



Social Entrepreneurship in Sweden

Government Support and Innovation

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Abstract

The purpose of this thesis is to examine the practical relationship between social enterprises and the government in Sweden, as well as to explore what innovation entails within this field. By doing so, the results contribute to the current research gap, namely the lack of data, within this area. In order to achieve these goals, a qualitative research is first conducted, followed by a quantitative one: a survey consisting of two main parts targeting governmental support and innovation was sent out to approximately 170 Swedish social enterprises, yielding a response rate of 30%. The results reveal that in addition to currently pursued efforts by the government, further assistance and guidance is needed by social enterprises in the starting up process. Furthermore, several forms of innovation remain barely explored at the moment, whereas further levels of innovation are plausible.

Keywords: social entrepreneurship, social enterprises, government, innovation, Sweden

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Chapter 1

Introduction

1.1 Background

The gap between the rich and the poor is ever rising, and the United Nations Development Programme (UNDP) asserts that not all people have access to basic needs (Seelos and Mair, 2005). While this gap has proved to be of great appeal to economists, researchers and policy makers who continuously attempt to explain it and propose solutions to reduce it, social organizations struggle to provide what governments have perhaps failed to offer. Developed countries with high standards of living and a well established welfare system are no exception; the Swedish non-profit organization "Social Initiative" presents figures obtained from the Swedish National Board of Health and Welfare: increasing homelessness in Sweden is accompanied by high percentages of drug and psychological problems. Evidently, governments are no longer expected to be the sole responsible for providing necessities to the public (Social Initiative, 2010).

Up until the 1970's, the Keynesian model of social democracy was adopted by most western countries. The state made education and health available to the public, with welfare systems that covered the part of societies who needed help. However, this model was questioned in 1974 with the oil shortage in the world. Fixing exchange rates was no longer an option with the inflation, and privatization of several sectors was taking place; mainly the education and health sector. In this free market neo-liberalism system, individuals and organizations play a major role in providing to the public. However, it is questionable how successful they were in their role since it was obvious that the gap between the rich and the poor was growing by 1990. Hence, the "third way" concept was introduced. It looked for the rebuilding of a strong civil society through community effort in partnership with government, but without resource to an entitlement based approach to social welfare (Mendes in Roper and Cheney, 2005). Nevertheless, this model failed to gain international acceptance,

and along with the problems the government was facing to meet society's needs, the necessity for societal organizations and individual initiatives grew. Under these circumstances, the term *social entrepreneurship* became a popular one (Roper and Cheney, 2005).

1.2 Definition

Researchers interested in entrepreneurship provide different definitions for the subject. The general impression seems to be that entrepreneurship involves the introduction of a certain innovation in products or services needed by the public. With this mindset, empirical studies prove entrepreneurship to be positively related to economic growth. In that sense, starting up one's own company contributes to economic wealth. One fraction of entrepreneurship worthwhile focusing on is *social entrepreneurship*. It holds the same characteristics as far as offering a need to the public that perhaps the government and other organizations failed to deliver. It is also believed to contribute to economic wealth. What distinguishes it though, and makes it a significant field for further studies, is its ability to contribute to the social well-being of the people. Examples range from providing simple needs such as food to the poor, to more complicated tasks like supplying medicines in developing countries or contributing to women rights. However, presenting a single definition for the concept of *social entrepreneurship* is rather difficult given the diversity of available possibilities. In fact, in their paper "A typology of social entrepreneurs: Motives, search processes and ethical challenges", Zahra et al. (2009) provide a list of definitions given by different authors for *social entrepreneurship*. The common agreement is that *social entrepreneurship* pursues both economical and social goals: "Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner" (Zahra et al., 2009). Another plausible definition is that a social entrepreneur is "an individual who combines resources in innovative ways to pursue opportunities aiming at the creation of organizations and/or practices that generate social value" (Mair and Noboa, 2005).

While *social entrepreneurship* refers to ventures aiming at social value creation, in the Swedish framework, *social enterprises* operate as businesses and are recognized as follows (Tillväxtverket, 2010a):

- *social enterprises conduct any business with the goal of integrating people into society and working life;*
- *they create empowerment of employees;*
- *they reinvest their profits in their own or similar activities;*

- *they are independent from the government.*

For the remainder of the thesis, social enterprises in Sweden will be defined as above.

1.3 Goal and Purpose

Given that *social entrepreneurship* is a relatively new research field, the understanding of its applications and functionalities is hindered by the lack of data in this field. Nevertheless, several projects are striving in order to promote it in the Swedish culture.

The goal of this thesis is primarily to understand the relationship between social enterprises and the government in Sweden, and to examine the forms of innovation that are most common for these entrepreneurs. In practice, in order to achieve these results, a number of questions are posed within two parts:

I. Relationship with the government

- *Are there legislations encouraging social entrepreneurship in Sweden?*
- *What are the impediments facing social enterprises?*
- *In which areas does the government offer assistance to social enterprises?*
- *Does the government reward social entrepreneurs for their contributions?*

II. Innovation

- *What forms of innovation exist when it comes to social entrepreneurship?*
- *In which forms do Swedish social enterprises innovate?*

Answering these questions will ultimately contribute in filling the current research gap in this field.

1.4 Methodology

This research comprises both a qualitative and a quantitative approaches. Explicitly, a qualitative research is performed in order to gather specific information concerning the legislations surrounding social entrepreneurship in Sweden, what the role of social entrepreneurs in Sweden is, and what are the possible forms of innovation in this area. On the other hand, a quantitative approach is used when

conducting a survey tackling the practical aspects of social entrepreneurship in its application in Sweden. The survey consisted of two parts, one concerning the relationship with the government and another one relating to innovation. It was sent out to approximately 170 Swedish social enterprises, and yielded a response rate of 30%. The study performed in this thesis thus acts as an inductive one since conclusions are drawn based on the results obtained from the survey.

1.5 Outline

Chapter two of this thesis presents the literature review on *social entrepreneurship*. The first section highlights the role of *entrepreneurship* as a booster of economic growth, followed by an overview of the impact of institutions on *entrepreneurship*. Section two first offers a review of the skepticism surrounding *social entrepreneurship* and highlights its contributions throughout the years. Then, it explores innovation within this field and it finishes by discussing methods of measuring *social entrepreneurship*. Chapter three in its two sections first presents the role of *social entrepreneurship* in Sweden and then describes its basic relationship with the Swedish government. Chapter four starts by describing the methodology used and its limitations, and continues with the presentation of the obtained results. Finally, Chapter five concludes by providing a brief discussion and suggestions for future research.

