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Contribution of the economic and social sector to economic development: the case of the UK, Sweden and Lithuania

Abstract

Social enterprise development is a significant factor for social and economic sustainability of countries. The rapidly growing social economy sector contributes to economic development by attracting significant attention from international and national policymakers. It redefines the «market» versus «state» institutional tradition and discovers a new field for economic and welfare development.

The article analyses social enterprises' evolution, scale, scope and contribution to national economies in the UK, Sweden and Lithuania. The research highlights the complex nature of the social economy ecosystem and transformative impact through the intersection of three elements: social impact, economic sustainability and democratic governance. Innovations flow into the public sector through partnership with social enterprises. Social economy organisations fuel entrepreneurship and play significant role in the development of economic and social cohesion and sustainability in deprived rural areas. Social enterprises become key partners for states aiming to fuel competition and innovation into the public sector through deinstitutionalisation and decentralisation of state functions.

The article unveils the role which social economy sector plays in the UK, Sweden and Lithuania. It highlights paradoxes which emerge from the specific historical background, particularly the interruption of the Soviet regime, separation of both the private and public sectors and segregation of social economy from economic landscape observed in Lithuania in the contrast to Sweden and the UK.

It has been concluded that social economy plays a significant and undervalued role in maintaining the national and global economies. Social economy organisations contribute to GDP through their trade in goods and services in the market and to welfare through sustainable innovative services, including their ability to deal with problems which state or private companies are not able to solve. They generate profit in economically weak areas and fuel entrepreneurship into deprived rural territories. Across different countries, social economy organisations vary in legal forms and scope of their activities. They are organised into unique ecosystems framed by specific socio-political conditions.

Keywords: Social Economy; Social Enterprise; WISE; Welfare; Public Services; Rural Development; Lithuania; Sweden; UK

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Сполучене Королівство, Швеція, Литва

Анотація

Розвиток соціального підприємництва є важливим фактором, що визначає соціально-економічну стійкість країн. Вплив сектора соціальної економіки на економічний розвиток викликає зростаючий інтерес з боку політиків як всередині країни, так і за її межами й зумовлює інституційну традицію протиставлення ринку державі, відкриваючи нові перспективи для розвитку економіки й підвищення добробуту.

У статті аналізуються еволюція, масштаби і внесок соціальних підприємств в національну економіку Сполученого Королівства, Швеції та Литви. Особливу увагу в дослідженні приділено складній системі соціальної економіки й взаємодії трьох елементів, якими є соціальний вплив, економічна стійкість і демократичне управління. Інновації надходять у державний сектор через партнерство із соціальними підприємствами.

Соціально-економічні організації сприяють розвитку підприємництва та відіграють важливу роль у підвищенні економічної та соціальної згуртованості та стійкості в бідних сільських районах. Соціальні підприємства стають ключовими партнерами для держав, що прагнуть стимулювати конкуренцію та інновації в державному секторі за допомогою деінституціоналізації й децентралізації державних функцій.

Авторами дослідження вивчено, яку роль сектор соціальної економіки відіграє у Сполученому Королівстві, Швеції та Литві, а також розглянуто парадокси, в основу яких лягли конкретні історичні передумови, а саме: крах радянського режиму, поділ сектора економіки на приватний і державний, а також сегрегація соціальної економіки відповідно до економічного ландшафту в Литві, на відміну від реалій Швеції та Сполученого Королівства.

Ключові слова: соціальна економіка; соціальне підприємство; інтегровані соціальні підприємства; добробут; комунальні служби; розвиток сільських територій; Литва; Швеція; Сполучене Королівство.

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Влияние сектора социальной экономики на экономическое развитие: Соединенное Королевство, Швеция, Литва

