

THE SOCIAL ENTERPRISE IN ROMANIA. AN EUROPEAN PERSPECTIVE ON THEIR CURRENT SITUATION

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The current paper is aimed at identifying the social enterprises according to EMES criteria by investigating the social economy actors in Romania. As an emerging field of study, social entrepreneurship and social enterprise have captured the attention of both practitioners from Europe and North America, and in recent years on other continents. In Romania, very little research has been conducted into the field, mostly as part of academic research papers from doctoral study students or masters, both from Romania and abroad. In Europe, several studies have been conducted among member state of the European Union, to bring to light this new emerging field.. Investigations in regard to social entrepreneurship in Europe have revealed the existence of this field among social economy actors, in the form of social enterprise, namely work integration social enterprises and social cooperatives. So far, Romania has not been included in them This papers tries to fill the gap of knowledge on this phenomena, by exploring, from a European perspective, the actors of social entrepreneurship in Romania. The methodology used was an analysis of secondary data in the form of legal documents (laws), reports of the social economy sector and scholarly articles related to social entrepreneurship in Romania. The assessment instrument is the EMES set of economic and social criteria that the social enterprises need to meet. Also, parallels have been made with the entities of the same nature in the European Union. The paper concludes on the state of social enterprise in Romania, with an underline on what its and implications for their further study. As main finding, two types of organizations fit best with the EMES criteria, authorized protected units and companies set up by associations and foundations. Also, further developments are expected as Romania is preparing for a law defining the social enterprise and social economy. The main implications of this research is drawing the lines, in the current state of the social economy who are the actors that can best fit with the concept of social enterprise in Romania. Our main contribution to the study of social entrepreneurship is to investigate what European scholars have done with most of the existing member state countries. Using the EMES criteria in the social economy sector in Romania has yet to have been done till this point.

Keywords: social enterprise, EMES criteria, Romania, social economy

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1. Introducing the social enterprise in Europe.

Social entrepreneurship is a topic of growing interest for scholars in many fields, including management, sociology, psychology or economics. As a growing field of study, the literature on

the topic is very fragmented and widely dispersed and represents “a multitude of challenges and research opportunities” (Desa, 2007:20). Social entrepreneurship literature abounds in research paradigms, showing an increasing interest in its emerging nature. From this wealth of perspectives, the current paper explores social entrepreneurship as a “product” of the third sector, in the shape of a social enterprise. This view, also popular on the American continent, is the most widely spread on the European land. The concept of social entrepreneurship in the social economy in Europe, has been so far associated with the existence of the *social enterprise*. The term *social enterprise* “is American in origin and distinguishes from non profits by having moved away from reliance on more traditional forms of income, such as grants, towards a more entrepreneurial and business-like approach to raising revenue. ” (Arpinte, 2010:154). At the European level, two definitions for social enterprises are widely recognized. The first was developed by the British government, in 2002, in the paper entitled *Social Enterprise: A Strategy for Success* as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners”(DTI 2002). The second belongs to EMES (European Research Network) in 2006, which considers social enterprise as “organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. They place a high value on their independence and on economic risk-taking related to ongoing socio-economic activity”(EMES - European Research Network 2012). Unlike the UK definition, the EMES definition takes into account various national traditions and sensitivities present in the European Union, as it is the result of an extensive dialogue among scholars from different disciplines and countries of the continent.