Chapter 2

Literature Review

2.1 Entrepreneurship

2.1.1 Entrepreneurship and Economic Growth

Although entrepreneurship is defined in several ways and different economic theories include the functions of the entrepreneur in different ways in their models, as Baumol (1968) explains, entrepreneurship is fundamental for stimulating economic growth. A defining role for entrepreneurs, inclusive of most characteristics discussed by several authors, is one provided by Wennekers and Thurik (1999): Their role is to "... manifest ability and willingness of individuals, on their own, in teams within and outside organizations, to perceive and create new economic opportunities and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and use of resources and institutions." The role of the entrepreneur as a booster of economic growth is discussed next.

First of all, in neoclassical economics, the factors of production are land, labor and capital. Solow (1957) adds technological change to them, in an attempt to explain growth. Although in some cases entrepreneurial activity is at the origins of technological change, the neoclassical framework is constantly criticized when it comes to including the entrepreneurial role, given that the factors of production here are exogenous. Kirzner (1997) and Baumol (1968) explain how in the neoclassical economic theory, the entrepreneur as defined above ceases to exist. They argue that the ideas of perfect competition and market equilibrium are vague and unrealistic, and make no room for individuals to function in the market. In a context where all information is available and the goal is profit maximization subject to a constraint, the surprise element and creativity are completely abolished. So as Baumol (1968) explains about the neoclassical economic theory, "the theoretical firm is entrepreneurless". Austrian economics also criticize the neoclassical context.

In fact, within the mainstream of Austrian economics, Mises (1949 in Kirzner, 1997) emphasizes the role of the entrepreneur as an essential one in attaining market equilibrium. According to Mises, it is the entrepreneur who fills the gaps created by the market forces by striving to obtain profits. Hayek (1948 in Kirzner, 1997) presents a complementary view of the entrepreneurial role: speculation here is observed by obtaining knowledge about the other participants. Competition in Austrian economics is hence a dynamic process, unlike in neoclassical economics. Kirzner (1997) explains how in Austrian economic theory, the entrepreneur's role is to discover inaccuracies, to obtain knowledge, and to seize the imperfections created by the market forces in order to make profits. The institutional policies should be in such a way to encourage entrepreneurship. In this way, the entrepreneur is crucial for establishing equilibrium. Schumpeter on the other hand describes the entrepreneurial role as one that destroys equilibrium as a way to create growth.

In (1934) and (1942), Schumpeter introduces the concepts of "creative destruction" and "creative accumulation" respectively. In the first, he suggests that "most new firms are created by new men", while the second theory explains that large firms accumulate knowledge. For Schumpeter, an entrepreneur is necessarily an innovator who contributes to growth through moving from equilibrium. Unlike the Austrian entrepreneur who begins operating in disequilibrium, the Schumpeterian entrepreneur's creation breaks away from equilibrium, hence creating new opportunities to reach a new equilibrium. Schumpeter also assumes that the emergence of entrepreneurs will lead to the appearance of more and more ventures, hence the formation of clusters. The role of the entrepreneur as a booster of economic growth is rather more important in endogenous growth models, where individual contributions are responsible for technological change. Innovation in evolutionary economics is the change of an existing decision rule, which is the role of the entrepreneur in this context. Wennekers and Thurik (1999) summarize the role of entrepreneurship according to different theories; while neoclassical economics and Austrian economics provide rather poor explanations as to how entrepreneurs and innovation contribute to economic growth, Schumpeter and Baumol contribute more to these relationships and emphasize more on these specific functions. The role of innovation is further explored in endogenous growth theories, economic history and management literature. Finally, the role of start-up firms is included alongside the role of innovation and that of the entrepreneur in evolutionary economics and industrial economics. In sum, the primary role of the entrepreneur according to all these theories is to contribute to economic growth, although each theory attributes different functions and dynamics to him.

While Baumol (1990) acknowledges the positive contributions of entrepreneurship such as innovation and economic growth, he looks beyond to examine negative contributions of entrepreneurship such as rent-seeking and organized crime. He claims that entrepreneurship is prevalent around us in many forms, and it is the set of rules surrounding it that determines the outcome. He concludes the following:

"The overall moral, then, is that we do not have to wait patiently for slow cultural change in order to find measures to redirect the flow of entrepreneurial activity toward more productive goal." *Social entrepreneurship* may be one example of the forms of productive entrepreneurship that Baumol discusses. As he suggests, it is the role of institutions and policies to extract the benefits of the prevalent entrepreneurial activity.

The next subsection depicts this relationship between institutions and entrepreneurship, with a general overview of empirical findings in this sphere.

2.1.2 Institutions and Policies

Douglass North (1990, 1991 in Boettke and Coyne, 2009) defines institutions as the set of rules and laws which act along with economic principles to determine political, social and economic interactions and their feasibility. He divides them into informal and formal constraints, the former consisting of cultural and social norms which have emerged throughout history, and the latter consisting of laws, policies and constitutions which have been altered in order to direct economic performance towards growth or decline. As Baumol (1990) suggests, cultural changes only affect entrepreneurial activity in the long run. It is however the formal institutions that impact the volume of the entrepreneurial activity, allowing it to increase economic growth.

Several studies attempt to establish the relationship between formal institutions and entrepreneurship. Boettke and Coyne (2009) for example refer to the World Bank's "Doing Business" project which undertakes the barriers to entrepreneurship imposed by regulations such as registering the company, obtaining licenses, employing workers, acquiring credit etc... Productive entrepreneurship is hindered where regulations for start-ups are costly. In another study, Nyström (2008) finds the following: "a smaller government sector, better legal structure and security of property rights, as well as less regulation of credit, labor and business tend to increase entrepreneurship." In addition to these factors, Verheul et al. (2001 in Lundström and Stevenson, 2005) add other determinants that are believed to affect the rate of entrepreneurship if manipulated appropriately. One example is assistance in the early stages of starting-up a company in order to insure growth and stability. This is achieved through counseling and direct financial support. The writers also add the social security system, taxation, bankruptcy policies and labor market legislations to the set of policies affecting entrepreneurship. In other perspectives, they also emphasize the role of education and the media in promoting entrepreneurship culture. Finally, benefiting from the status of certain target groups (for example the unemployed, immigrants, youth, women etc...) and directing them toward entrepreneurship would contribute immensely to economic growth.

