). The demonstration of responsibility, commitment, accountability and ownership from the part of the policy makers on lower government levels are also relevant factors for promoting the necessary change. If we add to this the important issues of transparency and participation, we see that governance on the whole is of primary importance when considering further approaches and actions to be taken. However, what will most decisively contribute to a stronger advancement in the further development of social entrepreneurship will be the results of the evaluation of the current Social Entrepreneurship Development Strategy. It would be more purposeful if the evaluation had been undertaken as an interim evaluation two to three years ago, in the middle of the implementation period of the Social Entrepreneurship Development Strategy. In that case, the evaluation findings could have been incorporated into the last part of the Strategy's implementation period, and there would have been opportunities to improve the efficiency, effectiveness, impact and sustainability of the results achieved to that point as well as the implementation of the overall measures as defined by the Strategy in 2015. Nevertheless, the

evaluation study will provide an excellent basis for promoting developmental change in the sector. The results of this Evaluation will have to be discussed jointly by experts and policymakers, thus facilitating the reaching of a consensus as to the most appropriate strategic framework to be implemented in the forthcoming period. Following the evaluators' recommendations, a high priority should be given to the undertaking of concrete actions on the part of the involved policy makers. In addition to poorly developed evaluation practices and underdeveloped capacities for evaluation, it needs to be stressed that taking actions following conducted evaluations is a particularly critical issue in Croatia. As is the case with all public policies, highly raised awareness, ownership and accountability of key policy makers will be among the further relevant factors in promoting change. Along with everything mentioned, the concentration on the most pressing identified constraints in this paper, as well as the incorporation of results on the basis of the forthcoming Evaluation, in circumstances of implementing a strong participatory approach, should provide the foundation for elaborating a new, operational Strategy for the development of social entrepreneurship for the forthcoming middle-term period.

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