In Europe, the concept of social enterprise has become known starting the 1990's, when a new type of (social) cooperative organizations have been approved by law by the Italian government. These “social enterprises” or “social cooperatives” have had over time additions with models in countries like Great Britain, France and Belgium. Conceptually, the social enterprise can be seen as a bridge between two spheres of thought in the not for profit (social economy) literature: the cooperative and traditional associative forms or general interest organizations (associations, foundations) (Defourny and Nyssens, 2006). These two areas of the social economy, by themselves don't share anything else but the fact they start of as actors of the social economy. The cooperatives, along with mutual societies offer their output on the market for sale, whereas associations and foundation, have very little economic orientation and depend almost entirely on outside financing. Just like in the case of the social enterprise in North America, this gap between being totally non economical and being only economical oriented is being blurred more and more. As the Foundation for the Development of the Civil Society presents it, the concept of social enterprise represents an extension of the concept of social economy, adding to the basic elements that define the social economy (social mission, democratic control, limited profit distribution) three new elements: entrepreneurial orientation in providing social services, aiming for a wider spectrum of beneficiaries and growth of the quality of the democratic control. (Fundatia Pentru Dezvoltarea Societatii Civile 2011). In order words, being a non profit organization aiming for the good of the community and people is not enough. The organization needs to survive and provide for all the stakeholders involved. The debate is still opened whether there is a need for a new term to define what has been there already for a long while.

2. The social enterprise in Romania

2.1. Earlier attempts to make social enterprises visible

Social enterprises in Europe have been so far clearly defined as originating and developing in what is known as social economy (Defourny, 2001). As a member of the European Union since 2007, Romania has taken up fully the challenge of developing its social economy, while

embracing the largely accepted views regarding this on the continent. Next to the term of social economy, which is new for Romania (known to the general public after the EU accession), the sector itself is younger than some of the existing members of the European Union. With a history of civil society oppression and communist totalitarian regime, Romania has a “young” social economy sector (in the real meaning of the word). Although some of the traditional forms of social economy were present during this regime (cooperatives, mutual societies associations), they were state governed and controlled. Only starting with 1990, after the revolution, the real third sector has begun to develop. Romania recognized by law and encourages all the basic forms of social economy: associations, foundation, cooperatives, mutual societies and recently, social enterprises. Along with Romanian’s accession to the European Union and the emergence of the concept of social economy in our country, a series of steps to identify both the social economy actors (according to the European view) and the social enterprises have been noted. Although not legally defined and visible, social enterprises in Romania, have the benefit of taking various shapes among the organizations of the social economy.

Recent steps to create a social economy law in Romania, currently in public debate, include new legal categories assimilated to the social enterprise: the social cooperative and the enterprise of social integration. Until the initiative is finalized, social enterprises are partially defined in legislation but are not officially recognized along with the other organizational forms of the social economy. Both international and national literature focused on social entrepreneurship as social enterprises in Romania is constituted by both academic views and those of practitioners. Although the number of studies is still low, the study of literature and secondary and tertiary sources have revealed a few delineations of social enterprises in the Romanian geographical space.

Table 1. The results of the studies on social enterprises in Romania

Name of study / Institution	Criterion for identifying social enterprises	Type of organization identified with social enterprise	Number of organizations identified
SELUSI, 2011 <i>Survey of Social Enterprises in Europe</i>	Organizations with a social, economic purpose and entrepreneurial approach	Organizations with operational models for income generation	74 organizations
GEM, 2010 <i>Global Entrepreneurship Monitor</i>	Persons or organizations involved in entrepreneurial activities with a social mission	Organizations with strong social / environment missions and income generation strategy	2,5 % of the population
NessT 2007/2010	A business, profit or nonprofit, created to address critical social issues in a financially sustainable manner	Financially sustainable business	10 organizations
European Commission, 2007 <i>‘Study on Practices and Policies in the Social Enterprise Sector in Europe’</i>	Entrepreneurial spirit, social mission and non distribution of profit	Cooperatives for the disabled, Authorized protected units.	41 organizations

Source: Own processing, 2012

The studies presented above have used primarily the criteria of social mission, economic purpose and entrepreneurial approach as criteria for identifying the social enterprises in our country. One important point related to these studies is the difficulty of access to information related to social enterprises. This is mostly due to the lack of clear cut definition in the Romanian law of entities that can be considered social enterprise as well as a law for the social economy.

2.2. The social enterprises in Romania – using EMES criteria

As mentioned above, the approach to identify social enterprises in this research are the EMES criteria. The identification of social enterprises was done theoretically by the author, following the economic and social criteria of the EMES academic view, in light of legal regulations.