On the other hand, Lundström and Stevenson (2005) discuss the problems with evaluating of entrepreneurship policy and point out that the outcome is difficult to quantify. In addition, time lags between the implementation of certain policies and the observed results are another concern in the evaluation process. More impediments lie in the size of the investments in policies versus the quality of the obtained results. Regardless of the evaluation methods, as far as formal institutions are concerned, the overall lessons learned from the above mentioned studies are that less legislative regulations and less taxes, accompanied with proper assistance and financial support, contribute to the rate of entrepreneurship and indirectly to economic growth.

2.2 Social Entrepreneurship

2.2.1 Skepticism and Contributions

Social entrepreneurship, a particular branch of entrepreneurship, rose as a result of a set of conditions and circumstances governing the economy and the status of social welfare (see section 1.1). Today, researchers advocate the importance of *social entrepreneurship* as a research field and highlight its role as a complement to welfare states. Governments have begun implementing plans and legislations encouraging social ventures (see section 3.2). However, as interest in *social entrepreneurship* increases, skepticism regarding its emergence and contributions rises.

Cook et al. (2001) argue that the circumstances that led to the rise of *social entrepreneurship* constitute false premises. The authors claim that Social Entrepreneurship Movement (SEM) proponents, alongside economists and policy makers, have misinterpreted unemployment following the oil shock. They argue that authors have ignored important economic lessons and hence failed to understand the true causes of high unemployment prevailing at the time. Another argument they put forward concerns the state's budget constraint. SEM authors claim that lower tax rates raised financial constraints and the government was no longer capable of offering the same welfare levels. Cook et al. (2001) refute this myth as they call it, explaining that raising taxes was one of three methods for the government to finance its spending, the other two means being printing money and selling bonds. Moreover, contrary to the SEM beliefs, Cook et al. (2001) claim that there cannot exist an efficient private market acting as a substitute in providing welfare services. According to them, the SEM acts as an ideology, thus imposing dangerous consequences. Foreseen risks include differentiation in providing services, as well as forcing the community to abide by values determined by social entrepreneurs.

On the other hand, the role of social enterprises is also questioned. Schofield (2005) believes that what the economy needs right now is not risk-taking social

entrepreneurs facing high odds, but efficient public enterprises. He also fears that social enterprises would eventually act as substitutes to the public sector rather than complements in the provision of social welfare. In addition, the contributions of social enterprises and their purpose are inspected. Apprehending the synchronism of both economic and social benefits from *social entrepreneurship* is not evident. Upon investigation, references to Milton Friedman are made. Friedman (2007) argues that enterprises pursue the sole goal of maximizing profits, making that their only social responsibility. However, it is essentially the employees who drive the business, suggesting that insuring their social wellbeing is essential to attain successful results. Moreover, customer relations are essentially maintained according to social values and agreements. Thus, economic profits go hand in hand with social wellbeing. In the same way, an enterprise pursuing social goals indisputably contributes to the economy, be it by creating employment or by stimulating production for example. Jamie Oliver, a well known British chef, used his fame to launch campaigns through a television show raising awareness about food quality in American schools (Jamie Oliver Enterprises Limited, 2010). By doing so, not only several jobs have been created, but the television network has also gained in terms of economic gain.

While concerns arise regarding whether social initiatives are genuine or if they are employed as marketing tools, it is beyond the scope of this thesis to explore this issue. Moreover, although the role and purpose of *social entrepreneurship* are occasionally questioned, individual initiatives throughout history have undoubtedly contributed to social welfare, and continue to do so.

The following people represent historical examples of individuals who took on ventures for various societal purposes: John Woolman strived to ban slavery in the U.S. and succeeded in doing so. His efforts influenced other groups to follow his footsteps. Also in the area of human rights, a famous agent is Susan B. Anthony. In India, Vinoba Bhave with his Land Gift Movement led to the redistribution of 7,000,000 acres of land to the Indian lower class. In Pakistan, Akhtar Hameed Khan was responsible for low-cost sanitation programs. While the previously mentioned cases highlight causes that were common in the past, more recent examples include the infamous Nobel prize winner Muhammad Yunus, founder of microcredit and the Grameen Bank, and Bill Drayton who founded Ashoka. Ibrahim Abouleish from Egypt worked in several areas through SEKEM (which means vitality). On the environmental front, the foundation has made possible the reduction of pesticides usage in the cotton production since the products supplied are made from ingredients from biodynamic farming. Moreover, the profits go toward funding medical and educational centers. (Varbanova, 2009) In its operations, SEKEM conforms to the Swedish definition of a social enterprise.

While the role and scope of *social entrepreneurship* has varied throughout the years and across continents, the main purpose has always been to improve social wellbeing, and by doing so indirectly contributing to economic growth. Like other forms of

entrepreneurship, the key is innovation. The following section thus explores the meaning of innovation when it comes to *social entrepreneurship*.

2.2.2 Social Entrepreneurship and Innovation

Social innovation, in terms of providing new solutions or new combinations of available resources for the purpose of alleviating societal setbacks, is brought by social entrepreneurs. The former World Bank president, James Wolfensohn, explained the necessity for the presence of both *social entrepreneurship* and international organizations: "What we recognize very acutely here, in the bank, is that there is no way that we, as an institution, can be the effective transmitter of all the ideas to people in poverty and people that need assistance. And, therefore, what is crucial is to have proposals which can be replicated and can be handled at the field level and can, in fact, allow us to scale up with simple ideas well executed that can be carried from one place to another and one country to another and one region to another". This claim was put forward in 2003, when he awarded the amount of 6 million USD to be shared among 47 small-scale innovative development projects in 27 countries (Seelos and Mair, 2004). Moreover, Geoff Mulgan argues that whereas big organizations are good at implementation, creativity and innovations are brought by individuals. He also maintains the necessity for cooperation between social entrepreneurs and big organizations in order to produce viable and sustainable results (Mulgan, 2007). Furthermore, traditional welfare systems were not designed to respond to mounting problems such as drug abuse, hence the need for innovation to respond to these new obstacles (Leadbeater, 1997).