Аннотация. Развитие социального предпринимательства является важным фактором, определяющим социально-экономическую устойчивость стран. Влияние сектора социальной экономики на экономическое развитие становится предметом растущего внимания со стороны политиков как внутри страны, так и за рубежом. Он предопределяет институциональную традицию противопоставления рынка государству и открывает новое поле для развития экономики и повышения благосостояния. В статье анализируются эволюция, масштабы и вклад социальных предприятий в национальные экономики Соединенного Королевства, Швеции и Литвы. Особое внимание в исследовании уделено сложной системе социальной экономики и взаимодействию трех элементов, которыми являются социальное воздействие, экономическая устойчивость и демократическое управление. Инновации поступают в государственный сектор через партнерство с социальными предприятиями. Социально-экономические организации способствуют развитию предпринимательства и играют важную роль в повышении экономической и социальной сплоченности и устойчивости в бедных сельских районах. Социальные предприятия становятся ключевыми партнерами для государств, стремящихся стимулировать конкуренцию и инновации в государственном секторе посредством деинституционализации и децентрализации государственных функций. Отдельное внимание в статье уделено роли, которую сектор социальной экономики играет в Соединенном Королевстве, Швеции и Литве, а также парадоксам, в основу которых легли конкретные исторические предпосылки, а именно: крах советского режима, разделение частного и государственного секторов, а также сегрегация социальной экономики в отношении экономического ландшафта в Литве, в отличие от того, что наблюдается в Швеции и Соединенном Королевстве.

Ключевые слова: социальная экономика; социальное предприятие; интегрированные социальные предприятия; благосостояние; коммунальные службы; развитие сельских территорий; Литва; Швеция; Соединенное Королевство.

1. Introduction

Social economy has been poorly integrated into economic theories comparing to circular economy, inclusive economy or other new trends (Noya & Clarence, 2007; Spear et al., 2018). There is an assumption that social economy organisations operate outside the market mechanisms which authors of several international studies prove to be mistaken (Borzaga et al., 2011; E. Defourny & Nyssens, 2010; Watson, 2017; Henderson, 2018).

The social enterprise sector recently is growing rapidly and attracts investors, policy makers and scientists as an emerging sector in the global economy (Sepulveda, 2014; Rostron, 2015; Galera & Borzaga, 2009; Defourny & Nyssen, 2012; Agapitova et al., 2017; Baldacchino, 2017). Governments and international organisations, the European Commission and the Organisation for Economic Cooperation and Development (OECD) officially recognise the role of social enterprises in addressing social, environmental and other cross-sectoral challenges, bringing sustainable innovations, promoting entrepreneurship in rural areas and developing agile business models (Noya & Clarence, 2007; Sepulveda, 2018; Mazzei, 2017). On the other hand, the cross-sectoral nature and the mixed business model of social enterprises challenge traditional division of economic and non-economic sectors and unveil the grey areas of the traditional economy (Bacq & Janssen, 2011; Billis, 2010; Defourny & Nyssens, 2017).

2. Methodology

The research presented in the article seeks to highlight opportunities and challenges related to the development of the social enterprise sector. The research combines various methods: analyses of statistical data, analytic reviews, scientific literature, research studies and legal framework, the case analysis and stakeholders interviews.

The comparative analysis of statistical data highlights the contribution of the abovementioned sector to national economies, legal forms, scale, employees, sectors of involvement and future development perspectives across three different countries: UK, Sweden and Lithuania. The analytic review of research studies pictures historical evolution of social economy organisations in different countries and shows how the origin of social enterprises has impacted the scope of legal forms, business models and activities today. The case analysis and research based on interviews unveils the multifaceted impact of social enterprises on social and economic sustainability, rural development and innovations in the public sector.

3. Purpose

The study elaborates a hypothesis based on the idea that growing social enterprise sector plays a significant and transformative role in the development of an inclusive and sustainable economy. Social enterprise goes beyond conventional «bi-polar» representations of the economic landscape which stress the central place of the market and the regulatory role of the state (Defourny & Nyssens, 2012; Ostrom, 2009; Borzaga et al., 2016; Eldar, 2017) and raises up paradoxes between the old and the new legal systems and stimulates new cross-sectoral policies. The article opens discussions around new actors of the economic development and highlights the complex nature of social enterprises.

4. Brief Literature Review

Across countries, scientists observe a broad variety of forms, models and definitions of social economy, as well as unique combinations of actors within social enterprise ecosystems formed in the bottom-up manner in the unique socio-political environment (Chaves Ávila, Monzón Campos, 2007; Ridely-Duff & Bull, 2011; Borzaga et al., 2016; McMullen, 2017; Defourny & Nyssens, 2017; Mason, 2018).

The agreement on the contemporary definition of social economy was reached by the EU's representative institution at the Charter of Principles of the Social Economy promoted by the European Standing Conference on Co-operatives, Mutual Societies, Associations and Foundations (CEP-CMAF) in 2002. The Principles qualify to social economy any organisations that have autonomous management, democratic decision-making processes and freedom of association, created to serve members, users or general interest by market activities, and most of the surpluses used in pursuit of this aim.