The types of organizations analyzed in terms of the EMES criteria are the organizations considered in the study of the Ministry of Labor, Family and Social Care (2010) as specific forms of the social economy: associations, foundations, cooperatives, mutual societies and mutual benefit societies. From the category of general forms relevant to the social economy, authorized protected units were also considered. The reason for choosing UPAs is the overlap with the concept of social enterprise both in the legal proposal of the social economy of Romania and with the existing forms of social enterprises in different European countries (Great Britain, Italy, the Netherlands, Spain). An analysis of the legal regulations of the social economy actors in Romania and considering the EMES criteria therein revealed the possibility of the presence of the social enterprise status under any of the forms of social economy in EMES's ideal conditions, provided that forms such as cooperatives, CARs, mutual or protected units are organized as associations and foundations. The closest forms of organization to the theoretical concept of EMES are UPA and companies set up by associations and foundations. For a more clear understanding of this analysis, the breakdown for each of the EMES criteria is presented further. The explanations for each criteria are also provided as accepted by the EMES network and published in (Defourny, 2001).

Table 2. Analysis of the EMES criteria within social economy organizations in Romania

EMES criteria		UPA	Companies by NPO's
ECONOMIC			
E1	Continued activity of production of goods and / or services	Yes	Yes
E2	High degree of autonomy	Yes	Yes
E3	A significant level of economic risk	Yes	Yes
E4	A minimum number of employees	Yes	Yes
SOCIAL			
S1	An explicit goal dedicated to the community	Partially applies (not stipulated by law, applied through the scope of the organization)	Partially applies (not stipulated by law, depends on the organization)
S2	An initiative launched by a group of citizens	Partially applies (if the organization has more than one founding members)	Partially applies (if it is considered a form of association as a citizens' initiative)
S3	Decision-making power not based on the principle of capital ownership	Partially applies (not made compulsory by law)	Partially applies (not made compulsory by law)
S4	Participatory nature involving various parties affected by the activity	Yes (beneficiaries are involved in the production of goods in some cases)	Partially applies (not made compulsory by law)
S5	Limited distribution of profit	Yes (profit has to be reinvested in the organization)	Yes (profit has to be reinvested in the organization)

Source: Own processing, based on legal regulations. 2012

One conclusion of this analysis is that at least two of the actors of the social economy in Romania come very close to the EMES “ideal type” of social enterprise. The lack of legal regulation

specific to social enterprise has not prevented social economy actors in Romania to become more entrepreneurial. Recent efforts made by the Romanian government to encourage transparency and support in the social economy sector has led to the creation of a Social Economy law. Although still under debate, the law gives attention to the social enterprises and the definition considered is "Social enterprises are private legal entities carrying out economic activity, as well as nongovernmental organizations or other association forms stipulated by law that meet simultaneously, according to the documents on the basis of which they operate, the principles laid down in Art. 3, as well as conditions regarding governance, profit distribution and employee structure (at least 40% vulnerable group). What is also relevant for this law is that the concept of UPA is replaced by social enterprises. It is still not clear what the outcome of this law will be for these organizations in regard to the segment of work integration for people with disabilities. The law does however encourages all the application of all the EMES criteria for the social enterprise. As a sector still maturing after decades of absence during the communist era, there are still doubts about the credibility and reliability of these organizations. One idea is that companies set up by associations and foundations were chosen for the purpose of tax evasion, and with a declared social purpose, they lack their pursuit. Other examples, like football clubs, which are founded as associations and then with a company attached, have large revenue and profits and have a questionable social aim. In regard to UPA, phantom protected unites have been discovered, that is, companies which have presented themselves to the state agencies as employing persons with disabilities, and in reality have served their founders for tax relief.