In his 2007 paper "Social innovation: what it is, why it matters and how it can be accelerated", Geoff Mulgan suggests that innovation starts by careful observation of the society's needs: "The starting point for innovation is an awareness of a need that is not being met and some idea of how it could be met." Mulgan further explains how that can be accomplished. He then suggests that the second step in the innovation process is to test the idea in practice. He elaborates on the idea by quoting Samuel Beckett: "Try again. Fail again. Fail better." This entails that first trials are not supposed to succeed, but rather let the experience shape and modify the idea into a feasible project. The following step in the process of social innovation is scaling up and spreading the project, which generally requires adequate management of resources and financing, in addition to effective demand. Finally, practice affects the evolution of the social venture and possibly results in new adapted outcomes different than those first anticipated. In fact, innovation in the societal field is slow and requires perfectly established connections and access to financing; its success is highly dependent on luck. In this light, the author criticizes the continual support for technological research and development by governments versus a lack of support for social innovation. In an attempt to highlight plausible frameworks for encouraging innovation in the social sector, he numbers the United

Kingdom's employed methods for this purpose: rewarding successful innovations, sharing knowledge, allowing for new approaches to welfare, cooperation between policy makers and social entrepreneurs, promoting new ideas and faster learning, are some of them. (Mulgan, 2007)

In fact, The United Kingdom has undergone several steps towards promoting social enterprises over the years, and thus promoting social innovation, given that social ventures are innovative in their core. In 1998, Social Enterprise London (SEL) was founded with the purpose of representing social enterprises and offering support to emerging ones. Among the achievements SEL has reached are the development of an innovative introductory course to *social entrepreneurship* and the launching of the first new business legal structure in 100 years in the United Kingdom. SEL works in collaboration with the government office, agencies and councils (Social Enterprise London, 2009). Moreover, social enterprises in the United Kingdom are represented on the national level by the Social Enterprise Coalition (SEC). The objectives of the SEC range from promoting *social entrepreneurship* through the media to sharing knowledge, as well as advising the government and influencing politicians (Social Enterprise Coalition, 2010). By 2005, social enterprises in the United Kingdom accounted for 5% of the total number of businesses with employees, and contributed with 8.4 billion Pounds a year to the national economy (Social Enterprise London, 2009). Another important feature in the United Kingdom's efforts to promote *social entrepreneurship* is allowing for enterprises to boost their national profile by competing for awards and prizes. For example the Social Enterprise Awards attributes different prizes for social enterprises in different categories (Social Enterprise Awards, 2009).

From another perspective, in their 2006 paper "Social entrepreneurship - Multidimensional model", Weerawardena and Mort put forward a proposition regarding innovativeness in the context of social value creation: "Social entrepreneurship strives to achieve social value creation through the display of innovativeness." Following interviews with managers of several social enterprises, the authors concluded that innovation is not only crucial in terms of figuring out new ways of influencing the government, the marketing campaign and fund-raising, but in terms of service delivery as well (Weerawardena and Mort, 2006). As a matter of fact, innovation within *social entrepreneurship* does not only occur through providing social needs and empowering employees. Conforming with the Schumpeterian approach, innovation occurs through the employment of new resources or through seeking new combinations of existing resources. In terms of *social entrepreneurship*, innovation occurs through the possible combination of the following:

- *seeking new technologies;*
- *new suppliers;*
- *new distribution channels;*

- *new methods of production;*
- *offering new products and services;*
- *benefiting from deep knowledge in corresponding areas;*
- *putting forth pioneering research;*
- *making use of political savvy.*

Any one or more of the cited activities is characterized as innovative (Wolk, 2007).

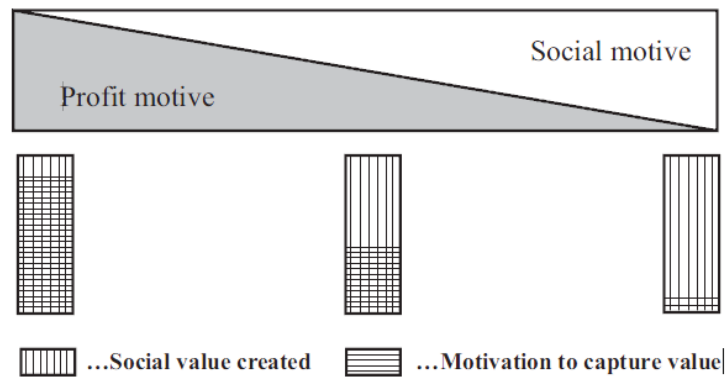
The previously discussed steps for the innovation process and the forms of innovation discussed are valid for any entrepreneurial venture, in particular social ventures. Perhaps policy makers represent the most significant player in encouraging innovation and promoting it, thus incorporating *social entrepreneurship* within the culture of the society as an essential tool for reducing societal obstacles and hardships. As highlighted throughout this section, social entrepreneurs should cooperate with government agencies and social organizations in order to implement their new ideas and allow them to grow and diffuse. The evaluation of the contributions however is a daunting process, for reasons that are explained in the next section.

2.2.3 Measuring Social Entrepreneurship

Entrepreneurship is believed to require very distinguished individuals to take on it. However, leadership alone is not enough when adding social values to entrepreneurship. Social entrepreneurs are highly motivated individuals and distinguished by their relentlessness towards making the world a better place. In that sense, neither altruistic values alone nor entrepreneurial motivations alone, are enough to manage a social enterprise effectively, since *social entrepreneurship* is measured by the final product, which brings us to Zahra's "Total Wealth" approach. Zahra and his colleagues emphasize the importance of striving toward adding social value and avoiding getting caught up in the elegance of one's own creations (Zahra et al., 2009). Their definition of *social entrepreneurship* suggests that both economic as well as social contribution should be taken into consideration when attempting to measure *social entrepreneurship*. Hence the concept of "Total Wealth", which comprises both tangible assets (economic measurements) as well as intangible assets (social measurements, such as happiness and satisfaction). The measurement model translates into the following equation: "Total Wealth (TW) = Economic Wealth (EW) + Social Wealth (SW)" "Economic Wealth" expands to "Economic Value (EV) - Economic Costs (EC) - Opportunity Costs (OC)" where Opportunity Costs are the foregone outcomes from employing the resources into alternative projects. They represent an important feature in the model because they account for the

scarcity of available resources. Furthermore, "Social Wealth" expands to "Social Value - Social Costs". The outcome is $TW = EV + SV - (EC + OC + SC)$.

Figure 2.1. Measuring Social Entrepreneurship



The model is significant in that "Total Wealth" here accounts for both economic and social values. Moreover, the equation highlights how the entrepreneur has the possibility to shift resources in order to generate more wealth in one sector at the expense of the other (Zahra et al., 2009). This raises questions about the nature of the entrepreneur's motives and objectives. In addition, the model explains how the pursuit of social value might come at the expense of higher economic costs. On the other hand, one can argue that more economic profit implies the creation of more social value by acquiring better standards of living. In fact, as explained earlier, economic and social contributions go hand in hand in the business world (see subsection 2.2.1).