A. Fici (2015), L. Sepulveda (2014), J. Defourny and M. Nyssens (2017) argue that the pure legal forms of the non-profit sector and the pure forms of the for-profit sector are inadequate to accommodate the phenomenon of a social enterprise. G. Galera and C. Borzaga (2009) see a fundamental change and stress that social enterprises influence the theoretical concept of enterprise in general: the conception of enterprises as organizations promoting the exclusive interests of their owners is questioned by the emergence of enterprises supplying general-interest services and goods in which profit maximisation is no longer an essential condition.

Typically, social economy organisations adopt either a non-profit or a for-profit organisational form, and the definition of the sector should not be limited to any

specific legal forms. A. Szymanska and M. Jegers (2016), D. R. Young (2012), D. Billis (2010), M. Nyssens (2006), J. Defourny (2014), T. Besley and M. Ghatak (2017) define social enterprises as hybrid organisations: a mishmash of legal forms and projects (Young, 2012), a combination of various resources and institutional logics (Billis, 2010; Nyssens, 2006), a mixture of the objectives of two groups of stakeholders: the owners and the managers (Szymanska & Jegers, 2016), a balance between profit and social impact objectives (Besley & Ghatak, 2017), activities combining the features of social work and business (Artcer et al., 2016), or the creation of blended value which includes both social and financial value (Agafanow, 2014; Dao et al., 2017). The summarised overview of social economy organisations, highlighting structural differences of the core elements, e.g. motives, assets, accountability, governance and surplus in the hybrid spectrum from non-profits to traditional enterprises, is presented in Figure 1.

The reforms of welfare services toward market and promotion of competition through Europe (Le Grand, 2007; Sepulveda, 2014; Legreid, 2017) also relate to increasing role of social economy organisations, particularly social enterprises (Cace et al., 2010; Wright et al., 2011; Frances, 2008; Vickers, 2017; Steiner, 2017). Social economy organisations, the leading partner to the state in co-production of public services, represent the fastest growing sector in Europe, form fertile ground for the creation of many new enterprises locally, operate as businesses and contribute to national and global economies (Sepulveda, 2014; Cabinet Office, 2010a).

5. Comparison of evolution of social enterprises in the UK, Sweden and Lithuania

Different historical context frames different nature and a variety of social enterprise models prevailing in a country or region (Gualera & Borzaga, 2009; Defourny & Nyssens, 2017; Kerlin, 2017). A comparative analysis of social enterprise universe in the UK, Sweden and Lithuania confirms, that different historical context frames a different nature, scale, scope and variety of social enterprise models prevailing in a country or region.

Social enterprise activities in Sweden and the UK have a continuing and long-standing tradition. In Sweden and the UK, social enterprises historically operated and developed in the market in partnership with traditional business companies. In Lithuania, the sector faced disruption by the Soviet regime. In contrast to the general trend, when social entrepreneurship rises as form of grass root civil activities, social entrepreneurship in Lithuania appeared as a result

of different structural reforms implemented by the government.

Social enterprise in UK

In the UK, the first social economy organisations, mainly social enterprises operated in 1840s. In Rochdale, the workers' cooperative was established to provide quality and affordable food to factory workers. The «Fair Trade» movement in the late 1950s stimulated the expansion of social enterprise and bridged the gap between profit-seeking for private interest and volunteer activities to solve social problems (Wright et al., 2011; Nicholls, 2017; Han, 2017).

The rebirth of social enterprise started in the 1990s, when the sector gained consistent support by the government policies (Foster & Bradach, 2005). In 2001, the dedicated Social Enterprise Unit within the Department of trade and Industry was created. After the financial crisis the new Coalition Government in 2010 announced the reform of public services and the vision of a «Big Society» (Cabinet Office, 2010b), where more decisions and responsibilities are downshifted to civil society.

Social economy in Sweden

Swedish social economy organisations emerged in the 18th century with the temperance movement and associations, including free churches, labour movements, cooperatives, sports and adult education organisations (Stryjan, 2004). Later, from the 19th century, the welfare services were taken over by the state and public authorities (Pestoff, 2014). Social economy organisations emerged to meet the social needs that were not satisfied by the state and municipalities and became a flagship for social innovations in public sector (Stryjan, 2004; Gawell, 2017; Borzaga et al., 2016).