2.3.Social enterprises in Romania - what do they do

After identifying the social enterprises based on the legal aspects that define the actors of the social economy, a further inquiry was considered to discover what is the nature and contribution of these organizations to the social economy and not only. The benefits that hybrid organizations of the third sector bring for the community and society that they exist in needs only reminders, and not justifications. The entrepreneurial nature of their structure create basis for economic added value and social problem alleviation. In Romania, the UPA and commercial companies set up by associations and foundations represent a small section of the social economy sector in the country. A recent study of the social economy sector in Romania (F.D.S.C., 2011) showed that indicated the existence of approximately 70,000 registered organizations, of which 25,744 were identified as organizations active in INS statistics. These organizations have had a combined income of 6 billion RON in the year 2009, and over 163,000 employees, hence 3.3% of the total employed population (FDSC, 2011).

A recent list of existing UPA (authorized protected united) reveled a number of 476 such organizations in 2011. An important elements of novelty is that a limited number of these organization have a pure legal structure as UPA, as the majority constitutes small and medium , limited liability companies. As legally created entities, organizations that include disadvantaged groups on the labor market, have fiscal relieve, as long as the profit gets reinvested for the most part (75 %) back in the company. UPA organizations can be found in almost all the areas o the economy, the most prominent ones being manufacturing, trade and professional services. The manufacturing sector includes carton, crafts, textiles, fields that allow easier access for people with handicap to work. Out of the 2700 associations and foundations which produced income in Romania in 2009, according to listafirme.ro, a database updated with official information from Ministry of Finance, only 727 associations and foundations were founders of a commercial company. The companies set up by associations and foundations include companies supporting activities of professional associations, religious charities, forest exploitation. The main fields of activity include wholesale and trade, manufacturing, agriculture and professional scientific services. Is it important to notice that both types of social enterprises tend to activate in the same fields.

2.4. Social enterprise in Romania and social enterprises in Europe

An important milestone in the study of social enterprises in Europe is represented by the work of Defourny and Nyssens, over the past decade, the authors draw attention to the fact that social enterprises across Europe adopt legal forms that have existed for a long time: associations, co-operatives or companies limited by share or guaranty. In countries where selling goods and services have a larger degree of freedom is allowed for associations, this form was often considered. In countries which don't offer this freedom, social enterprises take the form of either co-operatives or traditional business forms. In Romania, the law allows associations and foundations to conduct economic activities, up to 50 % of their total income, as well as set up companies, with the restriction that most of the profit has to return to the association or foundation. The authors also underline that one of the most dominant forms of social enterprises in Europe are *work integration social enterprises (WISE)*. Fact is that for some disadvantaged groups on the labor market, such social economy organizations can increase the employability of, and provide employment for the labor force (Bibu, Lisetchi and Năstase, 2012). More specifically, the work integration social enterprises address the problems related to longterm unemployment and occupational inactivity of disadvantaged people in the labour market. According to Davister et al. (2004) there are four main groups of WISE organizations: enterprises offering occupational integration supported by permanent subsidies, WISE that provide permanent, self-subsidized employment, third group includes (re) socialising people through productive activities and the last group includes WISE offering transitional employment of traineeship. For a detailed description please visit (Davister, Defourny and Grégoire 2004). Among these four groups, the WISE groups which resembles the most the UPA – authorized protected units is the first group - enterprises offering occupational integration supported by permanent subsidies. These WISE organizations provide open-ended work contacts for handicapped people. They satisfy the gap between the capabilities and productivity required by the labour market and the special needs that these disadvantaged groups require. Many times these WISE organizations are known as sheltered employment. Although the UPA in Romania exist where there is at least 30 % of paid employees belonging to handicapped people, their main aim is to provide this group with a working place and means to self sustain.

3. Conclusions and limitations

Romania has the traditional forms of social economy, out of which two suit the best the EMES criteria for social enterprises, UPA and companies set up by associations and foundations. The number of these organizations that could be named social enterprises is very small compared to the overall sector of social economy, showing a less orientation for entrepreneurial ventures in this sector. As limitations of this study the databases used may suffer from lack of full data. Another limitation is the fact that the analysis focus on the legal regulations regarding the social economy organizations in Romania. The main implications of this research is drawing the lines, in the current state of the social economy which are the actors that can best fit with the concept of social enterprise in Romania and facilitate further inquiries can be made into studying the managerial and economical implications of this emerging field – social entrepreneurship.

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