Although the model is an important benchmark in the studies of *social entrepreneurship*, it remains questionable due to the difficulties in measuring social wealth and determining the value of social benefits (Zahra et al., 2009). Another measuring tool widely used when evaluating social ventures is the Social Return on Investment (SROI). The SROI serves as a business model allowing organizations to assign metric values to their social contribution, making propositions more attractive to investors (Flockhart, 2005; Emerson and Cabaj, 2000). However, although more practical than the previously discussed model, the SROI is not an obvious model. It also includes intangible factors that are difficult to measure to begin with, and presents itself as a complicated tool.

Given the lack of simple measurement tools for *social entrepreneurship* as well as the complexity of the available models, assistance in the starting-up process is required by many social entrepreneurs. In addition to financial support, the government can

provide assistance with the managerial process.

Chapter 3

Social Entrepreneurship in Sweden

3.1 Role and Scope of Operations

In Sweden, the term *social entrepreneurship* became familiar only around five years ago. However, the concept has existed decades ago through different forms. Ögren (2010) gives the example of "The Natural Step", which was founded in 1989 by Swedish doctor Karl-Henrik Robèrt. This organization still operates today on several levels and cooperates with various institutions toward enhancing sustainability and the well being of human life (The Natural Step, 2010). Since then, the numbers of social entrepreneurs in Sweden has increased and the concept is now recognized by the government and institutions, and its importance is better understood. In fact, starting the 1990's, *social entrepreneurship* in Sweden started gaining the interest of many researchers within the field, and a shift was observed in the non-profit sector in Sweden which was now providing more services in the welfare state (Wijkström and Lundström in Gawell, 2009). In order to promote *social entrepreneurship*, several programs have been initiated on different levels and scales, and on-line forums and blogs have been created. However, before getting into those details, one must answer the inevitable question: What does *social entrepreneurship* offer and what is its role in Sweden, a developed country with a well established welfare system?

The Swedish Knowledge Foundation employs the term *societal entrepreneurship* to extend the understanding of the concept from merely social issues to social structures (The Knowledge Foundation, 2010a). Manager of the Societal Entrepreneurship program in the Knowledge Foundation Eva Moe, in an interview conducted by Lidia Varbanova in April 2009, explains this and highlights the need for this kind of entrepreneurship in Sweden. She recognized the need for technological development, but also emphasizes that Sweden needs social innovation; new solutions for the housing market, new production techniques which respect the

environment, new ways of providing public care... Hence the understanding of *social entrepreneurship* in Sweden is beyond social needs and aims at improving the social structure by innovation toward common social benefits (Varbanova, 2009). More explicitly, Varbanova (2009) cites the following areas where contributions from societal entrepreneurship exist in Sweden: "children health, climate crisis, problems with pollution, human rights, literacy in poor areas, arts and culture". In addition to these areas, perhaps one of the most important benefit lies in the core definition itself: *social entrepreneurship* in Sweden integrates people in the job market and creates empowerment of employees (Tillväxtverket, 2010b).

Numerous social ventures with beneficiaries abroad are initiated in Sweden. Examples include DEM collective which produces clothes ecologically (Dem Collective AB, 2010), the Peepoo bag which is sold to people with the weakest purchasing power, and allows for the transformation of human waste into agricultural fertilizers (Peepoople AB, 2010), as well as the search engine Growyn which directs profits into environmental friendly projects (SU Innovation, 2010). However, the Swedish Agency for Economic and Regional growth (tillväxtverket) recognizes approximately 220 Swedish social enterprises operating inside Sweden as businesses (Tillväxtverket, 2010b). "Nyby Vision" in Uppsala offers education and job training for new Swedes, long-term unemployed with health problems and asylum seekers. This example highlights both the economic and the social contribution of the enterprise, as well as the integration and the empowerment of employees. "Fokus Design" in Stockholm is a store that sells handcrafts designed and produced by social cooperatives in Sweden. Hence, one observes that collaboration prevails over competition among social enterprises. "Hamn Kompaniet" in Stockholm produces recycled paper material and operates a bicycle repair shop (Tillväxtverket, 2010b). It is worthwhile noting that upon investigation, one finds that several enterprises may be owned by the same initiator, like "Hamn Kompaniet", and may serve more than one purpose in different domains.

Although several organizations and institutions are making tremendous efforts in order to promote *social entrepreneurship*, perhaps the most effective actor is the Swedish government (see subsection 2.1.1). Although social entrepreneurs operate independently from the government, a well established relationship must hold to insure proper outcomes. Hence the following question arises: What is the legislative status of social enterprises in Sweden and does the government support and promote this concept? The following section addresses these issues.

3.2 Swedish Government and Social Entrepreneurship

In 2008, the Knowledge Foundation allocated 120 million Swedish Crowns for a period of 9 years in order to reinforce understanding of *social entrepreneurship*

in Sweden through education and research. The number of social entrepreneurs is expected to increase during the coming years (The Knowledge Foundation, 2010a). Unofficial institutions are playing a major role in the integration of *social entrepreneurship* culture. The Stockholm School of Entrepreneurship was offering a practical course on Social Entrepreneurship during the academic year 2009/2010 and previous years (Stockholm School of Entrepreneurship, 2010). Moreover, several on-line forums exist today, serving as a meeting point and information source for social entrepreneurs in Sweden, as well as a marketing tool for integrating *social entrepreneurship* in the Swedish culture and mentality (Social Entrepreneurship Forum, 2010; The Knowledge Foundation, 2010b). The media has also become more active in recent years in portraying social entrepreneurs and awards have been introduced for these actors (Palmås, 2008). In addition to integrating the concept in the educational field, media and culture, efforts are made to have official and legislative relationships between social enterprises and the Swedish government, but what is the current legal status of those enterprises?

At the moment, among the social enterprises that are recognized as such by the Swedish Agency for Economic and Regional Growth (NUTEK), some are registered as *limited liability companies* (aktiebolag) while others as *economic associations* (ekonomisk förening) (Bolagsverket, 2010). Hence, there is no consensus on the legal registration of social enterprises and about the benefits they should receive with regards to taxation (as it is for example for non-governmental organizations in Sweden which do not pay taxes). (Skatteverket, 2010)

Palmås (2008) addresses the relationship between the government and social entrepreneurs in Sweden and asks to what extent is the institutional framework effective in promoting *social entrepreneurship*. He finds that barriers to social ventures are primarily the legal burdensome structures, access to finance, knowledge gaps and the lack of social recognition. In addition, he evaluates the legal structure that was adopted by the UK and questions its failure in the Swedish context. He concludes that its application in Sweden abolished incentives for social entrepreneurs to benefit from it.