In Sweden, social economy organisations were not recognised as significant contributors to the economy till the late 1990s and the time when welfare services were decentralised. The reform opened market competition to the state-owned sector: schools, health care, elder care and labour policy. The market for public service stimulated growth of social enterprises (Gawell, 2017; Sivesind, 2017). Currently, state organisations, both private enterprises and social enterprises, compete to provide services and are recognised as subjects of the state economy.

Social economy in Lithuania

In the pre-war period, until 1940, social economy organisations developed in Lithuania as they did in many European countries. There were charity organisations and Christian cooperatives providing social services. During the Soviet period (1946-1990), all independent and democratic civil organisations were either prosecuted or forbidden.

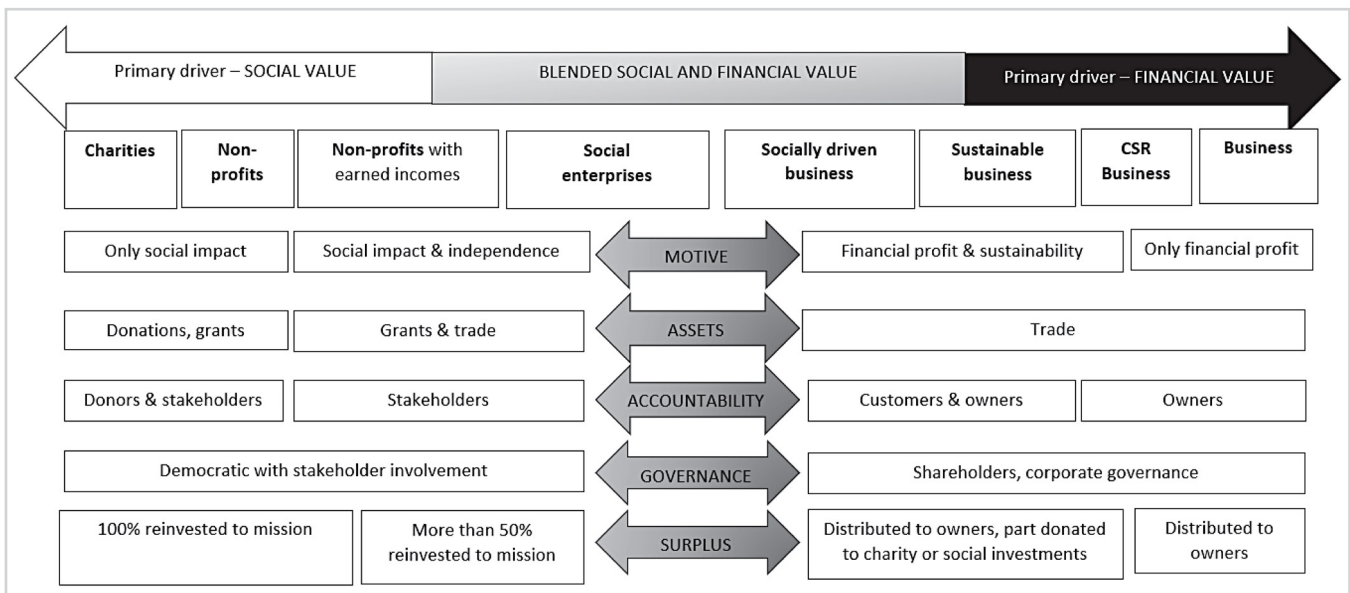


Fig. 1: The place of social economy organisations in the hybrid spectrum
Source: Compiled by the authors

The true nature of civil organisations was distorted by the nationalisation of private assets and by the process of forced collectivisation.

The interviews with stakeholders reveal that the Soviet period made a significant imprint on the attitude of today's society toward social enterprises: society does not trust cooperative and volunteer activities. Social economy organisations are dependent on state funding. Also, there is a clear opinion that welfare services and profit-seeking economic activities oppose. Such attitude is manifested in the legislative system, financing programmes and division of services between non-profit and for-profit legal entities, as described further.

Since the restoration of the independent state in the 1990s, social enterprise in Lithuania has developed in two directions: the work integration social enterprise (WISE) and other types of social enterprises. WISEs were institutionalised in 2004 and benefited from a special legal status, permanent financial aid system, tax exemptions and other preferences. The number of WISEs has grown dramatically from 13 enterprises in 2004 to 186 in 2017, creating a heavy financial burden on the state: the state financial aid to WISEs in 2004 was EUR 1.2 million, and, in 2017, it reached EUR 16.3 million. Furthermore, the ex-lege recognition of this type of social enterprise has also contributed to the overshadowing of other types of social enterprise. The other types of social enterprise emerged in the market as grassroots organisations. They mainly adopted non-profit legal forms and lobbied for new legislation which would not be limited to WISEs.

6. The scale and types of social economy organisations

Social economy organisations relate to an undervalued sector of Europe's economy. They operate in various areas of public policy creating possibilities for social and economic inclusion to different social groups and provide innovative solutions to socio-ecological problems which state and private companies are not able to solve (Sepulveda, 2014; McMullen, 2017; Defourny & Nyssens, 2017).

Social economy organisations compound 10-12% of all European businesses, with 2.8 million entities. Social economy creates 13.6 million paid jobs in Europe, which is 6.3% of the working population of the EU-28, and engage 82.8 million volunteers, an equivalent of 5.5 million full-time workers. The sector is more resilient to the economic crisis: the number of employees in social enterprises dropped only from 6.5% to 6.3% during the 2008-2009 period when the decrease of paid workforce in SMEs was up to 10% (CIRIEC, 2016).

UK: examples of leadership

The UK is a country that has a strong social economy sector and is often represented as a model to other countries. In 2017, there were approximately 100,000 social enterprises, which contributed GBP 60 billion, i.e. 3%, to the UK GDP. The sector employs 2 million people, which corresponds to 5% of the UK workforce. Social enterprises are more successful economically: 47% of social enterprises grew their turnover in the last year, compared with 34% of the UK traditional businesses. In the UK, social economy organisations adopt the following legal forms: private companies limited by guarantee (41%), charity organisations (36%), community interest companies (10.5%), private companies limited by shares (8%), and industrial and provident societies (1.5%) (Seforis, 2016).

Sweden

The social economy in Sweden is very different from that of the UK. The peculiarities are preconditioned by historical context and state policies. The sector consists of WISEs and civil society organisations. In 2017, there were 333 work integration social enterprises with 9,630 employees. According to the Statistics Sweden, there were 92,000 economically active civil society organisations in 2014, and their contribution to Swedish economy was SEK 216 billion or 3.2% of the country's GDP. Social economy organisations in Sweden are non-profit associations (31.3%; 46,930), housing cooperatives (25.5%; 23,499),

foundations (13.7%; 12,614), communities (4%; 3,715), private limited companies (2.2%; 2,041), economic associations (1.9%; 1,817), religious communities (1.2%; 1,071) and others (Statistics Sweden, 2016).

The civil society organisations employ 3.8% of all the country's workforce or 150,000 full time employees. It is estimated that social economy organisations additionally involve 1.7 million people through voluntary participation, which is equivalent to 60,000 full time employees (ICF Consulting Services, 2014).

Lithuania

In 2017, the social economy sector in Lithuania comprised 7,379 legal entities, which comprises 6.5% of all active organisations in Lithuania (Statistics Lithuania, 2019). This number corresponds to 7,193 financially active non-profit legal entities and 186 WISEs. Non-profit legal entities employed 118,393 people, whereas WISEs accounted for 12,150 people out of whom 9,356 persons were disabled. In total, the social economy sector in Lithuania employed 130,543 people, which is 9.6% from all workforce according to information provided to the researchers by the State Social Insurance Fund Board.

The sector in Lithuania comprises a variety of different legal forms, among them are public establishments (65%; 4,827), associations (26.5%; 1,954), foundations (3%; 218), limited liability social enterprises (2.5%; 186) and others. Since 2014, the number of work integration social enterprises, which are mainly limited liability companies, have been growing on average by 10% per year, exceeding the growth rate of small and medium-sized enterprises during the same period, with their average growth rate equal to 7.5% per year (Versli Lietuva, 2017). The growth of non-profit organisations is lower and the growth rate is decreasing. Since 2014, the average yearly growth of public establishments has been 7.4%, with 3.4% for associations and 3% for foundations.

The paradoxically big scale of Lithuania's social economy is observed due to the establishment of public legal form adopted by independent non-profit organisations, true social economy entities, as well by state organisations providing public services, such as hospitals, universities, schools, social service centres and for-profit organisations that are engaged in the provision of welfare services in education, healthcare, elderly care, nurseries, etc.