Although a formal legislation lacks for Swedish social entrepreneurs, the government is nonetheless taking action to promote *social entrepreneurship*. On April 22nd of 2010, an action plan was decided for the purpose of integrating social enterprises. The plan emphasizes the need for special regulations for such ventures. It also includes the introduction of barriers and opportunities for public procurement. Moreover, it intends to improve knowledge and sharing information among this group of enterprises. In this recent action plan, the government also recognizes the financing issues and intends to better adapt existing funding opportunities to integrate more social enterprises. In addition, the plan states that a framework will be developed for statistics and records related to the enterprises. (Tillväxtverket, 2010b)

The above described action plan lacks the introduction of assistance plans in administrative issues for start-ups, as well as the granting of rewards by the government with the purpose of encouraging the pursued efforts. An important point however is the plan to collect data and improve statistics in this field, to highlight the application and contributions of social enterprises in Sweden. The empirical part of this thesis takes a step into this direction, establishing an understanding of the practical relationship between social enterprises and the government in Sweden, while also exploring the innovation process within this field. The following chapter will reveal the method and the results.

Chapter 4

Empirical Results

4.1 Methodology

The empirical study in this thesis involves a survey that was built around topics related to *social entrepreneurship*, and sent out to a number of Swedish social entrepreneurs, to examine their relationship with the government and their views on innovation.

The survey consisted of 9 questions (see Appendix B). Three questions aimed at grouping Swedish social entrepreneurs in Sweden in a periodical context as well as in terms of size and contribution. The second part of the survey tackled the factual relationship between the Swedish social entrepreneurs and their government, in terms of receiving adequate support in the areas where they have difficulties, and having their efforts recognized and rewarded. The third part of the survey examined innovation within this field, namely the forms of innovation that take place and how innovative the entrepreneurs consider themselves.

In order to attempt the maximum response rate possible, the survey was conducted in Swedish. In addition, the survey was limited in the number of questions and the content was very specific, both in order to receive a higher number of responses and to have simple and specific data yielding to clear results.

Although there are numerous social entrepreneurs operating both inside and outside Sweden under different forms, the Swedish Agency for Economic and Regional growth (NUTEK) published a list of approximately 220 Swedish social enterprises operating inside Sweden (Tillväxtverket, 2010b). The survey was first sent out to the 170 who had published and valid email addresses, over a period of five weeks. A reminder was sent afterwards in order to improve the results. In total, 51 replies were collected. The response rate for the survey was thus approximately 30%. In a

study assessing the response rate of e-mail surveys, it was found that the expected rate is between 25% and 30% (Kittleson in Cook et al., 2000). Another study suggested that mail surveys commonly returned response rates less than 50 or 40% (Kerlinger Cook et al., 2000). Therefore, the attained response rate in this survey falls within the normal range for such studies. 51 answers represent approximately 23% of the total number of social enterprises in Sweden.

In addition to the response rate, one must consider the "sample selection bias" that might have occurred throughout the process. The sample was chosen according to availability so as to cover the largest possible group of social entrepreneurs in Sweden. However, it cannot be determined how representative the number of answers is.

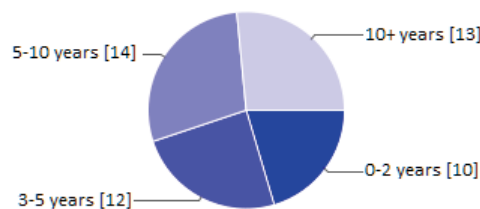
The non-response bias should also be accounted for when analyzing the results. The people who chose to answer might carry specific characteristics that differ them from those who did not participate in the survey, thus making the results biased and representing a specific group only.

The above limitations and shortcomings must be kept in mind while examining the outcome. General statistics were used to carry out the following presentation of the results.

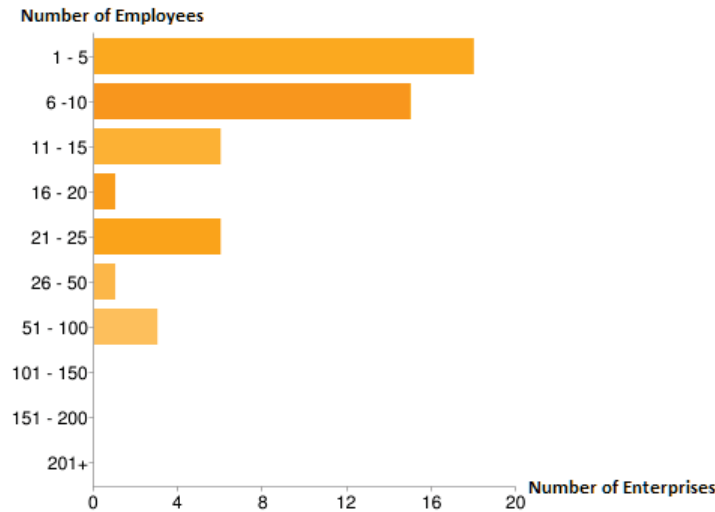
4.2 Results

The first two questions in the survey were meant to provide a large picture about the period when *social entrepreneurship* became popular in Sweden and how large the enterprises in question are in terms of employees. The third question on the other hand aimed at understanding how the social entrepreneurs regarded their own contributions.

Figure 4.1. Age of the Social Enterprises

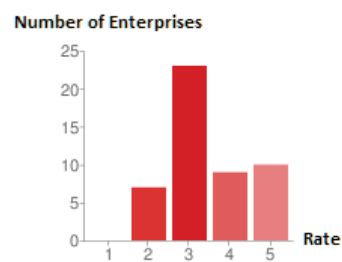


The number of 50 respondents out of 220 social entrepreneurs does not allow for a conclusion about the general distribution with regards to years in action. However, what the above charts tell us is that in the following answers, various groups are represented more or less with the same magnitude.

Figure 4.2. Size of the Social Enterprises

One observes from figure 4.2. that most businesses operate with less than 10 employees, whereas a considerably small number represent enterprises with more than 50 employees. A 2008 study, conforming with the results obtained by the survey, revealed that most social enterprises employ a small number of people, while few large ones employed up to 100 people. The 150 social enterprises recognized in 2008 employed between 4500 and 5000 individuals. Today, the number of social enterprises in Sweden has risen to 220, implying a larger labor force within this field (Agneta, 2009). Employee empowerment is accomplished by granting staff members control over their work situation, as well as involvement in the process of doing business through decision making (Tillväxtverket, 2010a).