7. Sectors of economic activities of social economy organisations

In different countries, social economy organisations are mainly engaged in the provision of welfare services to the public and are main partners for the state and municipalities. Research shows that social enterprises are highly innovative and capable of developing new services, products or processes in the form of social innovations for the public sector (Seforis, 2016; Nordic Council of Ministers, 2015; Vickers, 2017; Bailey, 2018). Often, innovations introduced by social enterprises are not only new to the organisation, but also new to the market and refer to radical innovations (Seforis, 2016).

Social enterprises are engaged in a broad variety of sectors. In the UK, the leading sectors of social enterprises in 2017 were retailing (16%), business support and consultancy (13%), education (11%), creative industries (9%), employment and skills (8%), health care (8%), social care (8%), culture and leisure (7%), environmental services (7%), financial support and services. There, social enterprises are the most innovative sector. In the last 12 months, 50% of social enterprises have introduced new products, compared to 33% of SMEs in 2016 (Social Enterprise UK, 2018).

In Sweden, WISEs operate in retail, hotel and restaurants, household services and real estate, handicraft and recycling. Civil society organisations are mainly engaged in housing and social care (34.5%), recreation and culture (24.7%), advocacy and opinion making (7.5%), education and research (5%), etc. (Statistics Sweden, 2016).

In Lithuania, the most popular activities among all types of social enterprises are education (22%), cleaning (10%),

social care (8%), construction (7%), sports (7%), crafts (7%), food production and catering (6%), culture and leisure activities (6%). Work integration social enterprises are mostly engaged in low skill jobs, with cleaning, construction, food production or crafts being the most popular of them. Non-profit social enterprises are engaged in the following service sectors: education, sports and social care (Eurointegracijos projektai, 2014).

In Lithuania, the division of sectors by legal entities is paradoxical and not relevant to other countries. It was induced by the international aid programmes and state regulations and financing. Typically programmes aiming to finance provision of public services were eligible only to non-profit legal entities, and business development support or subsidies were accessible only to traditional enterprises. Following the adopted legal acts, work integration social enterprises can't be associations, foundations or public establishments.

Regional development

Social economy in all the three countries plays a significant role in regional development and social cohesion. Social enterprises emerge in areas which are not reached by the state and are not interesting to businesses due to their low profitability. Social enterprises bring entrepreneurship into deprived areas, which is crucial for regional development (Arkan, 2010; Audretsch, 2014; Steiner, 2017; Apostopolous, 2018).

Particularly, social enterprises are very heavily concentrated in the UK's most deprived communities, 32.9% of all social enterprises work in the top 20% of the most deprived communities in the UK, compared to 13% of traditional SMEs (Department for Digital, Culture, Media & Sport, 2017). Usually (79%), social enterprises are local employers who create opportunities for the disadvantaged (Social Enterprise UK, 2018).

A study on the European Union's financing impact on public goods and services in rural areas of Lithuania (Kuliesis, Pareigienė, 2016) states that the EU financing boosted local communities in rural areas from a few hundred in 2002 to 1,858 in 2016. Out of the 2,381 analysed LADER program projects implemented by local communities, 55% were

investments into public service infrastructure, which stimulated social entrepreneurship (Audretsch, 2004). For example, the Brožiai village community has 15 full-time employees who are disadvantaged local inhabitants and provides catering services buying products from local farmers. The Budraičiai community produces jams, juices, marinated vegetables, confectionary, investing all the surplus from their economic activities in the local children day-care centre and youth sports club. The community has facilitated the establishment of local organic farmers cooperative to support high quality organic production.

The diverse impact of social enterprise implicates the need for more complex and broader understanding of the phenomena, as well as conditions which support its development and possibilities of integration into the social mainstream of economic and regional policies (Fink, 2017; Bailey 2018; Dees, 2017).

8. Conclusions

Social economy plays a significant and undervalued role in maintaining the national and global economies. Social economy organisations contribute to GDP through their trade in goods and services in the market and to welfare through sustainable innovative services, including their ability to deal with problems which state or private companies are not able to solve. They generate profit in economically weak areas and fuel entrepreneurship into deprived rural territories. Across different countries, social economy organisations vary in legal forms and scope of their activities. They are organised into unique ecosystems framed by specific socio-political conditions. The countries with long history of social economy organisations, such as the UK and Sweden, recognise this sector as a key partner in transformation and decentralisation of the welfare service market. The case of Lithuania shows that paradoxes and hindrances emerge when there is separation of market and the state, with profits versus welfare embedded in society through government policies and the legislative system, since social economy is the sector which bridges such dualities and draws direction for sustainable welfare growth at the international, national or regional levels.

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