Figure 4.3. represents how the social enterprises rated their economical contribution vs. their social contribution on a scale from 1 to 5, where one represents pure economical contributions and 5 represents social altruism.

Figure 4.3. Economical vs. Social Contribution

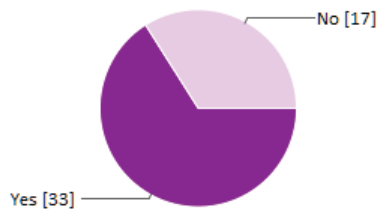
The answers were quite variable with a concentration on 3. This raises confusion as to whether governmental support should go toward enterprises which consider themselves as regular businesses, or only toward socially oriented ones. Moreover, it entails that the enterprises in question might not be aware of their status, which makes it difficult to recognize their rights and maintain a proper relationship with official authorities.

I. Relationship with the government:

This part of the survey intended to outline and understand the current relationship between social entrepreneurs and the government in Sweden, in the lack of an obvious legislation.

With regards to the action plan that was initiated by the government earlier in 2010 (see section 3.2), the participants in the study were asked whether they are aware of this action plan. the results are as follows:

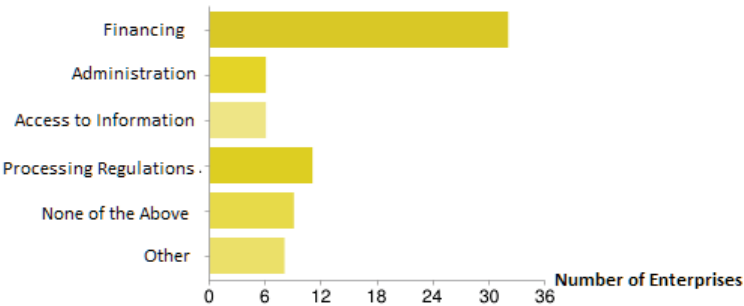
Figure 4.4. Knowledge about the Action Plan



66% are aware of its existence while 34% remained ignorant about it. While 66% represents a large portion, the result reveals that the acquisition of information is not comprehensive. Information ought to be distributed in a formal context and under well established legislations.

The new action plan covers essential aspects that are crucial for improving the status of social enterprises in Sweden. It is however not evident how it was reached, due to the lack of data assessing the current situation. Thus, this survey touches upon actual impediments facing the social enterprises in question.

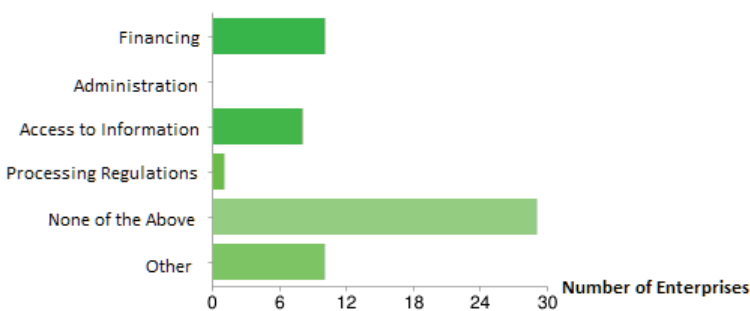
Figure 4.5. Impediments



Financing is obviously the most significant impediment for most social entrepreneurs. Moreover, the processing of regulations imposed by the government, administration and access to information appear sometimes as impediments. Among the problems mentioned by the participants in the survey were complaints about their relationship with authorities and municipalities who do not always seem to cooperate for a greater purpose, but instead oppose projects. Difficulties due to the lack of legislation were also mentioned. In addition to implementing the action plan with regards to optimizing financing and creating specific regulations, the government must also offer help and guidance with administrative issues during the starting up process.

Moreover, in assisting the social enterprises, the government fails to cover the areas where most difficulties are found.

Figure 4.6. Governmental Assistance



It appeared that financial assistance was received through various applications for funds. The European Social Fund and Milton-money (Milton-pengar) were among the contributors with funds to social entrepreneurs. The Swedish government on the other hand is yet to implement the action plan with regards to offering financial support.

On the other hand, money support can also be obtained through rewards for efforts and contributions. However, rewards also consist of prizes and awards.

Figure 4.7. Rewards

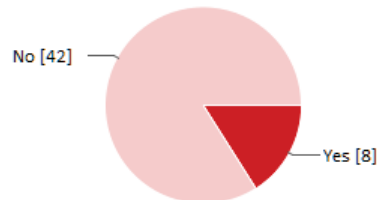
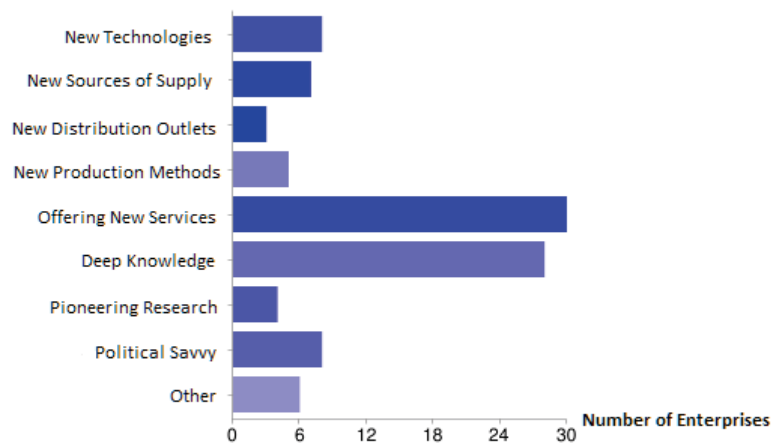


Figure 4.7. reflects a significant number of reward recipients among social enterprises. However, as it is the case with funding, there is no clear information about the government's role in this, as the origin of the rewards is unknown. The action plan fails to reference rewarding schemes as means of stimulation *social entrepreneurship*.

II. Innovation:

The second part of the survey explores the innovativeness of social enterprises in Sweden.

Figure 4.8. Forms of Innovation

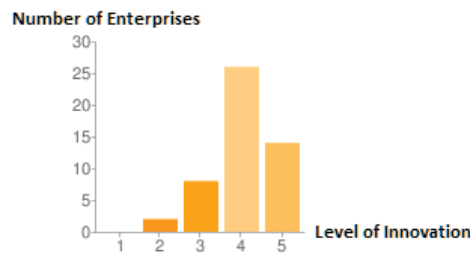


The above diagram reveals that the innovations that occur most frequently are the offering of new products or services and the employment of deep knowledge within the corresponding area of operations. Examples of new products and services include a social and ecological system, methods aimed at integrating immigrants,

and encouraging social awareness to everyone. As for employing deep knowledge withing a certain area, one example is of a social enterprise working to rehabilitate dogs. The other fields such as using new techniques, finding new suppliers and new channels of distribution, new production methods, pioneering research and political savvy receive less focus.

In addition, they were asked how they rate their innovativeness:

Figure 4.9. Levels of Innovation



Although most enterprises recognize themselves to be highly innovative, not many rated their innovativeness at 5. Upon investigation, it was found that those who rated their innovativeness highest are engaged for example in rehabilitation activities for the purpose of integration, or complementing existing home care services through organizing activities to make life more enjoyable. More examples include providing janitorial services and cleaning, as well as rehab services and running crafts shops and coffee shops. Although ratings are subjective, higher levels of innovation can be attained. This can be achieved for example by encouragement from the government. As the key behind any entrepreneurial venture is innovation, and this is what leads to economic growth, incentives to explore and innovate should be available through awards and prizes for instance. Thus, as the efforts of social entrepreneurs are being recognized, some rewards ought to be redirected towards innovation in this field.

Chapter 5

Conclusion

5.1 Discussion

The purpose of this thesis is to first understand the relationship between the government and social entrepreneurs in Sweden in terms of support, and then explore the innovation process that takes place in this area. The thesis also contributes partly to the lack of empirical data in this field, that makes it difficult to evaluate and address respective issues.

The first part of the thesis introduces entrepreneurship as a contributor to economic growth. It then highlights the role of institutions in enhancing the positive outcome of entrepreneurship. After examining different opinions regarding the necessity of social enterprises, an overview of what innovation entails in this field is provided. To conclude the literature review, possible ways of measuring *social entrepreneurship* are discussed. The second part of the thesis consisted first of an overview of the status of *social entrepreneurship* in Sweden with regards to legal status, education and media. Afterwards, the empirical contribution was done through a survey conducted among Swedish social enterprises, tackling both governmental support and innovation. Conclusions are drawn subsequently.

It is obvious that *social entrepreneurship* is a young research field, and with the existing lack of data in this area, efforts currently pursued by the government in order to promote it constitute mere trials and experiments. That said, the government currently recognizes a need for social enterprises in Sweden, and has introduced an action plan to improve their legal status as well as to offer financial assistance complementing currently available funds. Moreover, the action plan suggests improvements in statistics research which is essential, primarily to assess the progress and contributions made within this field. However, social entrepreneurs are also faced with other impediments, which suggests that further governmental

assistance is required when it comes to processing regulations, obtaining access to information and administrative areas. On the other hand, many forms of innovation are still to be explored within this field. Although the social enterprises appear to regard themselves as highly innovative, additional levels of innovation could further be acquired. Varbanova (2009) asserts that in addition to technological development, social innovation is needed.

5.2 Future Research

More resources make it possible to take this research a step further in the future with extensive interviews and gathering data on a larger scale. A more accurate analysis using more advanced tools allows the depiction of underlying relationships between the characteristics of the social enterprises and their performance. Acquiring such information favors an analytical approach, complementary to the presentation of the results obtained by this work.

In addition, comparisons with other developed countries might help making *social entrepreneurship* a more concrete concept in Sweden, thus allowing for future development and both economical and social contributions.

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Appendices

Appendix A

Acronyms

SEL Social Enterprise London

SEC Social Enterprise Coalition

SROI Social Return on Investment

UNDP United Nations Development Programme

SEM Social Entrepreneurship Movement

Appendix B

Survey

Socialt Företagande i Sverige

Hur länge har företaget varit i drift?

- ☐ 0-2 år
- ☐ 3-5 år
- ☐ 5-10 år
- ☐ 10+ år

Hur stort är företaget? Antal anställda:

1 - 5

Förhållandet till Staten

Har du mottagit en belöning från staten som ett erkännande för dina insatser och bidrag som social entreprenör?

Belöningen kan vara pengar eller ett pris.

- ☐ Ja
- ☐ Nej

I vilken/vilka av dessa områden finner du störst svårigheter?

- ☐ Finansiering
- ☐ Administration
- ☐ Tillgång till information och uppgifter
- ☐ Bearbetning av förordningar som staten har infört
- ☐ Ingen av de ovanstående
- ☐ Other:

Staten har bidragit med hjälp med:

- ☐ Finansiering (finansiering, lån med föredelaktig ränta,...)
- ☐ Administration
- ☐ Tillgång till information och uppgifter
- ☐ Bearbetning av förordningar som staten har infört
- ☐ Ingen av de ovanstående
- ☐ Other:

Den 22 april 2010 fattade regeringen beslut om en handlingsplan för arbetsintegrerande sociala företag. N2010/1894/ENT

"Regeringen vill genom denna handlingsplan underlätta för växande och fler arbetsintegrerande sociala företag. Företagen är av olika karaktär där arbetsinsatsen i hög grad anpassas till medarbetarnas förmåga och behov av stöd. Majoriteten av medarbetarna i arbetsintegrerade sociala företag är personer som t.ex. på grund av funktionsnedsättning som medför nedsatt arbetsförmåga, tidigare missbruk, kriminalitet, långtidssjukskrivning, långtidsarbetslöshet, hemlöshet eller annan form av social utsatthet inte fått möjlighet att etablera sig på eller förlorat kontakten med arbetsmarknaden."

Är du medveten om denna handlingsplan?

- ☐ Ja
- ☐ Nej

Angående Innovation i din Verksamhet**Den innovation som din verksamhet bygger på innefattar:**

- ☐ Nya tekniker
- ☐ Ny leverantör
- ☐ Ny distributionskanal
- ☐ Nya tillverkningsmetoder
- ☐ Erbjuder nya produkter och tjänster
- ☐ Djup kunskap gällande det sociala området din verksamhet befinner sig i
- ☐ Ny tillämpad forskning
- ☐ God kunskap gällande den politiska miljön
- ☐ Other:

Hur värderar du din verksamhet i termer av innovativitet?

	1	2	3	4	5
Minst innovativ	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mest innovativ					

Hur värderar du ditt företags ekonomiska bidrag kontra företagets sociala bidrag?

	1	2	3	4	5
Vanligt företag (t.ex. Clas Ohlson)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Frivilligt socialt arbete (t.ex. röda korset)					

—

